

Sales and use taxes and the bottom line:

How nine manufacturers increased their cash flow.



As the current economic climate forces states to be more aggressive in their search for revenue, tax audits for manufacturers are on the rise. It's easy to understand why many business owners might be fearful.

Sales and use tax laws are complicated and jurisdictions are many. It's common for manufacturers to pay too little in one area, too much in another, or both. And that goes straight to the bottom line. Here's how Wipfli helped nine of their manufacturing clients stay in compliance and save serious money by reducing exposure, obtaining refunds, and instituting proper filing practices.

Paper trail

When a large international paper company was faced with a Wisconsin sales tax audit, they turned to Wipfli. The Department of Revenue had proposed to roll forward the adjustments from prior periods that had been accepted by the paper company. Because of deep industry knowledge, Wipfli was able to quickly review key issues in the prior audit, identify several offsets in the current period, and reduce the proposed audit settlement by over \$500,000.

Keep rolling

By establishing a transportation entity, Wipfli helped a \$100M multi-state manufacturer and distributor save over \$35,000 annually. A sales tax planning strategy allowed the company to reduce taxes on fleet-related purchases while still operating the fleet in a substantially similar manner as prior to the restructuring.

Nice and clean

Alliance Laundry Systems faced a four-year sales and use tax audit by the state of Wisconsin. Key members

of this commercial laundry manufacturer were not with the company during the years under audit so they were surprised to learn their company faced a sales and use tax assessment of more than \$100,000.

In less than two months, Wipfli identified errors in the proposed adjustments, resulting in significant reductions to the current assessment while uncovering new refund opportunities. The team also helped Alliance establish better processes and procedures to improve future sales tax reporting. Instead of a substantial tax bill, Alliance Laundry Systems secured a net refund of almost \$100,000 for a total overall savings of over \$200,000.

Good books

What began as a potential audit assessment of approximately \$50,000 ended in a refund of approximately \$30,000 for a publisher. With a strong understanding of sales and use tax technical issues and audit procedures, Wipfli helped the company not only reduce exposure on potential assessment items but also secure refunds of taxes paid in error.

Cheers

Companies in the beverage distribution and construction industries enjoy annual sales tax savings thanks to Wipfli's expertise in establishing separate transportation companies to haul their product to customers. These companies now realize annual savings on the repairs, parts, and maintenance for their transportation fleet and reap the benefit of sales tax savings on the lease or purchase of new fleet assets. The savings for companies with continuing investments for transportation equipment are significant.

The view ahead

When a manufacturer wanted to eliminate its use tax exposure, Wipfli was there to help. The manufacturer was concerned that it was not meeting its obligations for payment of Wisconsin use tax. Wipfli worked with the company to quantify both its underpayments and overpayments of sales tax. Through a voluntary disclosure program, Wipfli assisted the company by offsetting its underpayments of tax with refunds identified by Wipfli, reducing its assessment period from six to four years, and eliminating the 25% negligence penalty that would likely have been imposed on audit.

From false assumptions to more exemptions

It pays to know the manufacturing exemptions your company is eligible to take. A Wisconsin company, a maker and repairer of shipping containers, was paying sales and use tax on all of its equipment purchases as well as repair and supply purchases for the same equipment. They simply assumed they were not eligible for any sales and use tax exemptions as a manufacturer. Following a sales and use tax study, Wipfli secured a favorable ruling from the Wisconsin Department of Revenue for sales and use tax purposes for two out of three of their production processes. The company received a refund of \$130,000 in overpaid sales tax for a five year period. Plus, the client is now entitled to a manufacturing exemption going forward and significant above the line cash savings.

Pumped

A pump and power systems manufacturer was a lot happier after refund claims and a reduction in sales and use tax exposure reduced an audit assessment from \$189,000 to \$15,000. Wipfli's state and local tax professionals performed a review of the company's accounts payable purchases and identified \$49,000 in sales and use tax overpayments. The manufacturer was also in the midst of a Wisconsin Department of Revenue sales and use tax audit. Wipfli secured the identified savings in the audit report and assisted the client in eliminating sales and use tax exposure issues from the audit report.

Well run machine

A \$26M foundry with a machine center was facing a sales and use tax assessment of approximately \$10,000 with interest and penalties. Wipfli identified sales and tax overpayments made to vendors totaling \$78,000. The total audit assessment of \$10,000 became a refund, including interest of \$83,000. In addition, the company received approximately \$35,000 of sales tax plus interest from the Wisconsin Department of Revenue for several years that were outside the scope of the audit period. By allowing Wipfli to perform a sales and use tax review, not only did the foundry realize approximately \$121,000 in refunds for prior periods, but will now realize immediate above the line cash savings in the future.

To learn how you can stay in compliance and find potential tax savings, contact:

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