

Letter of Findings Number: 06-0533
Sales and Use Tax
For the Year 2005

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ISSUES

I. Sales and Use Tax—Sale of a Watercraft

Authority: [45 IAC 2.2-8-12](#); [Sales Tax Information Bulletin 28WC](#) (July 2004)

Taxpayer protests the assessment of sales and use tax.

II. Tax Administration—Negligence Penalty

Authority: IC § 6-8.1-10-2.1; [45 IAC 15-11-2](#)

Taxpayer protests the imposition of a ten percent negligence penalty.

STATEMENT OF FACTS

Taxpayer is an automobile dealer selling used cars. The taxpayer purchased a 2001 Heritage Crownline Model 225 BR at auction. The taxpayer then sold the watercraft. The customer was informed by the BMV that taxpayer (who is not a watercraft dealer) should not have collected the sales tax and therefore was required to return the tax collected to its customer. As the result of an audit, the Indiana Department of Revenue ("Department") issued a proposed assessment for sales tax. Taxpayer protested the assessment in a timely manner. The taxpayer's representative failed to appear at the hearing. This Letter of Findings is written based upon the information contained in the taxpayer's file.

I. Sales and Use Tax—Sale of a Watercraft

DISCUSSION

Taxpayer protests the imposition of sales and use tax on the sale of a watercraft. In its protest letter the taxpayer's representative stated:

Taxpayer is in the business of selling used cars. Taxpayer purchased the Heritage Crownline Boat at auction. In the selling of this boat, the Bureau of Motor Vehicles sent his customer back to his place of business and told him to give the customer the sales tax he collected back because he was **not** a watercraft dealer. He did as instructed **and now** he is being assessed by your department for this same sales tax that was paid by the customer to the BMV. . .

[45 IAC 2.2-8-12](#) provides:

(a) Exemption certificates may be issued [*sic.*] only by purchasers authorized to issue such certificates by the Department of Revenue. Retail merchants, manufacturers, wholesalers and others who must register with the Department of Revenue and who qualify to purchase exempt from tax under this Act [[IC 6-2.5](#)] may issue exemption certificates with respect to exempt transactions. All persons or entities not required to register with the Department as retail merchants, manufacturers, or wholesalers, and who are exempt under this Act [[IC 6-2.5](#)] with respect to all or a portion of their purchases are authorized to issue exemption certificates with respect to exempt transaction provided an exemption number has been assigned by the Department of Revenue, or provided that the Department of Revenue has specifically provided a form and manner for issuing exemption certificates without the need for assigning an exemption number.

(b) Retail merchants are required to collect the sales and use tax on each sale which constitutes a retail transaction unless the merchant can establish that the item purchased will be used by the purchaser for an exempt purpose.

(c) All retail sales of tangible personal property for delivery in the state of Indiana shall be presumed to be subject to sales or use tax until the contrary is established. The burden of proof is on the buyer and also on the seller unless the seller receives an exemption certificate.

(d) Unless the seller receives a properly completed exemption certificate the merchant must prove that sales tax was collected and remitted to the state or that the purchaser actually used the item for an exempt purpose. It is, therefore, very important to the seller to obtain an exemption certificate in order to avoid the necessity for such proof. The mere filing of a Registered Retail Merchant Certificate number is not sufficient to relieve the seller of the responsibility to collect the sales tax or prove exempt use by the buyer. However, proper records must be maintained to substantiate such sales.

(f) An exemption certificate issued by a purchaser shall not be valid unless it is executed in the prescribed and approved form and unless all information requested on such form is completed.

(g) An exemption certificate or other evidence supporting an exempt sale must be maintained by the seller for at least three (3) years after the due date of the tax return upon which such exempt transaction is reported.

(h) Exemption certificates may be reproduced provided no change is made in the wording or content.

There is no evidence in the file as to whether the taxpayer paid sales or use tax at the time of purchase at the auction nor did the taxpayer provide evidence to support its contention that its customer paid tax to the BMV.

FINDING

Taxpayer's protest is denied.

II. Tax Administration–Negligence Penalty

DISCUSSION

The Department issued proposed assessments and the ten percent negligence penalty for the tax year in question. Taxpayer protests the imposition of penalty. The Department refers to IC § 6-8.1-10-2.1(a), which states in relevant part:

If a person:

...

(3) incurs, upon examination by the department, a deficiency that is due to negligence;

...

the person is subject to a penalty.

The Department refers to [45 IAC 15-11-2\(b\)](#), which states:

Negligence, on behalf of a taxpayer is defined as the failure to use such reasonable care, caution, or diligence as would be expected of an ordinary reasonable taxpayer. Negligence would result from a taxpayer's carelessness, thoughtlessness, disregard or inattention to duties placed upon the taxpayer by the Indiana Code or department regulations. Ignorance of the listed tax laws, rules and/or regulations is treated as negligence. Further, failure to read and follow instructions provided by the department is treated as negligence. Negligence shall be determined on a case by case basis according to the facts and circumstances of each taxpayer.

[45 IAC 15-11-2\(c\)](#) provides in pertinent part:

The department shall waive the negligence penalty imposed under [IC 6-8.1-10-1](#) if the taxpayer affirmatively establishes that the failure to file a return, pay the full amount of tax due, timely remit tax held in trust, or pay a deficiency was due to reasonable cause and not due to negligence. In order to establish reasonable cause, the taxpayer must demonstrate that it exercised ordinary business care and prudence in carrying out or failing to carry out a duty giving rise to the penalty imposed under this section.

In this case, taxpayer incurred a deficiency which the Department determined was due to negligence under [45 IAC 15-11-2\(b\)](#), and so was subject to a penalty under IC § 6-8.1-10-2.1(a). Taxpayer has not affirmatively established that the failure to pay the deficiency was due to reasonable cause and not due to negligence, as required by [45 IAC 15-11-2\(c\)](#).

FINDING

Taxpayer's protest is denied.

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