

**Letter of Findings Number: 06-0471**  
**Use Tax**  
**For Tax Years 2002-04**

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**ISSUE**

**I. Use Tax—Imposition**

**Authority:** IC § 6-8.1-5-1; [45 IAC 2.2-3-20](#)

Taxpayer protests the assessment of 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 provides a full service truck repair facility in Indiana, which primarily serves two related companies' trucks. The Indiana Department of Revenue ("Department") conducted an audit for sales and use tax for the tax years 2002 through 2004. As a result of the audit, the Department issued proposed assessments for use tax for 2002 through 2004. Taxpayer protested the proposed assessments. Further facts will be supplied as required.

**I. Use Tax—Imposition**

**DISCUSSION**

Taxpayer protests the imposition of use tax for the years 2002 through 2004. As explained in the audit report, the Department issued the use tax assessments based on Taxpayer's non-exempt use of several items upon which sales tax had not been collected and use tax had not been paid. The Department referred to [45 IAC 2.2-3-20](#), which states:

All purchases of tangible personal property which are delivered to the purchaser for storage, use, or consumption in the state of Indiana are subject to the use tax. The use tax must be collected by the seller if he is a retail merchant described in Reg. 6-2.5-3-6(b)(010) [\[45 IAC 2.2-3-19\]](#) or if he has Departmental permission to collect the tax. If the seller is not required to collect the tax or fails to collect the tax when required to do so, the purchaser must remit the use tax directly to the Indiana Department of Revenue.

The Department notes that, under IC § 6-8.1-5-1(c), the burden of proving a proposed assessment wrong rests with the person against whom the proposed assessment is made. In this case, Taxpayer has not provided documentation to establish that it used the items in question in an exempt manner. Therefore, Taxpayer has not met its burden under IC § 6-8.1-5-1(c).

**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 his 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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