This Week in State Tax (TWIST)

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Ohio: Insurance company need not include sales tax with cash settlements says appellate court

In a recent decision, the Ohio Court of Appeals analyzed an insurer's obligation to include sales tax in total-loss cash settlements with its insureds. Following a vehicle accident, a policyholder filed a property-loss claim. The insurer declared the vehicle a total loss and issued a cash settlement that excluded sales tax. In 2022, the policyholder brought a class-action claiming breach of contract, citing policy language stating that payments would include, "*where required by law*, the applicable sales tax and fees for the damaged or stolen property." (emphasis added). Under Ohio regulations, however, sales tax reimbursement is required *only if* the claimant purchases a replacement vehicle within 30 days of receiving the settlement and provides the insurer with documentation of the purchase and the payment of sales tax within 33 days of receiving the cash settlement.

The policyholder argued that the policy required total-loss cash settlements to include sales tax payments regardless of whether the insured had substantiated the purchase of a replacement vehicle. According to the policyholder, the policy language "where required by law" simply required such payments in states that impose a sales tax on purchases of a vehicle. In contrast, the insurer argued that its policy obligation is triggered only when a specific law requires insurers to pay sales tax.

On appeal following summary judgment granted to the insurer, the appellate court noted that the policyholder did not argue that he met the Ohio regulatory requirements by purchasing and substantiating payment of sales tax within the required timeframe. Further, the court interpreted the policy's "where required by law" language to mean that sales tax is included in a total-loss cash settlement only when mandated by a specific statute or regulation, rather than general sales tax laws. The court confirmed that the regulation is the sole legal framework dictating an insurer's sales tax obligations in total-loss claims. As such, the insurer is not required to include sales tax with the cash settlement to a policyholder who does not substantiate the purchase of a replacement vehicle and payment of sales tax within the timeframe required by state law and regulation.

For questions on *Chambers v. Farmers Ins. of Columbus, Inc.* or Ohio sales tax matters generally, please reach out to Dave Perry and Kenna Goodman.

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