**Passenger Vehicle Rentals Result:**

**Reduction amount: $8,389,629**

**Reduction Percentage: 96%**

**Procedural Summary: Appeal; Bankruptcy**

This case involved multiple audits conducted by several states of a national passenger vehicle rental business. Following Covid shutdowns that significantly reduced travel worldwide, our client was forced to file for Chapter 11 Bankruptcy protection. Our firm, led by Jesse McClellan, was hired as special tax counsel in the bankruptcy case to address the asserted sales, use, excise and gross receipts tax liabilities in several states, including California, Nevada, Texas, Utah, and Georgia. One of the largest liabilities was asserted by California, with tax and interest totaling $13,674,407, for four separate liability periods.

Upon review of the underlying working papers, we were able to establish that the California Department of Tax and Fee Administration’s (CDTFA – formerly the Board of Equalization) audit approach was significantly flawed for the most recent audit period in which CDTFA asserted a liability of $8,736,854. After examining client records and reconstructing the audit, we were able to convince CDTFA that significant adjustments to the audit were in order. For that audit alone, we were able to obtain a stipulation to reducing the liability to $347,843 which was a 96% reduction totaling $8,389,629.

Much or our work involved audit procedural issues, but it also involved complex legal issues, including working with lead bankruptcy counsel to address whether CDTFA’s claim for older liabilities were subject to priority under the bankruptcy code. The bankruptcy court agreed that certain claims were *not* subject to priority, concluding that the 9th Circuit Court of Appeals Opinion, *In re Ilko* (9th Cir. 2011), incorrectly concluded that California sales tax should be treated as an “income or gross receipts” tax under U.S.C section 507(a)(8)(A). This finding was significant because it resulted in the removal of priority status for remaining liabilities totaling $4,789,476.

In the end, our client was able to reach a plan of reorganization and continue doing business. We were fortunate to have a part in that result.