

Supplemental Letter of Findings: 01-20200456
Indiana Individual Income Tax
for the Year 2019

NOTICE: IC § 6-8.1-3-3.5 and IC § 4-22-7-7 require the publication of this document in the Indiana Register. This document provides the general public with information about the Indiana Department of Revenue's official position concerning a specific set of facts and issues. This document is effective on its date of publication and remains in effect until the date it is superseded or deleted by the publication of another document in the Indiana Register. The "Holding" section of this document is provided for the convenience of the reader and is not part of the analysis contained in this Letter of Findings.

HOLDING

Individual provided sufficient documentation to prove the Department incorrectly adjusted Individual's return.

ISSUE

I. Individual Income Tax - Federal Discrepancy.

Authority: IC § 6-3-1-3.5; IC § 6-3-2-1; IC § 6-3-2-2; IC § 6-8.1-5-1; *Dept. of State Revenue v. Caterpillar, Inc.*, 15 N.E.3d 579 (Ind. 2014); *Indiana Dept. of State Revenue v. Rent-A-Center East, Inc.*, 963 N.E.2d 463 (Ind. 2012); *Lafayette Square Amoco, Inc. v. Indiana Dept. of State Revenue*, 897 N.E.2d 289 (Ind. Tax Ct. 2007); Letter of Finding 01-2020456 (March 15, 2021).

Taxpayer protests the imposition of Indiana individual income tax.

STATEMENT OF FACTS

Taxpayer timely filed her 2019 Indiana income tax return. Taxpayer lives in Indiana and works in Illinois. She files income tax returns in both states. As the result of a federal record comparison, the Indiana Department of Revenue ("Department") found that Taxpayer's federal-reported adjusted gross income did not match the Indiana reported adjusted gross income. The Department therefore issued a proposed assessment for tax based on the difference between the two reported adjusted gross income amounts.

Taxpayer protested the assessment, opting for the Department to make its written decision based on the materials sent in with the protest. Therefore, no administrative hearing was held. Letter of Finding 01-20200456 was issued denying the protest due to lack of documentation. Taxpayer requested a rehearing and provided additional documentation. The Department granted the rehearing, and this Supplemental Letter of Finding addresses additional materials provided by Taxpayer. Additional facts will be provided as necessary.

I. Individual Income Tax - Federal Discrepancy.

DISCUSSION

Based upon federal filing information, the Department adjusted Taxpayer's 2019 Indiana income tax return, resulting in an increase to Taxpayer's tax liability. Federal information showed that Taxpayer had a substantially higher federally-reported adjusted gross income than what was reported on her 2019 Indiana IT-40. The Department assessed Indiana income tax on the difference, plus penalty and interest.

As a threshold issue, it is Taxpayer's responsibility to establish that the existing tax assessment is incorrect. As stated in IC § 6-8.1-5-1(c), "[t]he notice of proposed assessment is prima facie evidence that the [D]epartment's claim for the unpaid tax is valid. The burden of proving that the proposed assessment is wrong rests with the person against whom the proposed assessment is made." *Indiana Dept. of State Revenue v. Rent-A-Center East, Inc.*, 963 N.E.2d 463, 466 (Ind. 2012); *Lafayette Square Amoco, Inc. v. Indiana Dept. of State Revenue*, 867 N.E.2d 289, 292 (Ind. Tax Ct. 2007). Consequently, a taxpayer is required to provide documentation explaining and supporting his or her challenge that the Department's position is wrong. Further, "[W]hen [courts] examine a statute that an agency is 'charged with enforcing . . . [courts] defer to the agency's reasonable interpretation of [the] statute even over an equally reasonable interpretation by another party.'" *Dept. of State Revenue v. Caterpillar, Inc.*, 15 N.E.3d 579, 583 (Ind. 2014).

Indiana imposes an adjusted gross income tax on all residents. IC § 6-3-2-1(a). Taxpayer's Indiana income is determined by starting with the federal adjusted gross income and making certain adjustments. IC § 6-3-1-3.5(a). IC § 6-3-2-2(a) specifically outlines what is income derived from Indiana sources and subject to Indiana income tax. For Indiana income tax purposes, the presumption is that the taxpayers properly and correctly file their federal income tax returns as required pursuant to the Internal Revenue Code.

As part of the rehearing request, Taxpayer provided a copy of her 2019 Federal Tax Return Transcript ("Transcript"). The Transcript showed a reduction in Taxpayer's federal adjusted gross income due to claimed business losses. Taxpayer provided a copy of her 2019 Illinois IL-1040 which confirmed the business losses were reported in Illinois. The Transcript confirmed the reduction for losses resulted in a Federal Adjusted Gross Income equal to what was reported on Taxpayer's 2019 IT-40.

Taxpayer provided documentation confirming her federal adjusted gross income was equal to the amount reported on her 2019 IT-40. Taxpayer met her burden under IC § 6-8.1-5-1(c) and the Department will make the appropriate adjustments.

FINDING

Taxpayer's protest is sustained.

June 23, 2022

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