Cash generation strategies for indirect tax and property tax

As a response to businesses conditions related to COVID-19, taxpayers may have opportunities to generate or save cash at a state and local level. Listen as we discuss the possibilities for indirect tax, ways to free up tax department personnel to focus on those areas by outsourcing compliance, and opportunities for property tax cash-generation and savings.

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Ian Solomon: Kirsten and Dave, thanks again for coming on the podcast today to talk about cash generation. Really appreciate you being here.

Kirsten Gulotta: Thank you. Happy to be here.

Dave Hurrell: Likewise. I'm thrilled to be on as well.

Solomon: Kirsten, let's start with you from the indirect tax perspective. What have you been hearing from your clients over the last month or so, and what are the areas that they're starting to think about when it comes to cash generation?

Gulotta: Sure, yeah. So my team and I have been busier than ever, speaking to our clients every day since this crisis has begun. And there's really three things that we've been speaking to our clients about most.

The first is loan staff opportunities. So many of our clients are struggling with their day-to-day blocking and tackling, so we've been assisting them with really anything they need, be it audit defense, handling notices, working on preparing responses from their customers regarding different transaction tax issues, helping with their compliance, helping understand when certain compliance deadlines have been changed. So we've done a lot as it relates to providing loan staff and other assistance for just this day-to-day blocking and tackling.

The other areas we've seen are indirect tax refund reviews. So a lot of our clients are looking for cash savings, and a way that they can do that is reviewing their past purchases for opportunities where they may have overpaid sales and use tax to their vendors or to the state. So we've been speaking to our clients a lot about indirect tax refund reviews.

The third area is outsourcing compliance. A lot of our clients have reached out for assistance with day-to-day blocking and tackling, but they're also reallocating their own internal resources, who traditionally have focused on compliance to more value-add work. And they've been able to do that because, by outsourcing their compliance to us, it allows them to free up their resources to perform these other services.

Solomon: Great. And, you know, Dave, same question over to you in terms of property tax. So what are some of the cash-generation opportunities that the tax departments have been looking at during the current environment?

Hurrell: Very similar to what Kirsten said, we are . . . We have been busier than ever in the current climate on the property tax side too.

And we kind of put our cash management or cash retention opportunities into three categories, the first being primarily just deferred payments. And property tax is a bit unique. It's a little bit different than some of the other traditional taxes, whether it's sales and use tax or income tax, where those taxes are typically at least recorded at the state level or assessed at the state level. So if you can track 50 states, you typically have a pretty good handle on where the deferral opportunities exist.

Unlike that on the property tax side, though, the tax is typically assessed and collected at the local level. Therefore, you have in excess of

18,000 jurisdictions in the United States that impose and collect the property tax, so you really have to do it on a case-by-case basis.

And we've been helping our clients to identify specific jurisdictions where they operate and reaching out to those jurisdictions to identify where they might allow for a deferral of their property tax payments or some sort of the delayed approach to making those payments. So that helps with the immediate cash management needs.

And then the second category is really taking a proactive approach to focus on the current filing and an assessment cycle and managing that through proactive strategies and proactive filing positions on the personal property tax side, as well as reaching out proactively to work with local jurisdictions to start having conversations about how the downturn in the current economic environment is impacting the day use of their real estate as well.

And then the third category is a little bit more of a long-term approach. It's really focusing on strategy for the appeals or for the values for real and personal property for years beyond 2020, for '21, when we're expecting there to be an ongoing recovery.

Solomon: That's great. Thank you. And Kirsten, you mentioned indirect tax refund reviews as a potential opportunity. Now, traditionally, I think that's been a time-consuming activity. So how should companies look at doing that today?

Gulotta: Sure. So an indirect tax refund review is when a company reviews their purchases—so their fixed assets and their expenses over the past three to four years—to identify cases where they've overpaid tax, and generally it's sales tax paid to a vendor, use tax related to a state, but it also includes excise tax, severance tax, VAT, and other indirect taxes.

Our team has a robust process in place to automatically extract and reconcile the client data, which typically was a very time-consuming process. You know, back in the day, this is something where we needed to travel to the client's warehouse and dig through boxes and scan the invoices and then have somebody input those manually on an Excel spreadsheet. This is done much differently today, and it's able to be done remotely. So we have a team of data extraction and reconciliation specialists that are able to work with our clients to help them extract their AP data and other helper tables that allow us to analyze the data and to understand what a company's purchases were for the past three to four years and to identify where sales use and other taxes were paid on those purchases.

