BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of [redacted] Petitioner.	)	DOCKET NO. 1-773-769-728
	)	DECISION

[redacted] (Petitioner) protested the Notice of Deficiency Determination (Notice) dated June 24, 2025, issued by the Revenue Operation Division (Division) for tax year 2023. Petitioner disagreed with the Division's adjustment to its 2023 Idaho S Corporation income tax liability. The Idaho State Tax Commission (Tax Commission) reviewed the matter and for the reasons set forth below, upholds the Notice.

BACKGROUND

For tax year 2023, Petitioner made an affected business entity (ABE) election and reported "Tax paid by ABE on your behalf" of $15,000 on its Idaho S Corporation income tax return. The Division reviewed Tax Commission records but was unable to locate the claimed ABE tax payment in Petitioner's business income tax account for tax year 2023. Therefore, the Division removed the claimed payment and issued the Notice. Petitioner protested the Notice. The Division acknowledged the protest and referred the matter to the Tax Commission's Appeals Unit (Appeals) for administrative review.

On August 11, 2025, Appeals provided Petitioner's representative, [redacted] with a detailed explanation of the adjustment and the available options for redetermining a protested Notice. Appeals subsequently sent several follow-up emails and made phone calls to the representative. On October 30, 2025, Ms. [redacted] provided proof of payment, and explained the relationship between Petitioner and [redacted] a disregarded entity (a Qualified Subchapter S

Subsidiary), to support the $15,000 ABE payment made by Petitioner. Appeals reviewed the documentation and, on November 4, 2025, provided a more detailed explanation addressing the representative's arguments. No additional information or documentation was submitted thereafter.

On December 22, 2025, the representative's Partner, [redacted] stated that he had been unable to communicate with Petitioner regarding the protested issue. Mr. [redacted] requested that further action be delayed until he could confer with Petitioner and requested the involvement of an Appeals manager. Appeals agreed to postpone issuance of a decision until January 16, 2026, to allow additional time for consultation with Petitioner. However, no update was received from the representatives by that date.

Meanwhile, Appeals learned that Petitioner's owner, [redacted] had communicated with a Compliance Division officer on December 9, and 10, 2025, regarding Petitioner's tax liabilities for tax years 2023 and 2024. As a result of those discussions, on December 11, 2025, Petitioner made payments of $14,386.52 toward its tax year 2023 liability and $9,421.48 towards the tax year 2024 liability.

To expedite resolution of the appeal, Appeals directly contacted Petitioner's owner, Mr. [redacted] on January 27, 2026. Mr. [redacted] responded that he was working with the representative and indicated that the representative would contact Appeals. On February 4, 2026, the representative requested a conference call with Appeals. During the conference call held on February 10, 2026, the representative requested all detailed payment and transaction information relating to Mr. [redacted] and [redacted] for tax years 2022 through 2024. Appeals provided the requested information later that same day.

Thereafter, Appeals sent several follow-up communications to the representative regarding the status of the protest. On April 27, 2026, Mr. [redacted] met with Appeals and represented that he

would provide an update by May 8, 2026. The requested update was subsequently postponed several times, ultimately to June 1, 2026. Despite these extensions, Appeals received no further information, documentation, or response from either Petitioner or the representative. Accordingly, the Tax Commission hereby issues its decision based on the information contained in the administrative record.

LAW & ANALYSIS

Petitioner is an Idaho S Corporation with two shareholders, Mr. [redacted] and Mr. [redacted] each holding a 50 percent ownership interest.

