

Complexities in Idaho Tax Code

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Complexities in Idaho Tax Code

- Areas where Idaho code, rules or procedures differ from generally accepted federal code, rules or regulations.
- Idaho's disallowance of a subtraction for expenses being used by taxpayers to claim federal credits.
- The effects and costs of complexity

Rules differences

- Items eligible for Idaho Investment Tax Credit.
 - Idaho ITC follows IRC 48 (as repealed):
 - Special purpose structures that are an integral part of manufacturing qualify under the federal regulations but have been disallowed under the Idaho regime.

Missing Subtraction

- Taxpayers who make an election to take some federal tax credits in lieu of deductions are not allowed currently under Idaho's regime to then subtract those expenses from Idaho taxable income. They receive no direct benefit on their Idaho taxes for the deduction.

Missing Subtraction

- Examples, R&D Tax Credit, Foreign Tax credit in lieu of foreign income exclusion, employer taxes on certain tips, jobs credit and small employer health insurance credit.
- When employers choose to take advantage of these federal incentives they are penalized by the State of Idaho.

Missing Subtraction - example

Taxpayer's Idaho Tax with Credit	Without Credit	With Credit
Federal income	\$1,000,000	\$1,100,000
Federal Tax	\$350,000	\$385,000
Federal Credit	0	\$100,000
Idaho Tax	\$74,000	\$81,400
Additional Idaho Tax		\$7,400

This taxpayer suffered an economic loss simply because they are located in Idaho. They did not expend any more resources in the state they simply choose to take advantage of a federal credit available.

Effects of Complexity

- Increased Costs of Compliance
- Increased Costs of Audits
- In a complex environment small businesses are more apt to overpay their fair share of the revenue load.

Increased Costs of Compliance

- Complex rules equate to more expensive costs of compliance when completing returns.
- Complex rules equate to slower decision making processes for business owners who are unsure of the proper treatment of an item.

Increased Costs of Audits

- Complex rules equate to more expensive costs of defending a return being examined by the tax commission.
- Complex rules equate to more businesses accepting a Notice of Deficiency from the tax commission without the assistance of representation. It's cheaper to pay the notice than find the right answer.

Complexity Costs

- Complex rules equate to more mistakes being made on original returns which usually ends up increasing the taxpayers liability unfairly.
- This happens because deductions are foregone, credits are missed and overall calculations are incorrect.