

**Letter of Findings Number: 08-0289**  
**Sales and Use Tax**  
**For the Tax Period 2004**

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**ISSUES**

**I. Sales and Use Tax - Imposition.**

**Authority:** IC § 6-8.1-5-1(c); Indiana Dep't of State Revenue v. Interstate Warehousing, 783 N.E.2d 248 (Ind. 2003).

The Taxpayer protests the assessment of use tax.

**II. Tax Administration - Ten Percent Negligence Penalty.**

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

The Taxpayer protests the imposition of the ten percent negligence penalty.

**STATEMENT OF FACTS**

The Taxpayer owns and operates a classified forest. In 2004, the Taxpayer purchased a Caterpillar D-3 dozer without paying sales tax at the time of purchase. The Indiana Department of Revenue, hereinafter referred to as the "Department," assessed use tax, interest, and penalty. The Taxpayer protested the assessment of use tax and penalty. A hearing was held and this Letter of Findings results.

**I. Sales and Use Tax – Imposition.**

**DISCUSSION**

The Taxpayer purchased a Caterpillar D-3 dozer to use in his "classified forest." He claimed an exemption at the time of purchase. Since a government employee told him that equipment used in maintaining and operating a classified forest was exempt from sales tax, he filed an exemption certificate at the time of purchase.

All tax assessments are presumed to be valid. IC § 6-8.1-5-1(c). The Taxpayer bears the burden of proving that any assessment is incorrect. Id. Exemption statutes are to be strictly construed against the Taxpayer. Indiana Dep't of State Revenue v. Interstate Warehousing, 783 N.E.2d 248 (Ind. 2003).

IC § 6-2.5-2-1(a) imposes sales tax on retail transactions made in Indiana. IC § 6-2.5-3-2(a) imposes a complementary use tax on the storage, use or consumption of tangible personal property in Indiana, if the property was acquired in a retail transaction as defined for sales tax purposes unless there is a statutory exemption that applies.

There is no statutory exemption for equipment used in a classified forest. Therefore, the Taxpayer's purchase and use of the dozer did not qualify for an exemption.

**FINDING**

The Taxpayer's protest to the assessment of use tax on its dozer is respectfully denied.

**II. Tax Administration - Ten Percent Negligence Penalty.**

**DISCUSSION**

The Taxpayer protests the imposition of the ten percent negligence penalty pursuant to IC § 6-8.1-10-2.1. Indiana Regulation [45 IAC 15-11-2](#)(b) clarifies the standard for the imposition of the negligence penalty as follows:

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.

The standard for waiving the negligence penalty is given at [45 IAC 15-11-2](#)(c) as follows:

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. Factors which may be considered in determining reasonable cause include, but are not limited to:

- (1) the nature of the tax involved;
- (2) judicial precedents set by Indiana courts;
- (3) judicial precedents established in jurisdictions outside Indiana;
- (4) published department instructions, information bulletins, letters of findings, rulings, letters of advice, etc;

(5) previous audits or letters of findings concerning the issue and taxpayer involved in the penalty assessment.

Reasonable cause is a fact sensitive question and thus will be dealt with according to the particular facts and circumstances of each case.

The Taxpayer provided substantial documentation to indicate that its failure to pay the assessed use tax was due to reasonable cause rather than negligence.

**FINDING**

The Taxpayer's protest to the imposition of the penalty is sustained.

**CONCLUSION**

The Taxpayer's Issue I protest is denied and the Taxpayer's Issue II protest is sustained.

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