

Unlocking Cash during COVID-19

Webinar Series: Sales Tax Reverse Audit and Utility Study

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Create Opportunities

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Learning Objectives

- Understand how a sales and use tax reverse audit can help you identify and recover sales and use tax overpayments
- Learn what the reverse audit process involves
- Understand how reviewing accounts payable invoices to identify if sales tax was paid on non-taxable purchases can help you unlock cash with minimal effort on your part and no upfront costs
- Understand how a utility study can provide permanent sales tax savings and a potential refund opportunity



Sales and Use Tax Reverse Audits

- Identify sales and use tax overpayments
 - Sales Tax – Sales tax paid to vendor on invoice
 - Use Tax – Self assessed use tax if no sales tax charged by vendor
- We are looking at the purchases, thus Accounts Payable spend
 - Capital – Fixed Asset listing
 - Expenses – General Ledger expense accounts
- What causes sale/use tax overpayment?
 - Company is not aware of the state sales tax exemption
 - Company is aware but missed the sales tax paid on the invoice
 - Company is aware but not paying attention to lower dollar – high volume purchases



Sales Tax Exemption Examples

- Manufacturing
 - Equipment, repair parts, consumables and utilities directly used in production
 - ◇ When does production start and end?
 - ◇ Direct (saw used to cut materials) vs. Indirect usage of equipment (tools used to repair saw)
 - Research and Development, Quality Control
 - Pollution control, waste water treatment
 - Packaging equipment and supplies
- Trucking and Transportation
 - Interstate motor carriers typically qualify for full or prorated exemption on trucks, trailers, repair parts, and accessories
 - In some states, internal trucking fleet may qualify for these exemptions



Phased Approach

- Phase I - Feasibility
 - Review sample invoices to estimate amount of potential opportunity
- Phase II – Implementation
 - Compile refund claim documentation and submit to the client for review
 - Work with state to review and gain approval of refund claim
- Phase III – Training
 - Help client correct overpayments identified and approved by state
 - 1-2 hour training session for appropriate client personnel handling sales/use tax



Fees

- Thirty Percent Contingency Fee on refunds received
- No fee on future refunds
- No upfront fee
- 1-2 day feasibility performed for free
 - No charge if no refunds identified
 - Provide estimate of potential refund and move forward to phase II with authorization

Utility Studies to Claim Exemption for Exempt Usage of Utilities

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Sales Tax Exemption for Utilities Used in Manufacturing

- An exemption or partial exemption from sales tax paid on utilities such as electricity, gas, steam, or water used or consumed in manufacturing or agricultural production.
- The exemption may apply to both state and local sales tax.
- The utility study calculates the percentage of utilities used for tax exempt qualifying production purposes.
- The utility study is performed per each state's requirements.

