

# Sales and Use Tax Recovery Audit

Three Audits, \$15.9 million in Sales and Use Tax Recoveries



The tax leaders were worried. They kept getting notices for underpaid taxes with penalties and interest.

## Overview

A global leader in logistical operations needed help. They are a US-based company with \$3.4 billion in revenue from sales of hardware, software and consulting services. A lot of technology goes into their solutions and they leverage thousands of global suppliers to deliver operational efficiency for their clients.

## Reasons Why the Tax Leaders Were Concerned

With suppliers and clients spread across the globe, the company needs to not only comply with 10,000+ US tax jurisdictions, but also global tax rules. And, unfortunately, the company is based in a state that is always auditing companies for sales and use tax underpayments.

The complicated tax rules impact everything the company buys and sells. For example, datacenter equipment is taxable in some states and not in

others. Even definitions are confusing. In most states, there is no tax on cloud-based software if it has “multiple points of use.” What does that mean? The software is bought to be used in more than one tax jurisdiction. How do you know where one tax jurisdiction ends and one begins and how the tax should be applied based on where people are using it?

How the software is delivered also affects taxation: custom software is generally not taxed while canned software (which is most software acquired by the client) is subject to sales tax. In addition, tax rules change. A lot. So what was not taxed last year, may be taxed this year.

This company also had a lot of changes going on internally. They made changes to their accounting system and, like most large corporations, they acquired and spun off companies adding an additional layer of complexity to their accounting.

Instead of just waiting for the next tax bill to come, the tax department decided to hire a recovery audit firm to review all sales and use tax data because their team didn't have the time or resources. The company was a little worried at first about finding a company that could easily obtain all the company data required and thoroughly review every general ledger account for tax errors.

## No Worries

With apexanalytix it was easy. Over thirty years of performing recovery audits, apexanalytix developed software to quickly extract the accounting and tax data from the company's ERP – without having to rely on the company's IT department. apex's technology includes certified and pre-defined data connectors for every ERP (including the SAP S/4HANA and Oracle) since most companies rely on multiple systems.

With this data, the auditors went to work looking at the many different categories of products and services that could have tax payment errors. They analyzed hundreds of thousands of bills without ever having to go onsite or needing much help from the company.

## What were the findings?

apexanalytix found \$5 million in errors. Not a \$5 million tax bill. \$5 million in overpayments that was now going back to the company.

Additionally, apexanalytix provided a management assessment report with detailed findings on how to fix processes and controls (e.g., sales and use tax decision making system) that led to overpayments.

Even with their better processes and a better tax system, the company continues to work with apexanalytix for a sales and use tax audit. Why? Because tax regulation and business operations constantly change. M&A, ERP upgrades, tax jurisdiction updates. All of these lead to tax overpayments. Working with apexanalytix ensures that the company will recover every one of them.

### Audit 1

**\$5M**  
Recovered

- Sales Tax Issues: Software and data center equipment
- Use tax Issues: Computer & data processing services, goods & services not shipped to state of operation, non-core and non-taxable business-related services

### Audit 2

**\$7M**  
Recovered

- Sales Tax Issues: Software and data center equipment
- Use tax Issues: IT, software, software maintenance and consulting; non-taxable services, and shipments outside the U.S.

### Audit 3

**\$4M**  
Recovered

- Sales Tax Issues: Software and data center equipment
- Use tax Issues: Software, software maintenance; non-taxable services, shipments outside the US