

Letter of Findings Number: 01-20120674
Individual Income Tax
For the Year 2011

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ISSUE

I. Individual Income Tax – Imposition.

Authority: IC § 6-3-1-3.5; IC § 6-3-2; IC § 6-3.1-13.

Taxpayers protest the assessment of individual income tax.

STATEMENT OF FACTS

Taxpayers are individuals residing in Indiana. During the 2011 tax year, Taxpayers owned an interest in an S corporation. The S corporation was entitled to a credit under IC § 6-3.1-13 ("EDGE credit"). The S corporation claimed the EDGE credit at the corporate level and did not pass through the credit to its shareholders.

For federal income tax purposes, the S corporation listed the EDGE credit as income. Taxpayers were required to report their portion of the S corporation's income—including the EDGE credit—for federal income tax purposes. Taxpayers deducted an amount equal to their portion of the EDGE credit on their 2011 Indiana individual income tax returns. The Indiana Department of Revenue ("Department") disallowed the deduction and assessed additional tax. Taxpayers protested the assessment and the Department conducted an administrative hearing. Additional facts will be supplied as necessary.

I. Individual Income Tax – Imposition.

DISCUSSION

Taxpayers protest the assessment of individual income tax based on the disallowance of a deduction for an EDGE credit allowed to—and claimed by—an S corporation. The issue is whether Taxpayers' claimed deduction was allowable.

Indiana imposes an adjusted gross income tax on individuals. The definition of "adjusted gross income" for Indiana individual income tax purposes is found at IC § 6-3-1-3.5(a). That definition uses federal adjusted gross income as a starting point. From that starting point, IC § 6-3-1-3.5(a) requires several adjustments to federal adjusted gross income. In addition, IC § 6-3-2 permits various deductions to determine Indiana adjusted gross income.

In this case, IC § 6-3-1-3.5(a) and IC § 6-3-2 have no provisions for adjustment or deduction of refundable credits included in federal adjusted gross income. Further, IC § 6-3.1-13 has no provision for deduction or exclusion of the refundable portion of the EDGE credit.

Taxpayers raise a secondary issue that the treatment of EDGE credits refunded to an S corporation has different consequences than if the EDGE credits were passed through to the S corporation's shareholders. In support of their argument, Taxpayers provided a sample calculation of potential tax differences. However, Taxpayers have not provided a legal basis under federal or Indiana law for their assertion that a different result would have been reached had the EDGE credits passed through to the individuals.

FINDING

Taxpayer's protest is respectfully denied.

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