



INTRODUCTION

- Today's Presenters:
 - Clyde Gentry III, VP of Business Development
 - Joe Benes, Tax Manager / Former Indiana State Auditor

TaxMatrix is a leading sales and use tax recovery and audit defense firm celebrating our 24th year in business. We work extensively nationwide with manufacturers and pharmaceutical companies on tax recovery and process improvement. TaxMatrix works with several companies in Indiana and affected tax case law for R&D after settling a sales tax refund claim in the state for \$15 million in 2015.

 The purpose of this webinar is to educate Indiana manufacturers on cost savings available through sales and use tax refunds, in addition to addressing audits and safely navigating the State processes.

OVERVIEW

- Introduction
- Sales Tax: We Got It Covered
- Indiana Manufacturing
- Indiana Sales Tax 101
- Tax Recovery: The Process
- Tax Recovery as a Best Practice
- Case Study: Small Manufacturer
- Case Study: Large Manufacturer
- Audit Defense
- Managed Compliance Agreement
- What Can TaxMatrix Do?
- Questions?

WE GOT IT COVERED

- It's simple: The vendor charges tax and you pay for it. What's the issue?
- Sales and use tax exemptions are not always black and white. How is the product or service being used in running your business?
- Sales tax is not taught on a CPA exam and is typically left on auto-drive unless there is an audit.
- Most companies do not have a sales tax expert on staff; "tax managers" are typically for federal income tax.

HOW TO INTERPRET SALES TAX?

- Sales & Use Tax Case Law is up to interpretation
 - CCH, RIA and other software is not infallible
 - Tax mapping systems are not granular enough
 - Tax case law fails to define every nuance of a taxpayer's business

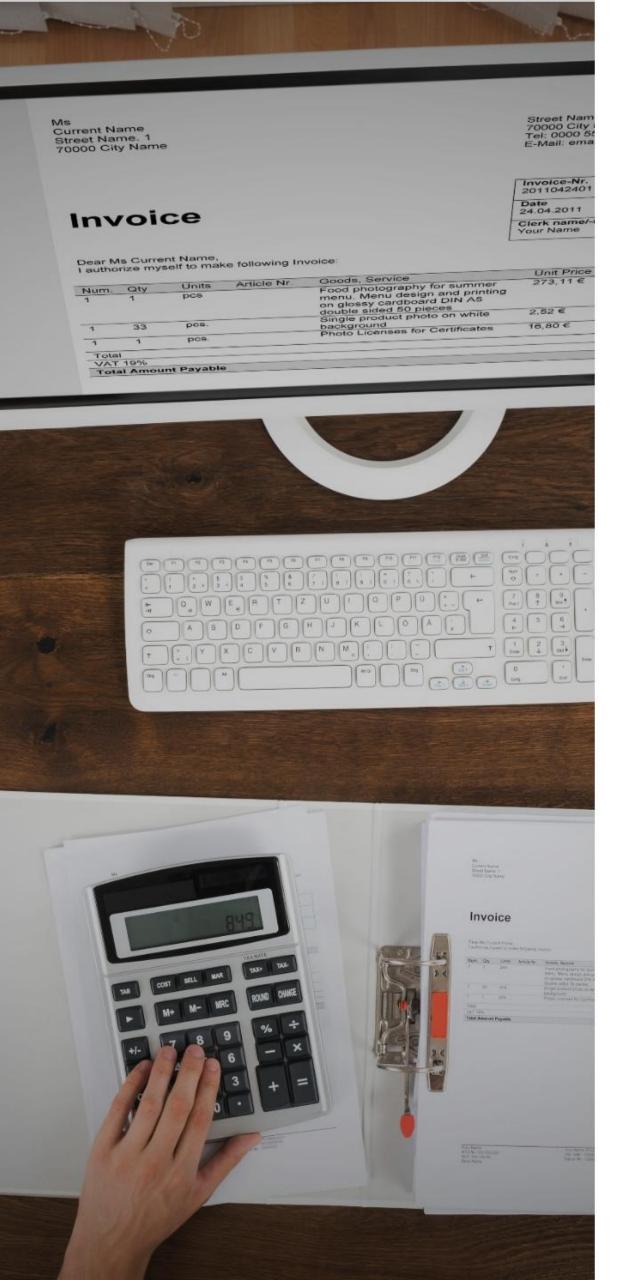


WHAT CONSTITUTES AN INDIANA MANUFACTURER?



