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Multistate Nexus Study, Income/Franchise Tax Review and Voluntary Disclosure Services
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Summary:

A central Ohio based manufacturer of heavy equipment sells its products to customers in forty-six states. The company employs sales representatives who travel the U.S. In addition, the company performs warranty and repair services at customer locations.

Under advice from a former accountant, the company only filed income/franchise tax returns in Ohio, where the company's headquarters is located. The former accountant also advised the company to apportion one-hundred percent of its sales to Ohio. In addition, the company chose only to begin filing other state income and/or franchise tax returns when the company was discovered through nexus questionnaires or was determined to have a filing requirement under audit. Similarly, the company was only registered for state sales tax in states where an audit had been initiated.

Challenge:

Based on the activities of its employees, the company had nexus with a number of states that created a filing requirement for both income / franchise tax and sales tax purposes. Due to the number of years in business, the company faced significant exposure for unpaid taxes, interest and penalties.

Solution:

GBQ SALT performed a multistate nexus study to track employee visits and warranty and repair activities in each of the states in which sales were made. Based on the level of activity in each state, GBQ SALT was able to identify those states in which a filing requirement was created and provide recommendations to the company.

GBQ SALT also performed a state income / franchise tax review. As part of this process, GBQ SALT interviewed key company personnel, reviewed federal and state tax returns and other financial information. Based on the state income / franchise tax review, GBQ SALT was able to identify overpayments and underpayments of state taxes and provide recommendations for prospective compliance.

Based on the results of the multistate nexus study and the state income / franchise tax review, GBQ SALT recommended that the company complete voluntary disclosures in five states. Further, GBQ filed amended income / franchise tax returns and applications for refund based on revised sales apportionment numbers for the three previous tax filing periods.

Benefits:

By participating in the voluntary disclosure programs, the company was able to successfully limit the number of years a state would require state income / franchise tax and sales tax returns. As a result, the company was able to limit its state income tax and sales tax exposure. In addition, the company avoided significant late filing penalties and interest, in some states. Further, the company was able to avoid the additional time and expense of state tax audits in those states where it continues to do business.

As a result of the state income / franchise tax review, GBQ SALT was able to identify state tax overpayments of approximately \$130,000. The company was able to utilize the refunds to offset tax, interest, penalty and other costs associated with the voluntary disclosures in the other states.