

State and Local Tax Initiatives

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Legislative and other updates

House Bill 2365

- Grants the Secretary of Revenue settlement authority
- Changes deadlines for filing income tax refund claims
- Changes statute of limitations for filing sales and use tax refund claims
- 10% haircut for certain tax credits
- Modified 10% haircut for certain tax credits

Voluntary disclosure

Solution – Voluntary Disclosure Negotiations

- There is no statute of limitations for assessing prior year taxes in states where a company has nexus but income/franchise tax and/or sales and use tax returns are not filed.
- This exposure may affect the overall valuation of a company targeted for acquisition.
- Negotiate with the state to register and collect appropriate taxes and file respective returns.

Voluntary disclosure

Benefit –

- Reduces outstanding exposure or liability (*i.e.*, reduced lookback period, penalties, and interest) in states where companies have nexus but are not filing corporate income/franchise tax returns and/or collecting and remitting sales and use tax

Inventory tax

Solution – Business Inventory Tax Exemption

- Many jurisdictions provide a property-tax exemption for business inventory.
- Create a retail subsidiary which will hold materials, supplies, replacement parts, and/or idled assets as inventory for resale instead of as taxable business property.

Benefit –

- Reduces property tax liability on inventories, supplies or used equipment

Fixed-asset analysis

Solution – Fixed-Asset Analysis

- Review entire fixed-asset detail to identify disposed, retired or partially retired assets.
- Valuation for several industries and properties may be significantly impacted (*e.g.*, telecommunications and airlines industries in states that utilize unit valuation; hotel industry; tallest building in every major city; facilities that have been closed).

Fixed-asset analysis

Benefit –

- Reduces assessments and identifies refund opportunities

Load & leave

Solution - Electronic Transfers and Load & Leave Agreements Avoid Sales/Use Tax on Purchase of Canned Software

- Many states impose sales and use tax on canned software only if the software is transferred via tangible means.
- Download otherwise taxable software over the Internet or by modem or electronic means.
- Alternatively, arrange for software vendor to travel to the customer's site and install the canned software directly.

Load & leave

Benefit –

- Eliminates sales and use tax on the purchase of canned software and certain other digital products

Managed compliance

Solution – Managed Compliance Agreement (MCA)

- Agreement is negotiated with state departments of revenue/taxation to calculate use tax accrual percentages based on an analysis of recurring A/P purchases, which is then applied on a going-forward basis to future purchases.

Managed compliance

Benefits –

- Reduces overpayments and underpayments
- Simplifies the way companies manage use-tax responsibilities
- Eliminates the need to analyze the sales/use-tax treatment of each invoice
- Allows for capital or large-dollar purchases to be analyzed individually

Refund review

Solution – Sales/Use-Tax Refund Review

- Review client data and records, such as vendor invoices, to identify refunds and estimate exposure.

Benefit –

- Reduces future sales and use-tax liability and identifies refund opportunities

Captive leasing

Solution – Captive Leasing Company

- Create a wholly owned subsidiary to purchase capital assets tax-free and lease them to the operating company.
- Leasing company collects sales tax on lease-payment stream.

Benefits –

- Defers sales tax over five or seven years
- Additional benefit available in some states if lease terminated early

Questions?

Thank you!

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