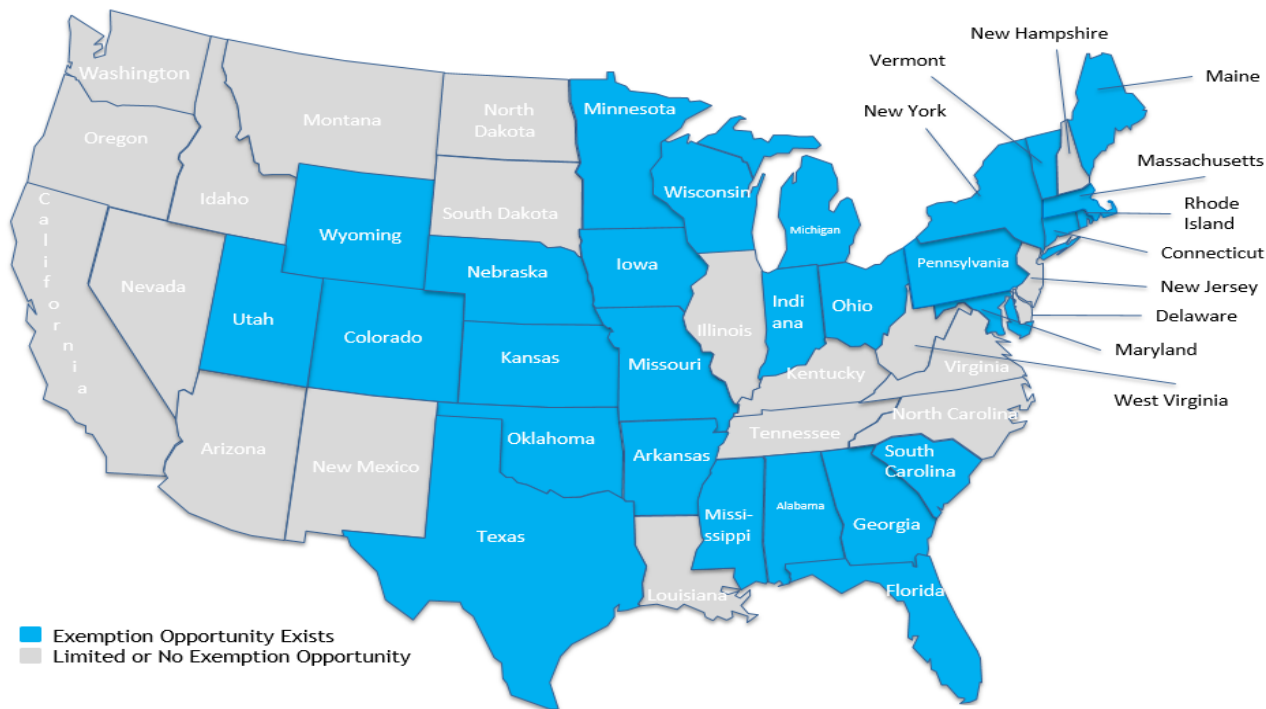


Sales Tax Exemption for Manufacturing



- What is considered manufacturing?
- Manufacturing process
 - Starts where raw materials removed from Beginning Inventory
 - Ends when finished product placed in Finished Goods
- Other related functions which may qualify as manufacturing
 - R&D
 - Testing/Quality Control
 - Changing Finished Goods (Deep Freezer)

Manufacturing Utility Exemptions by State



Utility Study Process - Overview

- *Step 1: Gain understanding of facility's utility usages and MFG processes.*
- *Step 2: Gather all utility meter consumption for past 12 months (minimum).*
- *Step 3: On-site Inventory of MFG Equipment w/ energy loads (watts, HP, BTU's)*
- *Step 4: On-site Inventory of Non-MFG equipment (HVAC, IT, lunch) w/loads*
 - **NOTE:** *Due to COVID-19, CLA can perform steps 3 & 4 remotely with client's on-site engineering and facilities personnel's assistance.*
- *Step 5: Quantitative analysis to determine MFG exemption %*
- *Step 6: Final Report generation with proper documentation required by the state for claiming MFG exemption % as well as Sales Tax Overpayment refund claims, if applicable.*



CLA Utility Study

- Performed by a CLA Engineer
- Peer-engineer reviewed; combined 35 years of experience.
- Experienced in all states and state requirements.
- You receive the full electrical analysis study for your records.

Sales Tax Exemption for Residential Use – Senior Living

- Some states allow for sales tax exemptions for residential use.
- States differ on how they define residential use, but usually residents of senior living centers qualify.
- Study methods / exempt areas vary by state, as they do with MFG studies.



Fees

- **Fixed Fee or Contingency based on facility and situation**
 - **Fixed Fee:**
 - ◇ Usually associated with validating state audits or reducing audit risks; based on facility size, complexity and number of meters.
 - ◇ Overpayment recovery services (if available) usually quoted separately
 - **Contingency Fee:**
 - ◇ Thirty Percent Contingency Fee on refunds received
 - ◇ No up-front fees
 - ◇ No fee on future refunds or savings
 - ◇ No Charge if no refunds are realized



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