

**NATIONAL TAX RECOVERY LLC.  
STATE & LOCAL AND INCOME PROFESSIONAL TAX SERVICE**

**SAMPLE REPORT OFFINDINGS**

**SUMMARY**

**National Tax Recovery LLC  
State & Local Tax Refund Review  
Prepared for ABC Company**

**Executive and Summary**

- A. Engagement History
- B. Summary of ABC Company's State & Local/Use Tax System
- C. Summary of Findings
- D. Recommendations

**A. Engagement History**

During the first quarter of 1999, ABC HOSPITALITY Corp. engaged National Tax Recovery LLC to perform a "State & Local Tax Refund Review." The objective of the review was to identify, document and recover prior payments of state, local and use taxes that qualify for exemption under the State of Texas's (and other states, as appropriate) state & local tax regulations. NTR's review focused on state & local tax paid to vendors and through "use tax" self-assessed by ABC Company and remitted directly to the State.

NTR's consultants documented state & local tax payments that qualified for exemption from state, local & use tax. With ABC HOSPITALITY Corp. approval, NTR prepared "Claims for Refund" in excess of \$1,000,000 and filed such claims with the State of Texas Comptroller's Tax Division.

NTR's refund review-covered state & local tax payments on a historical basis. NTR's program goes beyond the past recovery and provides focus on future savings and staff education/training. Today's program reflects NTR's commitment to providing ABC Company with the tools and techniques to keep saving state, local & use tax on a permanent basis.

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**B. Summary of ABC Company's State, Local & Use Tax System**

Vendors collect most state & local tax at the time of purchase. The vendors send state & local tax to the state. For taxable transactions where the vendor does not charge state & local tax, the purchaser is required to self-assess state & local tax and remits such amount directly to the State. This self-assessment is commonly referred to as "use tax."

ABC Company has made a good faith effort to pay its fair share of state & local tax and has a system in place to assess and pay use tax on taxable transactions to the appropriate state.

ABC Company has utilized an automated use tax system to accommodate the large volume of transactions. The following is a brief summary of ABC Company's use tax system:

- Invoices are coded Yes/No to reflect state & local tax charged by vendors
- General Ledger accounts are designated as Taxable/Exempt
- State & local tax is self-assessed for all activity charged to Taxable Accounts coded as “No”.

### C. Summary of Finding

NTR’s review resulted in the filing of refund claims in excess of \$1,000,000. The following is a summary of the state & local tax issues encountered and the related amounts

#### Directory of Overpayments

<u>Exemption</u>	<u>Total</u>
Manufacturing (Kitchen) Equipment	\$ 438,842.25
Direct Mail Materials	316,187.27
Capital Improvements	86,547.82
Utilities	86,082.00
Custom Software	57,434.30
Double Payment Transactions	38,822.91
Wrapping & Packaging Supplies	15,572.70
Freight	7,134.47
Newspaper Subscriptions	5,403.36
Work Clothing	5,400.00
Waste Removal	3,129.67
Real Property Services	<u>2,500.99</u>
TOTAL	\$ <u>1,063,057.74</u>

### D. Recommendations

#### Account Potentially

<u>Account Number</u>	<u>Potentially Exempt</u>	<u>Taxable</u>	<u>Account Descriptions</u>
600001	x		Promotional Items
600109	x		Direct Mail Advertising
600403	x		Cleaning Services and Temporary Labor
600404	x		New Construction Labor
600406		x	Grounds Maintenance
600408		x	General – Supplies
601403		x	Misc. Office Furnishings
601404		x	Repairs and Maintenance
601406		x	Rental/Leasing of Office Equipment
601407		x	Service Contracts
601409		x	Photocopy/Fax Supplies
601410		x	Personal Computer Equipment and Maintenance
601411	x		Custom Computer Equipment and Software
602101		x	Printing – Not Including Direct Mail

602102		x	Stationary and Supplies
602103	x		Books and Publications
602104	x		Utilities
602105		x	Computer Paper, Stock Paper, Forms, etc
602108		x	Printing – Not Including Direct Mail.
602110		x	Graphics Supplies
602111		x	Typesetting Expenses – Not Including Direct Mail
602112	x		Financial Statements Printing Expense
602114		x	Photographic Supplies
602803		x	Rental/Leasing of Computer Hardware
602804		x	Maintenance of Computer Hardware
602809		x	Data Processing Supplies
602814	x		Manufacturing Equipment
602815	x		Wrapping & Packaging Supplies
602901	x		Training and Education – Purchases

## **E. Recommendations (Review of “Potentially Exempt” Account Activity)**

Invoices charged to potentially exempt accounts should be reviewed by an individual with adequate training and experience to make informed state & local tax determinations.

NTR recommends that use tax be accrued on a subjective basis on activity posted to potentially exempt accounts.

State & local tax charged on vendor invoices posted to potentially exempt accounts should also be reviewed. For transactions that are exempt from state, local & use tax, the tax should be crossed off and exemption certificates issued as appropriate.