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External Multistate Tax Alert
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Recent Idaho law amendments provide income tax rate reductions and amend IRC conformity

Overview

In response to the federal tax reform provisions of the 2017 Tax Act,[1] Idaho has enacted legislation over the last several months that reduces income tax rates, amends Idaho's conformity to the Internal Revenue Code (IRC) relative to the deemed repatriation provisions of IRC Section 965 and global intangible low-taxed income (GILTI), and amends certain add-back provisions effectively disconnecting Idaho from specific federal provisions.

This tax alert summarizes the more significant Idaho tax law changes contained in the various bills.

Idaho income tax rate reduction

Effective January 1, 2018 and applicable to all taxable years beginning on or after January 1, 2018, House Bill 463 (H0463),[2] enacted on March 12, 2018, reduced the corporate, individual, trust, and estate tax rates as follows:

- The corporate tax rate decreased from 7.400% to 6.925%.[3]
- The tax rate associated with each Idaho tax bracket for individuals, trusts, and estates decreased by 0.475%. The highest bracket tax rate dropped from 7.400% to 6.925%; the lowest bracket tax rate dropped from 1.600% to 1.125%.[4]

Effective January 1, 2018 and applicable to taxable years beginning on or after January 1, 2018 and before January 1, 2026, the enactment of recent laws also provides for a nonrefundable credit against tax imposed to individuals in the amount of $205 for each qualifying child of the taxpayer.[5]

Idaho law enactments affecting IRC conformity

<u>Affecting 2017 taxable year</u>

Effective for taxable years beginning on or after January 1, 2017, House Bill 355 (H0355), enacted on February 9, 2018,[6] updated Idaho's corporate and individual income tax conformity to the IRC of 1986 as amended and in effect on December 21, 2017, except that IRC sections 965 and 213 are applied as in effect on December 31, 2017 and the federal Bipartisan Budget Act of 2018 is applied as in effect on February 9, 2018.[7]

By virtue of this IRC conformity update, Idaho taxable income includes the deemed repatriation of previously unreported overseas earnings under IRC Section 965.[8] Since Idaho is default worldwide, this provision affects taxpayers filing on a water's-edge election basis for Idaho purposes. Taxpayers filing on such method would include deemed repatriation in Idaho taxable income, attaching a copy of their IRC 965 Transition Tax Statement to their Idaho return.[9] Additionally, this legislation retains Idaho's partial exclusion of foreign dividends for corporate

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[1] Public Law 115-97. "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018."
[2] Legislature of the State of Idaho, Sixty-fourth Legislature, Second Regular Session - 2018. A copy of HO463 is available here.
[3] H0463, Section 5.
[4] H0463, Section 4.
[5] H0463, Section 6 and H0675, Section 2.
[6] Legislature of the State of Idaho, Sixty-fourth Legislature, Second Regular Session – 2018. A copy of HO355 is available here.
[7] The legislative text pertaining to the Bipartisan Budget Act of 2018 is found in HB 624 (H0624), enacted on March 20, 2018. A copy of HO624 is available here.
[8] H0355, Section 1.
[9] Changes for 2017 Idaho income tax returns. https://tax.idaho.gov/n-feed.cfm?idd=4169.

taxpayers filing on water's-edge election to which income included under IRC Section 965(a) would extend.[10] The exclusion equates to 80% or 85% of foreign dividends, depending on whether or not the taxpayer submits the domestic disclosure spreadsheet to the Idaho State Tax Commission.[11] To prevent taxpayers from claiming multiple deductions, the new legislation provides that a taxpayer must addback to Idaho taxable income the amount deducted for federal purpose under IRC Section 965(c).[12]

As noted above, Idaho's updated conformity to the IRC applies for both corporate and individual income tax purposes.[13] Accordingly, Idaho individual income taxpayers recognizing deemed repatriation income as result of IRC Section 965 (as well as the other changes imposed by federal tax reform discussed below) may be impacted. Significantly, Idaho does not provide an exclusion for foreign dividends for individual income tax purposes[14] which may result in a more unfavorable result for individual taxpayers as compared to corporate taxpayers.

Affecting 2018 taxable year forward

Effective for taxable years beginning on or after January 1, 2018, H0463[15] also updated Idaho's corporate and individual tax conformity to the IRC as amended and in effect on January 1, 2018.

IRC Section 951A GILTI, IRC Section 118 contributions to capital, and IRC Section 163(j) interest deductibility limitations. The recently enacted laws establish Idaho's conformity to the federal tax reform provisions including GILTI, contribution to corporate capital rules under IRC Section 118, and federal interest deductibility limitations provided by IRC Section 163(j).[16] However, H0463 contains add-back provisions for deductions taken under IRC Sections 245A and 250.[17]

Retains decoupling from bonus depreciation and Net Operating Loss (NOL) provisions. Idaho law retains the current Idaho tax law provision decoupling from IRC Section 168(k).[18] Under the amended IRC Section 168(k), taxpayers are allowed to fully deduct the costs of certain assets in determining federal taxable income for the year that those assets are placed in service for property acquired and placed in service after September 27, 2017 and before January 1, 2023. Because Idaho has historically decoupled from federal bonus depreciation provisions, the mechanics of Idaho depreciation is unchanged.

Similar to the characterization of bonus depreciation, Idaho continues to decouple from the new federal tax reform provisions for Idaho NOL purposes. Both 2017 and 2018 taxable years retain the current Idaho tax law provision for Idaho's state NOL resulting in no change for taxpayers.[19] Taxpayers can continue to carryback Idaho state NOL, not exceeding $100,000, up to two years if the associated Idaho amended return is filed within one year of the end of the taxable year that the NOL was created. All unused NOLs will be carryforward for the next twenty years.[20]

Taxpayer considerations

Taxpayers potentially impacted by the enactment of these recent Idaho tax laws in response to federal tax reform should consult with their Idaho tax advisors for further assistance.

Contacts:

[10] Idaho Code § 63-3027C(c).
[11] Idaho Code § 63-3027C(c)(3); Idaho Form 42 "Idaho Apportionment and Combined Reporting Adjustments"
[12] H0355, Section 2.
[13] Idaho Code § 63-3004(a).
[14] See Idaho Code § 63-3022(f); Idaho Admin. Code R. 35.01.01.120 (providing for subtractions from Idaho individual income tax; no foreign dividend exclusion provided).
[15] H0463, *supra* Note 2.
[16] H0463, Section 1.
[17] H0463, Section 3.
[18] Idaho Code § 63-3022O.
[19] H0355 Section 2 & H0463 Section 3.
[20] Idaho Code § 63-3022(c).

If you have questions regarding these enacted law provisions or other Idaho tax matters, please contact any of the following Deloitte Tax professionals:

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