INDIANA SALES TAX 101

- Manufacturing Equipment
- Production Machinery Repair Parts
- Production Tools and Supplies
- Material Handling Equipment, Repair Parts (if used in production)
- Forklifts, Cranes, etc. if used in manufacturing
- Cost of Goods Sold (COGS)
- Material incorporated into the final product
- Safety Clothing or Equipment
- Software used in manufacturing
- Packaging Supplies
- Research and Development



TAX RECOVERY: PRE-REVIEW



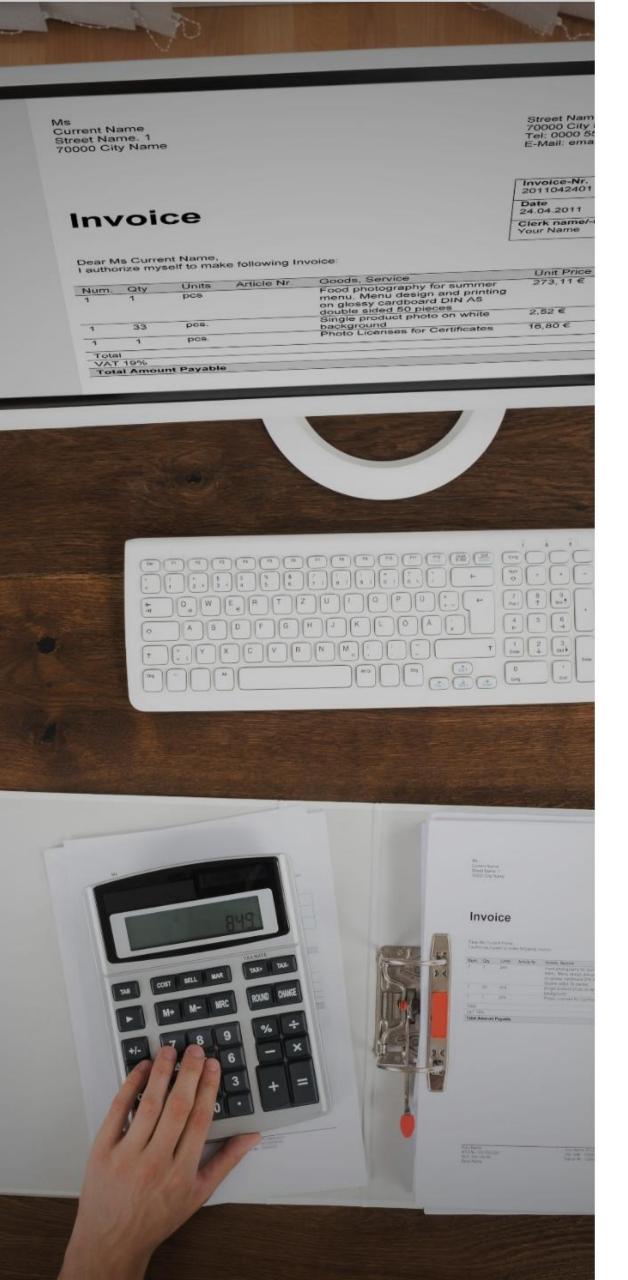
Scoping session to discuss SUT (sales & use tax) landscape

- Evaluate Current Process
- Understand Accounts Payable
 - Organization (batch, vendor, check)
 - Storage (paper, digital, on-site, off-site)
- Review Use Tax Process



SUT Review Elements

- A/P Invoices (Fixed Assets and Expenses) and Use Tax
- Cost Center Listing
- Chart of Accounts
- A/P or General Ledger download



TAX RECOVERY: REVIEW



On-site Review

- Determine review logistics / team lead
- Perform review of SUT elements
- Conduct on-site plant tours and assess Utility Exemptions
- Post on-site review clarification of taxability by usage



Off-site Review

- Research team compiles data to substantiate claims
- Refund Schedule is created

