

In response to the Notice, Petitioners' representative disagreed with the Bureau's flow-through adjustments for the years under current review and the disallowance of the Idaho capital gains deductions Petitioners claimed for tax year 2022. The Bureau acknowledged the protest and referred the matter to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Appeals sent Petitioners a letter explaining the options available for redetermining a Notice. Petitioners responded and provided additional information but did not request an informal hearing. Having reviewed the matter, the Tax Commission hereby issues its final decision.

LAW AND ANALYSIS

██████████ and ██████████ are partnerships, flow-through entities. All the partnerships' tax attributes flow-through to Petitioners at the percentage of their distributive share. As a result, any change to these partnerships' returns requires a change to the shareholders' returns.

In this case, the Tax Commission upheld the changes to the partnerships' returns. Therefore, the Tax Commission also upholds the changes passed through to Petitioners' 2020 through 2023 Idaho individual income tax returns.

As for the Idaho capital gain deduction claimed on Petitioners' 2022 Idaho individual income tax return, Idaho Code section 63-3022H states in pertinent part under its subsection,

(3) Property held by an estate, trust, S corporation, partnership, limited liability company or an individual is "qualified property" under this section if the property had an Idaho situs at the time of sale and is:

(b) Tangible personal property used in Idaho for at least twelve (12) months by a revenue-producing enterprise;

Idaho Code section 63-3022H (5) defines "revenue-producing enterprise" as:

(a) The production, assembly, fabrication, manufacture, or processing of any agricultural, mineral or manufactured product;

- (b) The storage, warehousing, distribution, or sale at wholesale of any products of agriculture, mining or manufacturing;
- (c) The feeding of livestock at a feedlot;
- (d) The operation of laboratories or other facilities for scientific, agricultural, animal husbandry, or industrial research, development, or testing.

Petitioners claimed the Idaho capital gain deduction on the sale of “2011 Cessna 525C”, owned by [REDACTED] ([REDACTED]). This pass-through entity sold the Cessna in 2022 and passed the gain through to Ms. [REDACTED] as she was a shareholder of the pass-through entity. The representative argued that [REDACTED] was a revenue-producing enterprise as defined under Idaho Code section 63-3022H(5) and held the Cessna in question for at least twelve months; therefore, the representative argued that Ms. [REDACTED] claim for the Idaho capital gain deduction should be allowed.

[REDACTED] formerly called [REDACTED],⁴ is an S-Corporation, who is a distributor of [REDACTED] products in [REDACTED]. The representative explained in the protest that [REDACTED] conducted their business operations through [REDACTED].⁵ [REDACTED] and [REDACTED] ([REDACTED]) reprocesses the [REDACTED] that would otherwise be considered waste through a [REDACTED] process so that it can be recertified through their on-site laboratory, approved by the U.S. Environmental Protection Agency, to meet the market specifications required for resale. [REDACTED] physical location of operations is on [REDACTED] land in [REDACTED] Arizona, and its corporate

⁴ [REDACTED] doing business as [REDACTED] is a [REDACTED] distributor based in [REDACTED] Idaho.

⁵ [REDACTED] is a qualified subchapter S subsidiary (QSub), who was owned by [REDACTED] a QSub of [REDACTED]. The representative provided federal Form 8869, filed by [REDACTED] electing [REDACTED] as a QSub, effective January 1, 2021.

⁶ [REDACTED] is a disregarded entity, ultimately owned by [REDACTED]. The representative provided federal Form 8832 filed by [REDACTED] electing [REDACTED] as a domestic disregarded entity, effective beginning July 18, 2019.

headquarters are in [REDACTED] Idaho. [REDACTED] sells and transports [REDACTED] and [REDACTED] supply products to customers. [REDACTED] also operates “[REDACTED] a controlled [REDACTED] access system designed for commercial and fleet vehicles to automate unattended [REDACTED] where drivers can access [REDACTED] via a secured card system⁷. [REDACTED] physical locations of operations are throughout Arizona, Colorado, Idaho, Nevada, New Mexico, Texas, Utah, and Oklahoma, and its corporate headquarters are in [REDACTED] Idaho. The representative argued that [REDACTED] used the Cessna within their business operations and held it in a hangar in [REDACTED] near the corporate headquarters for at least 12 months after they acquired it on December 18, 2018. The representative provided [REDACTED] by-state breakout of the apportionment factor, showing that they reported the Cessna as an Idaho property and included total cost of the Cessna in the property numerator prior to the sale. The Tax Commission finds that [REDACTED] including [REDACTED] and [REDACTED] met the definition of a revenue-producing enterprise and the Cessna was in Idaho at least 12 months. Therefore, the Tax Commission determines that the Idaho capital gain deduction is allowable for the gain from the sale of the 2011 Cessna 525C.

CONCLUSION

The Tax Commission upholds the Bureau’s flow-through adjustments to Petitioners’ individual returns based on its decision on Docket Numbers 0-468-378-624 and 1-810-555-904. The Tax Commission finds that the Idaho capital gain deduction is allowable for the gain from the sale of the 2011 Cessna 525C.

⁷ The representative explained that the secured card system, “[REDACTED] allows fleet managers to monitor [REDACTED] and costs more accurately and effectively.

The Bureau added interest and a five percent (5%) negligence penalty to Petitioners' Idaho tax due. The representative requested the Tax Commission abate the negligence penalty as Petitioners timely filed their Idaho return, paid tax in full, and acted in good faith to report all taxable income.

Idaho Code section 63-3046(d)(7) provides,

The state tax commission may waive all or any part of the addition to tax provided by this section on a showing by the taxpayer that there was reasonable cause for the understatement (or part thereof) and that the taxpayer acted in good faith.

Most of Petitioners' adjustments are due to the adjustments the Bureau made to the pass-through entities, in which Ms. [REDACTED] owned minority shares for the years under current review. The minority shares did not give Ms. [REDACTED] the controlling power to prevent the pass-through adjustments the Bureau made to the pass-through entities. However, Mr. [REDACTED] was the manager of [REDACTED] and [REDACTED] and had the controlling power to prevent the adjustments the Bureau made to the pass-through entities. Therefore, the Tax Commission found that the Bureau's addition of the negligence penalty is appropriate and in accordance with Idaho Code section 63-3046. The Tax Commission reviewed the addition of interest and found it in accordance with Idaho Code section 63-3045.

THEREFORE, the Tax Commission MODIFIES the Notice dated May 9, 2024, directed to Petitioners.

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

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2020	\$3,101	\$155	\$333	\$3,589
2021	25 782	1,289	2 224	29 295
2022	2,126	106	107	2 339
2023	578	29	9	616
			TOTAL DUE	<u>\$35 839</u>

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 _____ 2025.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2025,
a copy of the within and foregoing DECISION was served by sending the same by United States
mail, postage prepaid, in an envelope addressed to:

Receipt No.

[REDACTED]

[REDACTED]