Once we have that data, we're leveraging a solution that we've built called Cog-Tax, which uses machine learning to analyze these large volumes of AP data to understand how these transactions should have been taxed and whether they were potentially overpaid, paid correctly, or underpaid. And using the analytics from our Cog-Tax tool, we're able to identify the jurisdictions and/or the vendors where our clients have potentially overpaid these sales use and other taxes.

And then we're able to work with them to show them where the overpayments occurred so that they can identify which, if any, they want to pursue directly with the state and/or the vendors.

So it's a really interesting process today, as opposed to how we performed these reviews in the past, in that we are able to extract and reconcile the data remotely and we're able to leverage our machine learning Cog-Tax tool to analyze these large volumes of data quickly.

And so this allows us to perform the sales and use tax refund reviews much more quickly than we have in the past, but it also allows us to identify any root causes of the overpayments so that we can fix the root causes of the overpayments immediately, and the clients can enjoy the immediate impact of no longer continuing to overpay sales use and other taxes on their purchases.

Solomon: And Dave, going back to property tax, you mentioned 18,000-plus jurisdictions. For a tax department that's trying to sort of prioritize its focus, where should they start?

Hurrell: That's a really good question, Ian. And I think the way to focus their efforts right now is to really, like I said before, focus on those three categories of cash preservation, cash management strategies, and what they can do to help the company through the short term and then beyond.

So certainly, I think focusing on the immediate casts correct cash preservation around where they might get some referrals or delayed payments is one way to do that. But the other way to look at it is to really focus on a proactive approach to their filing in the jurisdictions where those property tax returns have not been rendered or not been filed so far this year.

And there are a number of very large jurisdictions that are still pending in front of us, such as Kentucky, such as Texas, California, Indiana—a number of very large personal property tax states, for instance. And property tax is unique, and I mentioned the decentralization of the assessment and billing process, and that's only one way that it's unique.

There are a number of other ways as well that it's a very unique area of taxation in the US, and the other is that typically where there's a decline in economic activity, like in sales tax or income tax, that would essentially be reflected in the reporting. On the sales tax returns, for instance, there'll be a reduced sales amount that's listed or, on an income tax return, a reduced income being recorded. But for property tax, that's not the case.

So, taxpayers really have to be proactive. They have to really sit down and develop a strategy and develop a story to tell to the local assessor, whether it's through that rendition or the return that they're filing or through a meeting with them to talk about the values of the real estate as well and really paint that story for how the downturn in the economy is impacting the utilization of the assets, how the reduced income stream is impacting the value of those assets from an open market standpoint, and how that might carry forward into any recovery period as well.

Solomon: And what I'd like to do now is drill down sort of one more layer. There's obviously a lot of things happening that are specific to today's environment. And Kirsten, I know businesses are dealing with things that are related to COVID-19, from office cleaning and fumigation to airline ticket cancellation fees. What are the some of the opportunities there?

Gulotta: Sure. So this is an area that we've begun looking at very closely for our clients as we navigate through what the taxability of these items will look like from a sales and use tax perspective. So you mentioned office fumigation and cleaning services specifically related to COVID-19.

And it's interesting. If you look at the definition of janitorial services that are taxable in many states, do these type of office fumigation and cleaning services qualify under the definition of taxable janitorial services, or would these fall into other exemptions or exclusions based on maybe occasional sales, environmental controls, or other crisis-related, state-by-state exemptions? It's definitely something that will be treated not the same in each state, but it's something that we're exploring for our clients.

Other areas or around airline and hotel cancellations, as you mentioned—there's many situations where these fees may still apply for our clients, but do the taxes still applies as well? That's something that we're continuing to explore.

Another interesting angle is recurring services and subscriptions. So if you think about a service or a subscription that a company is paying for on a monthly, periodic, or annual basis, and it's for the performance of a particular service that is taxable or for the use of something that is taxable, given that stay-at-home or shelter-in-place orders may render the service incapable of being performed or the item incapable of being used for a certain period of time, does that reclassify the character of what's being purchased from something that is a taxable service to something that is either a nontaxable service or an intangible of some sort, where there would be a requirement to continue paying for the service or subscription, regardless of whether or not it's still capable of being performed or used?

So again, you know, this is all emerging, it's different in each jurisdiction, driven by the classification and taxability of many of these items and whether there has been any jurisdiction-specific relief that's been presented in these jurisdictions, but certainly a very interesting area that we're working very closely with our clients to unpack.

Solomon: Kirsten, Dave, thank you so much for coming on the Tax News and Views podcast. Great to have you, and thanks again for your great thoughts.

Gulotta: Thank you.

Hurrell: Thank you.