ESTIMATED PAYMENTS AND APPLICATION

Based on Petitioner's documentation and the Tax Commission's records:

- The Tax Commission received four estimated payments of $2,500 each on March 31, 2023; July 10, 2023; September 29, 2023; and December 29, 2023, under Mr. [redacted] individual income tax account. The March 31, 2023, payment was applied to Mr. [redacted] 2022 individual income tax return, resulting in a refund of $2,977. The refund was issued on October 12, 2023, and redeemed on October 13, 2023. The remaining three payments were applied to Mr. [redacted] 2023 individual income tax return, and when combined with other credits, resulting in a refund of $10,724 issued on September 18, 2024, and redeemed on September 20, 2024.
- The Tax Commission also received four estimated payments of $2,500 each, on March 31, 2023; July 9, 2023; October 2, 2023; and December 29, 2023, under Mr. [redacted] individual income tax account. The March 31, 2023, payment was applied to Mr. [redacted] 2022 individual income tax return, resulting in a refund of $501. The refund was issued on September 7, 2023, and redeemed on September 8, 2023.

The remaining three payments were applied to Mr. [redacted] 2023 individual income tax return, and when combined with other credits, resulting in a refund of $14,891 issued on September 18, 2024, and redeemed on September 20, 2024.

Under Idaho Code section 63-3026B, each ABE is required to pay the tax on or before the fifteenth day of the fourth month following the close of the taxable year. All payments described above were directed to and applied to the individual income tax accounts of Petitioner's two shareholders. No payment was made to Petitioner's business income tax account to satisfy its S Corporation income tax liability of $15,072 for tax year 2023.

TAX PAYMENT BY ABE

Petitioner claimed a "Tax paid by ABE on your behalf" of $15,000 on its 2023 Idaho S Corporation income tax return.

The instructions for Idaho Form 41S provide that line 61, "Tax Paid by ABE on your behalf" is used to report the amount of tax paid by an upper-tier entity on behalf of the S Corporation. In this case, Petitioner did not have an upper-tier owner entity. Accordingly, line 61 should have been reported as zero.

Petitioner's representative argued that [redacted] is a disregarded entity of Petitioner and is included in its S Corporation income tax reporting. Petitioner therefore contended it serves as the qualified upper entity for reporting purposes. Under the federal "check-the-box" regulations (IRS Treasury Regs. § 301.7701-2 & -3), a disregarded entity is not regarded as an entity separate from its owner for federal income tax purposes. As a result, a disregarded entity does not file its own income tax return; instead, all its income, deductions, and activities are reported by its owner on the owner's federal return. Because Idaho conforms to the federal classification of disregarded entity, [redacted] is not a separate entity for income tax purposes, and its activities are properly

included in Petitioner's S Corporation return. However, this argument does not alter the requirement that Petitioner itself must make the ABE tax payment at the entity level for tax year 2023. Therefore, the disregarded entity classification is not relevant to the issue in dispute.

ABE SHAREHOLDERS' CREDIT

Idaho Code section 63-3026B (7)(a) provides ABE shareholders' credit:

> (7)(a) Each individual who is a member and is not an exempt entity is entitled to a credit against such tax. The credit will be in an amount equal to the individual's pro rata share of the tax paid under this section by any affected business entity of which the individual is a member…

Petitioner's two shareholders, Mr. [redacted] and Mr. [redacted] each claimed an ABE credit of $8,091 on their respective 2023 individual income tax returns, representing a 50 percent share of Petitioner's purported ABE payment of $16,182. However, to be eligible to pass through the ABE credit to its shareholders, Petitioner was required to pay the ABE tax at the entity level for tax year 2023, which it failed to do.

Therefore, the Division properly adjusted Petitioner's Idaho S Corporation income tax liability for tax year 2023.

CONCLUSION

The Tax Commission finds the Division's adjustment to Petitioner's 2023 Idaho S Corporation income tax return to be accurate and therefore upholds the Notice.

THEREFORE, the Notice of Deficiency Determination dated June 24, 2025, is hereby AFFIRMED AND MADE FINAL.

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

YEAR	TAX	PENALTY	INTEREST	TOTAL
2023	$15,072	$2,824	$1,815	$19,711
			Payment Received	($14,387)
			Total due	$5,324

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

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

DATED this _____ day of _____ 2026.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2026, 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]

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