



Sales & Use Tax Best Practices for Manufacturers

Presented by: Windward Tax

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4 Corners of Sales Tax



- How well are we handling this issue?
- Where can we improve?
- Where is our risk or exposure?
- Where are we missing tax savings?
- Where are we being inefficient?

Sales Tax Collection



- Nexus
- Taxing the Right Things
- Exemption Certificates

Nexus

- States getting more & more creative
- People, Product, Place
- Click-Thru Nexus
- Affiliate Nexus

Process Improvements:

- Know your companies activities
- Interview all departments – HR, Marketing, Sales, Operations
- Be proactive.
- Use Voluntary Disclosure Agreements when necessary

Taxing the Right Things

- Problem Areas:
 - Taxing things when you shouldn't
 - Not taxing things when you should

Process Improvements:

- Know what you sell.
- Do your research.
- Routine check-ups.

Exemption Certificates

- When to collect?
- How to know if you are in compliance.

Process Improvements:

- Have a process.
- Assign the task & train the personnel.
- Decide on storage process.
- Periodic check-ups to check compliance.

Purchasing



- Managing Exemptions
- Use Tax Accrual Systems
- Staying on top of tax laws, changes & trends
- P'Cards

Managing Exemptions

People Process

- Train purchasing & AP.
- Purchasing knows how something is used – they should make the decision.
- AP pays tax accordingly – either to the vendor or as use tax.

System Process

- Double check your mapping.
- Look at how the mapping handles complex transactions (materials & labor, mixed T/E purchases)
- Process Improvement: Check & Train. Repeat.

Managing Exemptions

VARIES GREATLY AMONG STATES KNOW YOUR STATES'S LAWS

Common Problem Areas

1. Scope of Production

- Know where production begins & ends
- Pertains to material handling exemptions

2. Machinery & Equipment Exemption

- Direct Use vs. Necessary & Essential
- Substantially vs. Predominantly vs. Exclusively
- New & Expanding Business – paperwork needed?
- Repair Parts (vs. consumable parts) – useful life criteria?

Managing Exemptions

Common Problem Areas...continued

3. Consumable Supplies & Used In Production

- Rapidly Consumed
- Direct contact to product/make a change

4. Utilities

- Total Exemption vs. Partial Exemption
- Applications often needed
- Partial Exemption – engineering study, not sq. footage

Managing Exemptions

Common Problem Areas...continued

5. Safety Supplies/Protective Equipment

- Safety goggles, earplugs, shoes, hairnets, etc.

6. Packaging Supplies

- Generally anything that is shipped out the door with the product
- Gray area with leased pallets & returnable pallets

7. Store room purchases

Use Tax Obligations

- For some companies, this is the single largest area of assessment under audit.
- Train your personnel
 - No sales tax charged does not equal not taxable.
 - Have a plan for mixed-used vendors.
- Review your use tax accruals for red flags!
 - Unusually large transactions
 - Trends different from normal months

Staying current on changes

- Telephone Game
- Tax laws are constantly changing. Harder for companies that operating in multiple states.

Process Improvement:

- Keep sales tax on the front burner. Give it some priority to ensure that things don't fall through the cracks.
- Periodic training & process reviews
- Good resource that works proactively for you to keep you up-to-date on tax changes that affect your business.

P'Cards

- Trend: growing P'card use.
- Auditor's love P'cards because it is hard to have good compliance systems.
- Typically see 2 problems:
 - Accrue use tax on everything!
 - Missing documentation = all taxable under audit
- Statement data isn't very reliable.

- Process Improvements:
 - Have a procedure.
 - Train personnel on making correct documentation.
 - Keep back-up documentation.

Audits



- Advanced Planning before the audit begins
- Battlefield Techniques
- The cost of “agreeing to disagree”
- Post Audit Recap

Advanced Planning

- Annual Self-Review
- Create internal team to do self-inventory of your policies & procedures.
- Do some self-auditing. What would an auditor find?
- Make sure you know what is happening in all 4 corners of your sales tax world.
- Look at outsourcing this function. Another set of eyes might bring to light new issues.

Battlefield Techniques

- Understand the Audit Methodology
 - Know where you might have some weaknesses
 - Know your business cycles
- Look for overpayments. Auditor won't!
- Don't offer more information than requested.
- Double check all numbers. Typos happen.
- Pay close attention to deadlines, but don't be afraid to request an extensions.

Cost of Agreeing to Disagree

- Consider the size of the battle. Is your time worth it?
- Is this going to set precedent for future transactions? Agreeing to something today, make a future battle much harder, especially if the dollars involved are larger.
- See guidance from sales tax professionals. They often have inside information about what others in similar predicaments have done.
- Talk to others in your same industry. They may be willing to share experiences.

Post Audit Recap

- Document the audit!
- Look at where assessments – or refunds have come from. Make changes within the organization to prevent the same mistakes from occurring again.

Technology & Outsourcing



- When to use technology?
- How to keep technology from going astray?
- When it makes sense to outsource or get professional help.

When to use technology?

- Analyze your sales tax practices –
 - Where are you weak?
 - Where are you strong?
- Educate yourself on what is available.
- Do a cost vs. benefit analysis.

Technology gone astray

- Beware of false sense of security.
- Only as good as the people that run it and information that goes in it.

Process Improvement:

- Continuous testing & training & monitoring.

Outsourcing & Getting Help

- Sales tax can be challenging! And by putting in good internal processes & controls you can really keep problems at bay. However, sometimes help is needed.
- Annual Process Reviews to keep problems from escalating into real headaches or liabilities – or equally bad, a real waste of money.
- Training is key. Even for personnel outside the accounting/tax area.
- Resource. Someone working for you to keep you up to date on changes that could affect your company.
- Windward Tax can help.

THANK YOU!

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