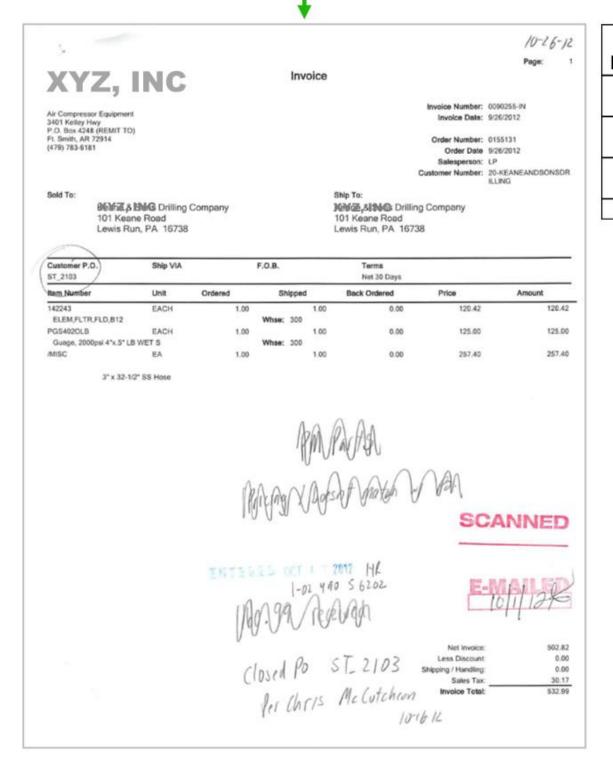
SALES TAX ON UTILITIES



- A commonly missed exemption is sales tax paid on utilities (gas/electric/water) used in the manufacturing and/or R&D process.
- Predominant Use Study: In order to take the exemption(s), a study would need to be completed by a licensed engineer.
- Indiana Manufacturing: If more than 50% of utilities are used in production, the whole utility bill is exempt from sales tax.
- Indiana R&D: Only the portion used in R&D qualifies for the sales tax exemption.
- Under Audit?: If a taxpayer is under audit, the State will perform a free Predominant Use Study if the exemption is not taken.

REFUND SCHEDULE

								Invoice	State
lmage	~	Invoice Da(▽	Invoice Numbe	Vendor Name	~	Billed To	Shipped To 🔽	Amount 💌	Sales Ta ▼
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20150804083311.pdf	7	9/26/12	0090255-IN	EQUIPMENT		LEMOYNE, PA	LANCASTER, PA	\$532.99	\$30.17
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Local Sales Ta	State Use Tax	Local Use Tay	Use Tax Da∵	Description	Reason Code 💌
\$0.00	\$0.00	\$0.00		REPAIR PARTS: FILTER & GAUGE	A
1		1			
\$0.00	\$0.00	\$0.00		REPAIR PARTS - SHUT OFF VALVE	В
\$0.00	\$0.00	\$0.00		REPAIR PARTS - MOTOR HYD CHRLYN 10K 2SPD 15/30	L
					D
\$0.00	\$0.00	\$0.00		ITEMS USED IN MANUFACTURING: DIES	В

THE REFUND SCHEDULE IS A MULTI-COLUMN SPREADSHEET WITH A HYPERLINK TO EACH INVOICE THAT MUST BE APPROVED PRIOR TO FILING WITH THE STATE AND/OR VENDOR.

REASON CODE:

- A. Repair Parts for forklifts used in manufacturing process
- B. Items Directly used in the manufacturing process



TAX RECOVERY: POST-REVIEW



Filing

- File 3 years of historical claims up to the calendar date with the State
- Attend informal hearings or conferences with case examiner (as necessary)
- Provide additional information as requested by state
- State MUST issue a decision within 90 days
- Refund(s) delivered to Client



Process Improvement

- Review awarded amounts and/or file protest
- Implement exemption certificates moving forward
- Re-categorize or create sub-categories in ERP or legacy systems for tax flags

TAX RECOVERY AS A BEST PRACTICE

- No company is 100% compliant; there is always a <u>natural error rate</u>:
 - States Changing Exemptions
 - Vendor Turnover
 - Accounts Payable Error/Turnover
 - New Technology that doesn't fit into a confined exemption
 - Mixed invoicing where part of the invoice should be exempt

TAX RECOVERY AS A BEST PRACTICE

- Why Tax Recovery Now:
 - Expansion addition of new equipment, new lines
 - Acquisition/Merger Did the other cooks in the kitchen get it right?
 - No audit during 3-year statute
 - New ERP/Matrix Tighten up issues before it goes live
- Tax Adds Up: \$50 in tax on one exempt issue for a purchase made four times a month (\$200) x twelve months (\$2,400) x 3 years = \$7,200 in possible savings
- Process Improvement is the key: Recouping cash is great, but why not clean up those issues moving forward?

