

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
[Redacted],) DOCKET NO. 26111
Petitioner.)
DECISION
_____)

On July 26, 2013, the staff of the Tax Discovery Bureau (Bureau) of the Idaho State Tax Commission (Commission) issued a Notice of Taxpayer Initiated Refund Determination (Notice) to [Redacted] (taxpayer), denying the refund of sales tax and interest for the period May 1, 2011, through May 31, 2011, in the total amount of \$773.32.

On September 17, 2013, the taxpayer filed a timely appeal and petition for redetermination of the Notice. At the taxpayer’s request, the Commission held an informal hearing on March 19, 2014. Present at the informal hearing were [Redacted], [Redacted], and [Redacted].

The Commission is fully advised of the contents of the audit file, as well as information obtained at the hearing and thereafter, and hereby issues its decision affirming the refund denial. For the reasons that follow, the Commission upholds the audit findings.

Background and Audit Findings

The taxpayer leased a vehicle from [Redacted] that was totaled in an accident. The taxpayer’s insurance company denied the claim for the damaged vehicle, leaving him fully responsible for the residual value of the vehicle. The taxpayer provided the purchase documentation to the Bureau, showing that he exercised his option to purchase the leased vehicle for the residual value of \$18,738.78, which included sales tax. The taxpayer then sold the damaged vehicle to a salvage yard for \$5,580.00.

The taxpayer claimed a refund of sales tax paid on the difference between the purchase price and the salvage value of the vehicle, due to the loss on the leased vehicle. The Bureau determined that regardless of the condition of the vehicle at the time of the buyout, the correct amount of sales tax was remitted on the transaction. The refund request was denied.

The taxpayer protested the Bureau's determination, asserting that sales tax should only have been collected on the fair market value of the vehicle (i.e. the salvage value) at the time of the buyout.

Analysis

Idaho imposes a tax on the sale of tangible personal property.

Sale. -- (1) The term "sale" means any transfer of title, exchange or barter, conditional or otherwise, of tangible personal property for a consideration and shall include any similar transfer of possession found by the state tax commission to be in lieu of, or equivalent to, a transfer of title, exchange or barter (Idaho Code §63-3612).

When the taxpayer exercised his option to purchase the leased vehicle for the residual value of \$18,738.78, it was a sale of tangible personal property for consideration. This is a fact which the taxpayer does not dispute. The Commission agrees with the Bureau that the amount subject to sales tax is the total amount for which the leased vehicle was purchased. A second transaction occurred when the taxpayer sold the damaged vehicle to the salvage yard for \$5,580.00. This second transaction does not affect the taxability of the taxpayer's purchase of the vehicle from [Redacted].

The Sales Tax Act defines "sales price" excerpted in relevant part below:

Sales price. -- (a) The term "sales price" means the total amount for which tangible personal property, including services agreed to be rendered as a part of the sale, is sold, rented or leased, valued in money, whether paid in money or otherwise. . . . (Idaho Code §63-3613).

The taxpayer refers to the discussion of the retail sale of tangible personal property together with services referenced in IDAPA 035.01.02.11.02.06 which states that:

When a mixed transaction involves the transfer of tangible personal property and the performance of a service, both of which are consequential elements whose costs may be separately stated, then two (2) separate transactions exist. The one attributable to the sale of tangible personal property is subject to sales tax while the other is not.

The above rule is not applicable to the transaction in question, which is the sale of tangible personal property only. There are no services being sold between the lease company and the taxpayer or between the taxpayer and the salvage yard. In contrast, the Commission finds IDAPA 35.01.02.24.12 relevant as it discusses a lease with an option to purchase. The rule specifies that “if the lessee exercises the option to buy, the lessor/owner must collect sales tax from the lessee/buyer on the full remaining purchase price, the residual, when the option is exercised.”

Conclusion

The taxpayer exercised the option to purchase a leased vehicle. When he exercised the option to buy, the lessor/owner was obligated to collect sales tax from him on the full remaining purchase price, the residual, when that option was exercised. The sales tax code and administrative rules do not allow for a reduction in tax when the amount paid exceeds the value of the tangible personal property purchased. The Commission finds that the administrative rule with respect to the buyout initiated by the taxpayer is very clear and that sales tax was charged on the correct amount, the full remaining purchase price.

THEREFORE, the Notice dated July 26, 2013, is hereby APPROVED, in accordance with the provisions of this decision, and is AFFIRMED and MADE FINAL.

The refund has been denied, therefore, no payment is due or necessary.

An explanation of the taxpayer's right to appeal this decision is enclosed.

DATED this _____ day of _____ 2014.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2014, a copy of the within and foregoing DECISION was served by sending the same by United States mail, postage prepaid, in an envelope addressed to:

[Redacted]

Receipt No.