

Florida Sales Tax Audits

Do you sell goods at retail or wholesale?
Do you manufacture a product for sale?
Do you sell a taxable service in Florida?
Do you purchase supplies for your business from out of state vendors or via the internet?

If any of the above applies, your business could be a target for a sales and use tax audit. As the need for state revenue continues to grow, Florida's audit activity continues to grow. Our sources tell us that the companies at greatest risk for sales tax audits are manufacturers, retailers and service providers. Because state tax audits significantly outnumber Internal Revenue Service (IRS) audits, make sure that you are in compliance or be fully prepared before you are audited.

Manufacturers

Manufacturers are prime targets for sales and use tax audits. Many manufacturers are under the false impression that they are afforded generous sales tax exemptions and therefore do not need to worry about sales tax. The truth is that manufacturers face a myriad of complex sales tax rules which can often make even the most seasoned tax expert grimace. While Florida offers certain tax breaks to manufacturers, it also imposes sales tax on most of the materials purchased for a manufacturer's business. In certain cases, the state also imposes a sales tax on the cost of labor necessary to make a product - you are expected to self-assess a tax on your fabrication costs. That adds up to an additional 6% of overhead for your business (more if you are subject to the sales surtax). We have been advised by sources within the Florida Department of Revenue that when audited, many manufacturers have been required to pay sales tax on up to 100% of it labor costs.

Retailers and Service Providers

Rapidly growing retailers are likely targets for a sales tax audit, but any retailer could be targeted. Retailers often fail to properly address sales tax on out-of-state sales and/or exempt sales and therefore put themselves at risk for an audit. In our experience, retailers also fail to properly calculate Florida's sales surtax. These errors could cost you significant tax dollars.

Florida imposes sales taxes on purchases of tangible goods and certain services. Businesses that do not collect sales tax on their products or services are being scrutinized by the Florida Department of Revenue for sales tax audits. Service providers often make large purchases of supplies, many of which are purchased from another state. Purchases made from out-of-state may also require your business to accrue and pay use tax, a complementary state tax that is applied in the same manner as sales tax (including discretionary sales surtax). Use tax is due on purchases that are made out-of-state and brought into Florida within six months of the purchase date. Use taxes



can add up - you may need to do some strategic planning to reduce your overhead and yet maintain compliance with the sales and use tax laws.

Solutions and Refunds

What can you do to minimize your company's tax exposure or, alternatively, to identify refund opportunities? You must keep complete and accurate records of all sales and purchases, whether taxable or not.

These records may include general ledgers and journals, cash receipt and disbursement journals, purchase and sales journals, invoices and statements. You may also want to conduct a reverse audit to identify missed opportunities and refund potential. If you have overpaid sales and use tax, you may apply for a refund. The state does not notify you when overpayments have been made. To claim a refund or credit, supporting documentation must be sent in with the refund application.

Daszkal Bolton LLP has a proven track record in helping clients identify refund opportunities and minimize total tax liability. We can analyze historical exposure to sales and use taxes. Our professionals can forecast prospective tax exposure and make recommendations to minimize your tax liability. We may also suggest the restructuring of your business operations as one way to reduce future taxes in certain situations. If your company has unknowingly made overpayments, we will seek refunds. For standard SALT engagements, we use a four phase approach:

Phase I – The initial evaluation phase focuses on your company's current sales and use tax practices, allowing us to identify potential tax savings opportunities and sales and use tax exposures. Phase I concludes with an oral presentation of our findings.

Phase II – The in-depth analysis phase includes an analysis of the potential sales tax strategies and exposures identified in Phase I as well as any other alternatives that are uncovered as a result of the more detailed review. During this phase, tax savings and/or refund opportunities will be quantified. Phase II concludes with a detailed written account of our findings and recommendations.

Phase III – The implementation phase involves comprehensive assistance to the company in order to implement the strategies identified during Phase II.

Phase IV – The post-implementation review and follow-up phase evaluates the results obtained from the adopted strategies to determine whether they meet or exceed the company's expectations. This phase takes place six to nine months after implementation and is provided at no charge.

Call us today to review your specific situation.



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