

DEPARTMENT OF STATE REVENUE

Revenue Ruling #2009-15 ST
October 27, 2009

NOTICE: Under [IC 4-22-7-7](#), this document is required to be published in the Indiana Register and is effective on its date of publication. It shall remain in effect until the date it is superseded or deleted by the publication of a new document in the Indiana Register. The publication of this document will provide the general public with information about the Department's official position concerning a specific issue.

ISSUES

Sales and Income Tax – Method of Accounting

A company ("Taxpayer") is seeking guidance on sales and income tax accounting methods authorized under Indiana law.

Authority: [IC 6-2.5-6-2](#); [45 IAC 2.2-6-4](#).

STATEMENT OF FACTS

Taxpayer provides the following facts regarding its request for a revenue ruling. Taxpayer offers business accounting software for both sales and income tax purposes. In pertinent part, Taxpayer requests a ruling as to whether an out-of-state entity that does not report income tax in Indiana may elect to report sales tax on a cash accounting basis when income tax for other states and for federal purposes is reported on an accrual accounting basis.

DISCUSSION

Relevant statutory guidance can be found at [IC 6-2.5-6-2](#), which states:

A retail merchant may, without prior departmental approval, report and pay his state gross retail and use taxes on an accrual basis, if he uses the accrual basis to pay and report the adjusted gross income tax or the tax imposed on him in place of the adjusted gross income tax. The department may, at any time, require the retail merchant to stop using the accrual basis.

The Department's regulation, found at [45 IAC 2.2-6-4](#), provides:

(a) A taxpayer may, without prior Departmental approval report and pay his state gross retail tax on the accrual basis if:

- (1) The taxpayer reports his gross income tax or the tax imposed on him in place of the gross income tax, on the accrual basis; and
- (2) The Department has not required the taxpayer to stop using the accrual basis of accounting.

(b) Definition: Accrual basis of accounting. On the accrual basis, income is accounted for as and when it is earned, whether or not it has been collected. Expenses are deducted when they are incurred, whether or not paid in the same period.

Based on the foregoing authority, Indiana law generally contemplates the use of cash accounting as a basis for both sales/use and income tax reporting. However, Indiana law also allows for the use of accrual accounting as a basis for sales/use tax reporting if accrual accounting is used as a basis for income tax reporting. [IC 6-2.5-6-2](#) clearly prohibits a taxpayer from using the accrual accounting method for sales/use tax reporting and the cash accounting method for income tax reporting purposes. In a related manner, and pursuant to the authority issued under the statute, the Department will not allow a taxpayer to use the cash accounting method for sales/use tax reporting in conjunction with the use of the accrual accounting method for income tax reporting.

Based on its interpretation of the foregoing statutory provisions, the Department's policy is to require consistency in the application of accounting methods by a taxpayer. In instances where an entity files only sales tax returns in Indiana, the Department requires the use of a consistent accounting method for the entity's income tax reporting. If the entity uses the accrual accounting method for its income tax reporting, it must also use the accrual accounting method for its sales tax reporting in Indiana. However, pursuant to [IC 6-2.5-6-2](#), the Department may, at its discretion and at any time, require the entity to stop using the accrual accounting method as a basis for its sales tax reporting.

RULING

An out-of-state entity that does not report income tax in Indiana may not elect to report sales tax on a cash accounting basis when income tax for other states and for federal purposes is reported on an accrual accounting basis.

CAVEAT

This ruling is issued to the taxpayer requesting it on the assumption that the taxpayer's facts and circumstances as stated herein are correct. If the facts and circumstances given are not correct, or if they change, then the taxpayer requesting this ruling may not rely on it. However, other taxpayers with substantially identical factual situations may rely on this ruling for informational purposes in preparing returns and making tax decisions. If a taxpayer relies on this ruling and the Department discovers, upon examination, that the fact situation of the taxpayer is different in any material respect from the facts and circumstances given in this ruling, then the ruling will not afford the taxpayer any protection. It should be noted that subsequent to the publication of this ruling a change in statute, regulation, or case law could void the ruling. If this occurs, the ruling will not afford the taxpayer any protection.

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