CASE STUDY: SMALL MANUFACTURER

Indiana manufacturer with less than 15,000 sq. ft. of production space. Company also performs R&D.

Day 1	1 Day Onsite to Review Invoices
Day 17	Predominant Use Study Performed
Day 37	Sales Tax Claim filed and Utilities Claim filed
Day 104	Utilities Claim Decision Made: \$9,959 Won (\$12,190 Filed)
Day 110	Sales Tax Claim Decision Made: \$161,783 Won (\$188,589 Filed)

TOTAL WIN AMOUNT: \$171,742

REFUND ISSUES:

- 1. Sales tax paid on utilities used in manufacturing process
- 2. Laboratory equipment
- 3. Consumables used in manufacturing/R&D
- 4. Computers/Computer equipment used in manufacturing/R&D
- 5. Safety equipment

CASE STUDY: LARGE MANUFACTURER

Indiana manufacturer with two production sites; each over 60,000 sq. ft.. Company also performs R&D.

- Day 1: 5 Days Onsite to Review Invoices for both production sites
- Day 83: Predominant Use Study Performed
- Day 86: Sales Tax Claim filed and Utilities Claim filed
- Day 182: Utilities Claim Decision Made: \$126,135.36 Won (\$163,874.12 Filed)
- Day 182: Sales Tax Claim Decision Made: \$759,654.32 Won (\$823,648.36 Filed)
- Day 182: Use Tax Claim Decision Made: \$229,865.03 Won (\$234,127.23 Filed)

TOTAL WIN AMOUNT: \$1,115,654.71

REFUND ISSUES:

- 1. Sales tax paid on utilities used in manufacturing
- 2. Laboratory equipment
- 3. Consumables used in R&D
- 4. Computers/Computer equipment used in manufacturing/R&D
- 5. Safety equipment

AUDIT DEFENSE

- Especially in this economy, the job of the State is to fill its coffers with cash: Over 83% of sales and use tax audits result in assessments.
- The audit process from start to finish is three to six months.
- The Best Defense is an Offense:
 - Be prepared and only have what the auditor is requesting.
 - Work with the auditor to ensure correct sampling methodology.
 - Inform the auditor about credits (refunds) within the audit period.



POST-AUDIT

- Taxpayers have up to 60 days to file a protest once an audit has been completed.
- Can the taxpayer file for a refund post-audit?
 - A protest can be filed up to the amount of the assessment in the audit.
 - Credits should be addressed in the audit; however, if they are not, a separate claim for refund can be filed for unaddressed credits.

MANAGED COMPLIANCE AGREEMENT

- Managed compliance agreements outline acceptable audit procedures and allow the majority of the audit work to be handled internally by the completion date to save on time and expense for both parties.
 - Accounts are selected and agreed to by both you and the State.
 - Assets generally are not included in managed compliance agreements.
 - A sample of invoices is selected for review and an error percentage is established.
 - The error percentage is applied to the selected accounts and use tax is remitted on a monthly basis.
 - Direct Pay Permit issued to vendors included in selected accounts so that sales tax is not charged moving forward.
 - Managed compliance agreements are valid for three years.

HOW CAN WE HELP?

- TaxMatrix can perform the following services:
 - Sales & Use Tax Recovery
 - o Audit Defense
 - Managed Compliance Agreement
 - o Other Services (Custom Tax Matrices, Training, Returns)
- Sales & Use Tax Recovery
 - o 100% Success-based Tax Recovery with no upfront fees or costs.
 - Free Predominant Use Study if needed to improve a refund position.
 - Free Process Improvement Training to implement exemption certificates.
 - Free Tax Help Desk for ad hoc sales and use tax questions for 1 full year.
 - What's the Catch? Our 1-page Engagement Letter states that if we do not find anything, there is zero cost to the taxpayer.



QUESTIONS



FOR MORE INFORMATION:



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