STATEMENT OF PURPOSE

RS28636 / H0276

Bonus depreciation is accelerated depreciation that is allowed as a deduction for federal income tax purposes but is not allowed as a deduction for state income tax purposes. Accordingly, because federal taxable income is the starting point for calculating Idaho taxable income, the bonus depreciation taken as a deduction on the federal return is added back for Idaho income tax purposes. However, there are situations where a taxpayer cannot use the bonus depreciation on its federal return because of passive loss or similar limitations. In those situations, the Tax Commission has interpreted the law to require the add-back of the bonus depreciation even though that depreciation did not result in a current deduction at the federal level. That interpretation of the current statute creates what is known as "phantom income" and causes a tax to be due on income that is not in fact received by the taxpayer and to reverse a deduction that the taxpayer did not in fact receive. The current statute also requires a taxpayer's basis in an asset for Idaho income tax purposes to be the same as for federal income tax purposes. This causes a taxpayer's basis to be reduced by the amount of "extra" bonus depreciation that is not recognized in Idaho. When an asset is sold before it is fully depreciated this can result in a higher than appropriate capital gain since the taxpayer is forced to reduce its basis in the asset by an amount of "extra" depreciation that is not allowed in Idaho. This is another example of "phantom income" – an amount that is included in taxable income even though it did not result in any economic gain to the taxpayer. This legislation remedies these unintended outcomes by providing that Idaho taxable income would not include the bonus depreciation add-back where that depreciation could not be used currently on the federal return, and by permitting a taxpayer's basis in an asset for state income tax purposes to be reduced only by that amount of depreciation that is actually allowed as a deduction on the Idaho return.

FISCAL NOTE

The Tax Commission does not have data that allows the cost of this legislation to be calculated. It says this is uncommon but does arise occasionally. Based on the number of times members of the Idaho Society of CPAs have encountered this unfair and unintended result, we believe the fiscal cost of this legislation will be less than $250,000 to the state general fund.

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