

SALES TAX REVERSE AUDITS:

# Generating Cash In-Flow While Mitigating Exposure

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# With You Today



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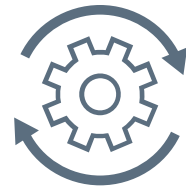
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# Learning Objectives



Define the concepts of a reverse audit



Explain the process of a reverse audit



Describe the benefits and risks of a reverse audit

SALES AND USE  
TAX REFUND

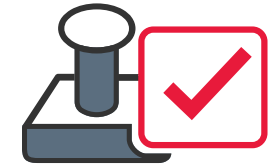
**The Basics**



Review of a companies' book and records to identify potential overpayments of tax



Primarily focused on purchases



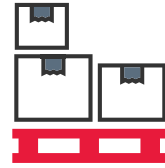
Often done in conjunction with an ongoing audit

## The Basics

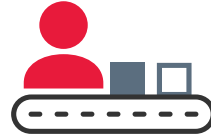
- ▶ Applicable to most industries
- ▶ Many contributing factors to potential refunds
  - Taxpayers not maximizing existing exemptions
  - Lack of resources on up-front compliance (taking safe approach)
  - Lack of understanding in state-to-state variations
  - Lack of application of new exemptions
  - IT/software limitations



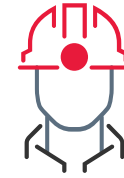
SALES AND USE  
TAX REFUND  
**The Basics**



Manufacturing



Food Processing



Construction



Utilities



Agriculture



Healthcare



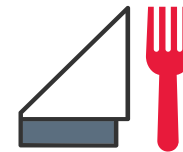
Transportation/  
Logistics



Software/Digital  
Products



Insurance/  
Professional  
Services



Hospitality



Others

**Key  
Industries  
of Focus**

SALES AND USE  
TAX REFUND  
**The Basics**

**Best approach: be active; not passive**

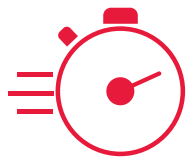
- ▶ State auditors neither inclined nor required to identify overpayments
- ▶ Periods may fall outside statute of limitations (generally 3-4 years)

# The Basics

3 methods on when and how to pursue refunds

1

Pursue at/  
after audit



2

Standalone  
refund



3

Work with  
vendor





## The Basics



### 1 PURSUE AT/AFTER AUDIT

- ▶ Efficient - overlap with audit
- ▶ Less documentation requirements
- ▶ Could potentially help offset interest and penalties
- ▶ Set statute of limitations
- ▶ Projection upside
- ▶ No risk of “triggering” an audit

## The Basics



### 2 STANDALONE REFUND CLAIM

- ▶ Less efficient than in conjunction with an audit
- ▶ May require more evidence/documentation
- ▶ Rolling statute of limitations
- ▶ Fastrack to appeals process
- ▶ Potential to get “current” or “caught up” faster

## The Basics



### 3 WORKING WITH VENDOR

- ▶ Lack of control
- ▶ Unknown evidence requirements
- ▶ Can hurt vendor relationships
- ▶ Hard to track
- ▶ Lack of defined process
- ▶ Micro-focused

## The Process

### “TOP-DOWN” APPROACH

- ▶ Dump of all purchase data
- ▶ Refine data to identify largest “pain” points
- ▶ Review purchases for taxability and opportunities



### “BOTTOM-UP” APPROACH

- ▶ Target specific issues/purchases
- ▶ Could be from prior audits or refunds or contemporaneous audit issue
- ▶ Present to auditor/vendor or aggregate with other issues and file a claim



## The Process

### ✓ “TOP-DOWN” APPROACH ADVANTAGES

- ▶ Identify larger swath of issues
- ▶ Potentially more savings
- ▶ Could also discover weak points/areas of risk

### ✗ “TOP-DOWN” APPROACH DISADVANTAGES

- ▶ Time consuming
- ▶ Very labor intensive (made easier with data analysis tools)
- ▶ Potentially lose out on moneys if more overpayments occurred in older periods

## The Process

### ✓ “BOTTOM-UP” APPROACH ADVANTAGES

- ▶ Quick and efficient
- ▶ Potentially less scrutiny from jurisdiction

### ✗ “BOTTOM-UP” APPROACH DISADVANTAGES

- ▶ No chance of discovering potential areas of risk
- ▶ Not likely to capture all available refunds

# The Process

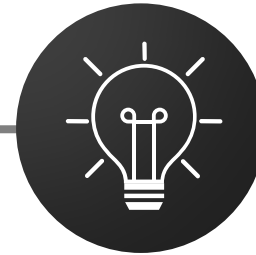
How to identify overpayments once approach selected



Do a plant tour or site walk-through



Work with other departments to understand operations



Identify areas of opportunity



Gather all appropriate documentation (invoices, POs, contracts, etc.)

## The Process

- ▶ Recovering overpayments can be confusing and challenging
- ▶ States have differing rules on who may and how to claim overpayments
  - Directly from state
  - Need vendor assignment
  - Directly from vendor



## SALES AND USE TAX REFUND

# Benefits and Risks

### ✓ BENEFITS

- ▶ Financial savings
- ▶ Future savings
- ▶ Tax department adds value to the company
- ▶ Can provide insight into process for future clean-up efforts

### ✗ RISKS

- ▶ Potential of “triggering” an audit

AUDIENCE SURVEY

Would you like someone from BDO to contact you to discuss today's topic more in-depth?

A

Yes, please, thank you!

B

No, not at this time.

# Questions?





**CONTACT US** ▶

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