

**Letter of Findings Number: 07-0611P  
Negligence Penalty  
For Tax Years 2004-2006**

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**ISSUE**

**I. Tax Administration–Negligence Penalty.**

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

Taxpayer protests imposition of a ten percent negligence penalty.

**STATEMENT OF FACTS**

Taxpayer operates businesses in Indiana and many other states. As the result of an audit, the Indiana Department of Revenue ("Department") issued proposed assessments for base withholding tax, penalties, and interest for the tax years 2004 through 2006. Taxpayer protests the imposition of ten percent negligence penalties for the years at issue. Further facts will be supplied as required.

**I. Tax Administration–Negligence Penalty.**

**DISCUSSION**

The Department issued proposed assessments and the ten percent negligence penalty for the tax years in question. Taxpayer protests the imposition of penalty and states that there had been no withholding issues in the previous audit. Taxpayer also explains that the computer system it used during the audit period at issue used the information from the previous computer system. Taxpayer believes that it was reasonable to rely on its new computer system since it was using information from the previous system and since the previous system had no problems regarding withholding tax. 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.

(*Emphasis added.*)

[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 an assessment 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). Ordinary business care would include double-checking a new computer system to make sure that it was properly accounting for all taxes, including withholding tax. Taxpayer has not established that its failure to collect and remit withholding taxes 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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