



Use Tax Compliance Process Review

Summary:

Client is a privately-held manufacturer with significant operations in twelve states as well as a significant international presence. Annual sales exceed approximately \$6 billion.

The company currently prepares twenty to twenty-five sales and use tax returns per month, in-house. Use tax accrued monthly is typically an estimate and can be as high as \$200,000 per month. The company's tax department also manages the sales and use tax audits internally.

Challenge:

Based on the responsibilities of the tax department, and the potential disconnect between the various manufacturing plants across the United States and the tax individuals located at the headquarters, the company is faced with several challenges relating to capital and expense purchase transactions, mainly the appropriate use tax to be paid or accrued. Due to the size of various capital purchase transactions, the company faced significant exposure for unpaid sales taxes, or under-accrued use tax. The company was also concerned with the identification and remittance of use tax on corporate cards, as many employees were also responsible for making expense purchase transactions via company-issued purchase cards.

Solution:

GBQ SALT performed an extensive use tax compliance process review analyzing company procedures for tracking capital and expense purchase transactions nationwide, and the manner in which taxability determinations were made and the methodology for accruing use tax, if any.

The initial stage of the review consisted of interviews with key personnel in the tax department responsible for the sales and use tax compliance. GBQ SALT also met with key individuals in the information technology department to determine areas of exposure that may be mitigated within the accounting software utilized by the company for purposes of sales tax payments and use tax accruals.

Based on the compliance process review, GBQ SALT was able to identify several potential areas of weakness in the use tax reporting process, the accounting software used, and general ledger coding in place for capital and expense purchase transactions and provide recommendations for prospective use tax compliance.

The review also consisted of an extensive state by state analysis of the use tax taxability matrices currently utilized on the company's intranet website for individuals responsible for making purchase transactions and general ledger coding. GBQ SALT performed state by state research and prepared detailed use tax taxability matrices by state which included updated descriptions and legal citations.

Benefits:

By engaging GBQ SALT to perform a use tax compliance process review, the company was able to identify several areas of exposure in the use tax compliance function. As a result, the company can identify issues in a timely manner and make more accurate taxability determinations related to capital and expense purchase transactions. In addition, the company's taxability matrices have been updated and prospective use tax compliance procedures are expected to further reduce use tax exposure and potential risk under audit.

Based on the multistate use tax compliance review, GBQ recommended the company create a Sales/Use Tax Procedures Manual detailing the procedures for collecting and remitting sales tax and accruing and remitting use tax. Based on the recommendations, the company has the ability to perform use tax recovery reviews for those locations recently audited, or where a notice of intent to audit is received potentially avoiding tax, interest and penalty resulting from an audit.

As a result of the use tax compliance process review, recommendations for an increased awareness of the company's capabilities and oversight of the use tax compliance function have been provided.