

# Many Companies Overpay Sales Taxes And Don't Even Know It

*Thought leader Bill Flick discusses the 9 most common reasons companies overpay sales and use taxes and what can be done about it*

PHILADELPHIA, PENNSYLVANIA, UNITED STATES, October 16, 2023 /EINPresswire.com/ -- In a famous ad for financial services company Morgan Stanley, the headline stated, "You must pay taxes. But there's no law that says you gotta leave a tip." Although tax underpayment will quickly trigger a reaction from the government regarding paying up sooner than later, should a company over-pay taxes, especially sales and use taxes, most governments will accept the "tip" without acknowledgement. When it comes to sales tax overpayments, companies are on their own to pursue refunds.



Bill Flick - Co-Founder & President FM Cost Containment

According to Bill Flick, President & Founder of FM Cost Containment, "It's surprising the number of companies that overpay sales and use taxes and have no idea that they do or how much they are overpaying. My estimate is that over 35% of companies do overpay, and sometimes the overpayment can be as high as six or seven figures." Flick notes that even with seemingly proper controls in place, sales tax overpayments are common because many companies don't prioritize the complexity and value of managing sales and use tax. Flick says, "The complexities can be magnified when management of the process is turned over to back-office people who have less experience and training; or the company relies on software that hasn't been properly updated or isn't designed to monitor the complexities and nuance of sales tax responsibility."

Says Flick, the sales and use tax system is an incredibly complex system in the United States, with over 10,000 jurisdictions that both do and don't charge sales and use taxes. Flick observes that if a company operates in several states, or nationally, they can easily run the risk of



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overpaying taxes. He has developed the following list of the 9 most common reasons companies overpay sales and use taxes and what can be done about it:

1) Vendor invoices often charge a sales tax on everything.

Vendors often take the easy way out and charge local sales tax on everything they sell. When a company operates in a number of states, it's bookkeeping staff often relies on vendors to get sales taxes right and approves payment of

invoices, automatically paying whatever tax is charged.

2) Payables staff is not focused on the sales tax charged when they approve invoices.

Payables staff works to make sure that the invoice charged is what the PO authorizes. It often doesn't focus on, or is not knowledgeable about, the proper sales tax, if any, that should be charged. As long as the PO amount is correct, they assume the sales tax is correct and approve it, whether it is or not.

3) Overconfidence in the audit software used; assuming that it is both currently updated and focused on individual state tax complexities.

Many companies do utilize software designed to flag errors and omissions. However, this software either doesn't get updated frequently to account for sales tax law updates, or it isn't designed to identify nuances between what is purchased and which parts of the purchase are sales taxable.

4) The nexus of tax laws and tax responsibilities can further complicate proper sales tax management.

The nexus is the overlap of the tax laws relative to the jurisdictions where the materials are purchased, assembled, and used or resold. There is also the danger that regional teams approve expenditures only to be overruled by headquarters teams/software (or vice versa), resulting in overpayments too.

4) Misapplication of exemptions and charges.

Typically, when a company buys something, it must pay sales tax. But that's not true in every state. As well, if the company resells what it's buying, a sales tax probably should be collected on only the final assembled item but not on the raw materials...and not in every state. Complexities can occur: for example, sometimes hard goods are taxed but the labor contributing to the process may not need to be.

5) Tax rules change frequently - people & software are not often updated as quickly.

For people who are not specialists, working in multi-state tax situations is complex. It is quite difficult to keep up-to-date.

6) Implementing proper management and oversight of the reselling process.

Often reselling certificates fall through the cracks at large companies resulting in missing or out-of-date resale certificates. When a vendor does not approve reselling exemptions, it is often easier for one's internal team just to approve paying the invoice and move on.

7) Simple human error becomes embedded in the process.

In larger companies, sometimes human error gets embedded and repeated in policy or in computer programming that magnifies sales tax overpayments over time, on invoices and categories of products.

8) Lack of understanding of use tax and the use tax process.

Use taxes can be complicated too. Frequently, this manifests itself in improperly setting up software so that use tax payments are made and overpaid where they don't need to be.

9) Management's fear of triggering a sales tax audit if they file an overpayment refund.

Many times management doesn't want to rock the boat by asking for an overpayment refund. At worst, they might let an overpayment stand unchallenged or not even look for it. However, an audit isn't always a bad thing and can often lead to significant overpayment refunds.

Said Flick, "When you look at the EBITDA of most companies, say 6-10%, the potential contribution of sales tax overpayment recovery, can be significant. Therefore, it can be very important to pay attention to sales tax overpayments and to aggressively pursue them to maximize profitability for the corporation."

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#### ABOUT FM COST CONTAINMENT

FM Cost Containment is one of the leading forensic tax recovery firms in the United States. FM specializes in tax confirmation and recovery of overpayments of taxes, as well as tax audit defense, utilizing proprietary research and knowledge of little-known technicalities in the tax laws of each of the 50 states, where applicable, as well as those of hundreds of municipalities. Headquartered in the Philadelphia Metropolitan Area, FM Cost Containment provides services throughout the U.S.

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