

Sales/Use/Indirect:

Indiana Tax Court Says Auto Finance Company May Claim Bad Debt Deductions Despite Repossessions

Case No. 20T-TA-00017, Ind. Tax Ct. (1/4/24). The Indiana Tax Court (Court) held that an auto finance company is entitled to summary judgment with respect to its original Indiana sales tax refund claims that calculated Indiana “bad debt” deductions (*i.e.*, for the tax due on amounts of receivables written off as uncollectible debt from defaulting consumers for federal income tax purposes) under statute for the tax years at issue by excluding only the portion of the repossessed property that was *not* market discount income. To find otherwise, according to the Court, “would set the Net Debt Principle on its head.” Under the facts, the finance company paid approximately 65-70% of face value for the defaulted contracts, and it also repossessed and sold the underlying vehicles. According to the Court, if the basis in those defaulted contracts were also reduced by market discount income (*i.e.*, the profit from the transaction between the car dealership and the auto finance company), there is a “substantial possibility” that the finance company would not receive a refund attributable to what it had paid. Therefore, the Court reasoned that adjusting Indiana’s bad debt amount to subtract market discount income – amounts which the finance company never paid – is contrary to the net debt principle. In holding for the company, the Court commented that Indiana’s bad debt statutes generally only require that the bad debt be deducted for federal income tax purposes, “not that the taxpayer demonstrate the validity of the [federal income tax] deduction.” Please contact us with any questions.

URL: https://public.courts.in.gov/Decisions/api/Document/Opinion?Id=UgRY5lvSH5yD1XR86USZ-9-gl91NIEkT_-8DekqMB68tzN6ozP3yLNnE-nR5z3I70

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