BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of	)	
	)	DOCKET NO. 0-618-615-808
[redacted]	)	
	)	
Petitioner.	)	DECISION
	)	

[redacted] (Petitioner) protested the Notice of Deficiency Determination (Notice) issued by the staff of the Sales/Use Tax Audit Bureau (Bureau) of the Idaho State Tax Commission (Tax Commission). The Notice reversed a use tax credit that Petitioner had double-claimed for the audit period of November 1, 2023, through January 31, 2024, in the total amount of $1,138.16. After administrative review, the Tax Commission hereby upholds the Notice for the reasons set forth below.

BACKGROUND

Petitioner is a restaurant located in [redacted] Idaho, registered with the Idaho Secretary of State on [redacted], and wholly owned by [redacted]

[redacted] is a franchisee of [redacted] (franchisor), operating casual and fast-casual dining restaurants throughout the Northwest under several trade names, including [redacted] and [redacted] has operated as a franchisee for approximately 20 years and is headquartered in [redacted] Washington. The franchisor, [redacted] is headquartered in [redacted] Florida.

In February 2023, [redacted] purchased network equipment in Florida from a third-party vendor, and paid Florida sales tax at the rate of 7.5% at the time of purchase. On April 19, 2023, after taking possession of the equipment, [redacted] distributed the equipment to its franchisee, [redacted] Upon distribution, [redacted] reimbursed [redacted] for the full purchase price, including the cost of the equipment, shipping charges, and the Florida sales tax previously paid by the franchisor.

Petitioner filed its November 2023 Idaho sales/use tax return and properly reported and remitted use tax on the equipment. On January 10, 2024, Petitioner filed an amended return for November 2023, claiming a credit against the use tax reported on the original return. The Tax Commission processed the amended return and issued a refund check on January 22, 2024, in the amount of $546.93.

The refund check was mailed to an outdated headquarters address for [redacted] and was not redeemed. On July 1, 2025, the check was transferred to unclaimed property (UCP).[1]

Because the refund was not received, Petitioner claimed the same credit of $546.93 by making an adjustment on its January 2024 Idaho sales/use tax return dated February 14, 2024. As a result, the credit was claimed twice.

Following a review of Petitioner's transactions and supporting documentation, the Bureau issued a Notice on October 21, 2025, reversing the duplicate credit and allowing a credit on shipping charges and the allocated Florida sales tax paid to [redacted]

Petitioner protested the Notice, asserting that [redacted] is entitled to a full credit for the Florida sales tax reimbursed to the franchisor. Petitioner argued that the Florida sales tax was lawfully imposed and paid prior to the equipment being shipped to Idaho, and that Idaho Code section 63-3621(10) permits a credit for sales/use tax paid to another state on

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[1] In December 2025, the auditor confirmed that Petitioner had claimed the check from UCP.

the same property. Petitioner further contended that no Idaho use tax is due because the Florida sales tax rate exceeds the Idaho 6% sales/use tax rate, thereby fully offsetting any Idaho liability.

Petitioner relied on Idaho Code section 63-3621(10), asserting that the statute does not require the Idaho taxpayer to have directly paid the out-of-state tax. The credit depends solely on whether the tax was legally imposed and paid to another state on the same property.

The Bureau acknowledged Petitioner's protest and forwarded the case to the Tax Commission's Appeals Unit (Appeals) for administrative review. Appeals reviewed the case and sent Petitioner a letter outlining the options for redetermining a protested Notice. Petitioner responded and requested an informal hearing, which was held on March 9, 2026.

Following the informal hearing, Petitioner elected to proceed to a decision. Therefore, the Tax Commission, having reviewed all available information, hereby issues its decision.

LAW & ANALYSIS

The primary issues for decision are whether Idaho Code section 63-3621(10) exempts Petitioner from Idaho use tax and supports a credit for allocated Florida sales tax reimbursed to the franchisor, and whether Petitioner's acquisition of the network equipment constitutes a taxable transaction subject to Idaho use tax.

