

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of) DOCKET NO. 2-125-927-424
[REDACTED])
)
)
)
Petitioners.) DECISION

The Intrastate Income Tax Audit Bureau (Bureau) sent [REDACTED] (Petitioners) a Notice of Deficiency Determination (Notice) for tax years 2021 through 2023. Petitioners protested, disagreeing with the Bureau's adjustments to unreported rollover distributions, passthrough business losses, and credits for income taxes paid to other states (CTPOS). The Idaho State Tax Commission (Tax Commission) has reviewed the matter and hereby modifies the Notice.

BACKGROUND

Petitioners were 100% owners of [REDACTED] () during the tax years in question. [REDACTED] filed S-Corporation returns and claimed losses related to their operating expenses. Since [REDACTED] was a passthrough entity, the losses flowed to Petitioners' individual returns. Additionally, the Bureau examined components of Petitioners' individual returns, including their change in domicile status for 2021, unreported 1099-R distributions, and CTPOS. The Bureau sent Petitioners a Notice disallowing [REDACTED] losses for all years, changing their domicile to Idaho in 2021, and adding the unreported 1099-R distribution to their taxable income. It appeared Petitioners had CTPOS from the data on their W-2 forms, but they did not provide the other state's return to verify the tax paid. Petitioners protested but conceded to the adjustments to their domicile status. Therefore, the issue of Petitioners' domicile will not be discussed in this decision.

Petitioners attempted to provide additional documentation for the Bureau to consider, but they did not change any of the adjustments. The Bureau then acknowledged Petitioners' protest and transferred the case to the Tax Commission's Appeals Unit (Appeals) for administrative review. Appeals and Petitioners participated in an informal hearing on August 6, 2025. Petitioners provided a copy of their 2021 Alabama income tax return to verify CTPOS and discussed the other items protested. The Tax Commission has reviewed all relevant materials and modifies the Notice for the following reasons.

LAW AND ANALYSIS

Credit for Taxes Paid to Other States

According to Petitioners' 2021 Alabama income tax return, they paid \$4,528 in taxes. Idaho Code section 63-3029 limits CTPOS based on the percentage of income made in the other state and Idaho tax. Below is the calculation used on Idaho Form 39R:

Credit for income tax paid to other states
This credit being claimed for taxes paid to: Alabama

1. Idaho Tax, Form 40, line 20	12,526
2. Federal adjusted gross income earned in other state and taxed by both states	119,871
3. Idaho adjusted income	231,694
4. Divide line 2 by line 3	51.74%
5. Multiply line 1 by line 4	6,481
6. Other state's tax due minus its income tax credits	4,528
7. Enter the smaller of lines 5 or 6	4,528

The Alabama return provided to Appeals appears to be valid, so the Notice is hereby modified to allow for CTPOS in 2021.

1099-R Distribution

Petitioners argue the distribution from Charles Schwab had a distribution code “G” which indicates a non-taxable direct rollover. However, according to the 1099-R, the amount of distribution is “taxable” on line 2a. Federal wage and income transcripts also verified the amount was taxable. While direct rollovers are typically non-taxable, there are exceptions where taxability may apply. The rollover could have converted funds from a traditional IRA to a Roth, or the conversion was improperly completed. Nevertheless, any issues Petitioners may have with 1099s issued to them must be taken up with the Internal Revenue Service (IRS). Without any information to dispute the taxability of the distribution, the Tax Commission upholds the Bureau’s adjustment, adding the amount to Petitioners’ taxable income.

Passthrough Business Losses

Petitioners claimed deductions related to their passthrough ownership of [REDACTED] an Idaho S-Corporation. In Appeals Docket Number 0-163-255-296, the Tax Commission found [REDACTED] failed to properly substantiate the deductions claimed on their returns for the years in question. The upholding of [REDACTED] Notice likewise upholds the passthrough adjustments to Petitioners’ Notice.

CONCLUSION

The Bureau sent Petitioners a Notice adjusting their domicile status, 1099-R distributions, and passthrough losses. The Tax Commission received Petitioners’ missing 2021 Alabama return, which allowed for \$4,528 in CTPOS. Petitioners have not provided sufficient evidence that can adjust other portions of the Notice.

THEREFORE, the Notice of Deficiency Determination dated September 10, 2024, directed to [REDACTED] is hereby MODIFIED.

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>
2021	\$4,793	\$240	\$516	\$5,549
2022	2,051	103	147	2,301
2023	3,322	166	63	<u>3,551</u>
			TOTAL	\$11,401

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]
