

Put your audit in reverse to save sales and use tax



It's a safe bet that state tax authorities will let you know if you haven't paid enough sales and use taxes, but what are the odds that you'll be notified if you've paid too much? The chances are slim — so slim that many businesses use reverse audits to find overpayments so they can seek refunds.

Take all of your exemptions

In most states, businesses are exempt from sales tax on equipment used in manufacturing or recycling, and many states don't require them to pay taxes on the utilities and chemicals used in these processes, either. In some states, custom software, computers and peripherals are exempt if they're used for research and development projects.

This is just a sampling of sales and use tax exemptions that might be available. Unless you're diligent about claiming exemptions, you may be missing out on some to which you're entitled.

Many businesses have sales and use tax compliance systems to guard against paying too much, but if you haven't reviewed yours recently, it may not be functioning properly. Employee turnover, business expansion or downsizing, and simple mistakes all can take their toll.

Look back and broadly

The audit should extend across your business, going back as far as the statute of limitations on state tax reviews. If your state auditors can review all records for the four years preceding the audit, for example, your reverse audit should encompass the same timeframe.

What types of payments should be reviewed? You may have made overpayments on components of manufactured products as well as on the equipment you use to make the products. Other areas where overpayments may occur, depending on state laws, include:

- Pollution control equipment and supplies,
- Safety equipment,
- Warehouse equipment,
- Software licenses,
- Maintenance fees,
- Protective clothing, and

- Service transactions.

When considering whether you may have overpaid taxes in these and other areas, a clear understanding of your operations is key. If, for example, you want to ensure you're receiving maximum benefit from industrial processing exemptions, you must know where your manufacturing process begins and ends.

Save now and later

Reverse audits can be time consuming and complicated, but a little pain can bring significant gain. Use your reverse audit not only to reap tax refund rewards now but also to update your compliance systems to help ensure you don't overpay taxes in the future.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.

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