EXEMPTION ON SALES/USE TAX PAID TO ANOTHER STATE

Idaho Code section 63-3621(10) addresses a sales/use tax paid to another state:

> (10) When the tangible personal property subject to use tax has been subjected to a general retail sales or use tax by another state of the United States in an amount equal to or greater than the amount of the Idaho tax, and evidence can be given of such payment, the property will not be subject to Idaho use tax. If the amount paid to the other state was less, the property will be subject to use tax to the extent that the Idaho tax exceeds the tax paid to the other state….

Idaho Administrative Rule 072 further interprets the above statute:

> 07. Taxes Paid to Another State. The taxpayer may offset from the use taxes payable to Idaho any amount of general sales or use taxes paid to another state on the purchase or use of the same property **if paid by the same taxpayer.**
>
> a**.** If the amount of tax levied by the state to which it is paid is less than the amount of the Idaho tax due, then the balance must be paid as Idaho tax.
>
> b. If the amount of tax levied by the state to which it is paid is equal to or greater than the Idaho tax, then there will be no taxes due to Idaho in regard to the same transaction or subsequent use of the property.
>
> c. If the taxes paid to the other state are greater than the Idaho tax, the amount of offset available is limited to the amount of Idaho tax due on the same transaction or use of the property.

Under Idaho Code section 63-3621(10) and Rule 072.07, a taxpayer may claim a credit against Idaho use tax only for sales/use tax paid to another state by the same taxpayer on the same property. If the tax paid to the other state equals or exceeds the Idaho tax, no Idaho tax is due, but if it is less, the taxpayer remains liable for the difference.

In this case, [redacted] purchased the equipment from a third-party vendor in Florida and paid Florida sales tax. That transaction occurred between the franchisor and the vendor. Petitioner did not purchase the equipment directly from the Florida vendor, nor did it pay Florida sales tax directly to that vendor. Instead, the Florida sales tax was imposed on and paid by the franchisor. Petitioner subsequently acquired the equipment from [redacted] in a separate transaction and reimbursed the franchisor for its costs.

Although the same property was involved, the transactions are legally distinct. The franchisor, the vendor, and Petitioner are separate legal entities, and each transaction must be evaluated independently for the tax purposes.

As reflected in [redacted]'s 2023 Form 10-K filed with the U.S. Securities and Exchange Commission (SEC), franchisees operate as independent third parties under franchise agreements, with the limited control by the franchisor. While the franchisor establishes standards and provides support, franchisees independently own and operate their businesses.

> *Unaffiliated Franchise Program - Our unaffiliated franchise agreements grant third parties the right to establish and operate a restaurant using one of our concepts. Franchised restaurants are required to be operated in accordance with the franchise agreement and in compliance with their respective concept's standards and specifications.*
>
> *We have limited control with respect to the operations of our franchisees….*
>
> *Our franchisees are contractually obligated to operate their restaurants in accordance with our standards and we provide training and support to franchisees. However, franchisees are independent third parties that we do not control, and these franchisees own, operate and oversee the daily operations of their restaurants. As a result, the ultimate success and quality of any franchise restaurant rests with the franchisee. If franchisees do not successfully operate restaurants in a manner consistent with our product and service quality standards and contractual requirements, our image and reputation could be harmed, which in turn could adversely affect our business and operating results.*

Although Petitioner argued that the franchisor maintains its centralized network infrastructure across all its locations, preserving the authority to select the equipment, configure to their security standards, and manage the network environment, such requirements arose from contractual obligations and do not alter the independent legal status of the parties.

Because the Florida sales tax was not paid by the same taxpayer in the transaction giving rise to Idaho use tax liability, the statutory requirement that the tax be paid by the "same taxpayer" is not satisfied. Therefore, Petitioner is not entitled to a credit for the reimbursed Florida sales tax, and is not exempt from Idaho use tax.

<u>DEFINITION OF SALES</u>

Idaho Code section 63-3612 (1) defines sales:

> 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.

Pursuant to Idaho Code section 63-3612(1), a “sale” is any transfer or exchange of tangible personal property for consideration, including transfers of possession in place of title.

Idaho Code section 63-3613(a) further clarifies the sales price inclusion:

> (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, without any deduction on account of any of the following:
> 1. The cost of the property sold…..

The "sales price", as the measure of consideration, is the total amount for which property is sold, "valued in money, whether paid in money or otherwise", includes the cost of the property sold without any deduction for the seller’s expenses.

