BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protes	st of)	
)	DOCKET NO. 1-524-941-824
)	
)	
)	DECISION
	Petitioners.)	

(Petitioners) protested the Notice of Deficiency

Determination (Notice) dated December 6, 2022. Petitioners disagreed with the flow-through adjustments from an S-Corporation (S-Corp). The Idaho State Tax Commission (Tax Commission), having decided the issue with the S-Corp, likewise upholds the Notice.

BACKGROUND

Petitioners are shareholders in an S-Corp. The Income Tax Audit Bureau (Bureau) reviewed S-Corp income tax returns for the tax years 2018, and 2019. Specifically, the Bureau examined the credit for Idaho research activities (Idaho research credit).

The Bureau disallowed the Idaho research credit claimed; therefore, the Bureau adjusted the flow-through credit claimed on Petitioners' individual income tax returns for the tax years shown in the Notice. Petitioners protested the Bureau's flow-through credit adjustment as did

The Bureau made several other adjustments relating to the pass-through ordinary income from the addback of qualified business income deduction, the Idaho percentage of personal deductions, etc. Since Petitioners did not protest these adjustments, the Tax Commission only addresses the flow-through credit for Idaho research activities.

The Tax Commission held a hearing on the issue where argued its case. The Tax Commission ruled on the Idaho research credit adjustment in its decision on Docket Number 1-854-194-688. In its decision, the Tax Commission affirmed the Bureau's adjustment to the Idaho research credit.

LAW AND ANALYSIS

is a Subchapter S Corporation (S-Corp), a flow-through entity. All tax attributes flow-through to Petitioners at the percentage of their distributive share to be taxed at the individual level¹. As a result, any changes to the S-Corp return requires a change in the shareholder's return.

In this case, the Tax Commission changed the credit claimed for research activities in Idaho. Therefore, the Tax Commission makes the same change to Petitioners' 2018 and 2019 Idaho individual income tax returns.

CONCLUSION

Petitioners are shareholders of an Idaho S-Corp, As such Petitioners are required to report the flow-through items of on their individual income tax return. Because the Tax Commission disallowed the Idaho research credit claimed by Petitioners' individual income tax returns also need to be changed. Therefore, in accordance with the Tax Commission's decision on Docket No. 1-854-194-688, the Tax Commission adjusts Petitioners' individual income tax returns.

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¹ Internal Revenue Code Subchapter S – Tax Treatment of S Corporations and Their Shareholders

The Bureau added interest and penalty to Petitioners' Idaho tax due. The Tax Commission reviewed those additions and found them appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046. Interest is computed to April 17, 2024.

THEREFORE, the Tax Commission AFFIRMS the Notice dated December 6, 2022, directed to

IT IS ORDERED that Petitioners pay the following tax, penalty, and interest:

<u>YEAR</u>	\underline{TAX}	PENALTY	<u>INTEREST</u>	<u>TOTAL</u>
2018	\$1,424	\$71	\$275	\$1,770
2019	10,281	514	1,434	12,229
			TOTAL DUE	\$13,999

DEMAND for immediate payment of the foregoing amount is hereby made and given.

An explanation of Petitioners' right to appeal this decision is enclosed.

DATED this _____ day of _____ 2023.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this a copy of the within and foregoing DECISIC mail, postage prepaid, in an envelope address	N was served by sending	the same by United State	
	Receipt No.		

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