Idaho Administrative Rule 044.02.a explicitly identifies “*The property is consideration delivered by the buyer to the seller*”. Therefore, under Idaho statutes and administrative rules, consideration is the value, such as money, property, or services, given by a buyer to a seller in exchange for the transfer of title or possession of tangible personal property.

Although Petitioner asserted that the transaction between it and the franchisor was a “no-markup” transaction in which the franchisor did not earn a profit, and it merely reimbursed the franchisor for the cost of the equipment, shipping charges, and allocated Florida sales tax, this characterization does not alter the statutory definition. Idaho Code section 63-3612 requires only a transfer of property for consideration. It does not require that the seller realize a profit or impose a markup.

In this "no-markup" transaction, Petitioner provided consideration in the form of reimbursement for the equipment and associated costs and, in exchange, obtained ownership of the property. Because value was given to acquire the property, the franchisor acted as the seller, Petitioner acted as the buyer, and ownership of the equipment was transferred from the seller to the buyer for consideration. Accordingly, the transaction falls within the statutory definition of a sale.

USE TAX LIABILITY

Idaho Code section 63-3621 (1) and (2) imposes use tax on tangible property:

> (1) An excise tax is hereby imposed on the storage, use, or other consumption in this state of tangible personal property acquired on or after October 1, 2006, for storage, use, or other consumption in this state at the rate of six percent (6%) of the value of the property, and a recent sales price shall be presumptive evidence of the value of the property unless the property is wireless telecommunications equipment, in which case a recent sales price shall be conclusive evidence of the value of the property.
>
> (2) Every person storing, using, or otherwise consuming, in this state, tangible personal property is liable for the tax. His liability is not extinguished until the tax has been paid to this state, except that a receipt from a retailer maintaining a place of business in this state or engaged in business in this state given to the purchaser is sufficient to relieve the purchaser from further liability for the tax to which the receipt refers.

Under Idaho Code section 63-3621, use tax applies to tangible personal property stored, used, or consumed in Idaho when sales tax has not been paid at the time of purchase, unless a valid exemption applies. In this case, Petitioner did not provide documentation demonstrating that its acquisition of the equipment qualifies for any exemption under Idaho law.

Because Petitioner acquired the equipment outside Idaho, brought it to Idaho, and used it in Idaho without paying Idaho sales tax at the time of purchase, the transaction was subject to Idaho use tax. Petitioner's original November 2023 sales/use tax return properly reported and remitted the Idaho use tax due.

Additionally, pursuant to Idaho Code section 63-3613(b), delivery charges and taxes imposed by the United States are excluded from the sales price and are not subject to Idaho sales/use tax. Consistent with these provisions, the Bureau properly allowed credit for the shipping charges and the allocated Florida sales tax Petitioner paid to the franchisor, applying those amounts to the outstanding tax balance.

CONCLUSION

The Tax Commission finds that Petitioner is not entitled to a credit under Idaho Code section 63-3621(10), as the Florida sales tax was not paid by the same taxpayer in the transaction giving rise to Idaho use tax liability. Petitioner and the franchisor are separate legal entities, and their transactions are distinct from those between the franchisor and the vendor. Accordingly, Petitioner's acquisition and use of the network equipment in Idaho, are subject to Idaho use tax.

Additionally, because Petitioner claimed the refund from unclaimed property in December 2025, the Bureau's Notice accurately reflects the reversal of the use tax credit that Petitioner had previously double-claimed, together with applicable interest. The Tax Commission reviewed the assessment of interest to be appropriate per Idaho Code section 63-3045, as adjusted.

THEREFORE, the Notice of Deficiency Determination dated October 21, 2025, is hereby AFFIRMED and MADE FINAL.

IT IS ORDERED that Petitioner pay the following tax, penalty, and interest:

YEAR	TAX	PENALTY	INTEREST	TOTAL
11/1/2023-1/31/24	$1,056	$0	$98	$1,154

DEMAND for immediate payment of the foregoing amount is hereby made and given.

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

DATED this _______ day of __________________ 2026.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this ________ day of ______________________________ 2026, 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.

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