Major Reduction of Audit Assessment for Manufacturer

A national plastics manufacturer qualified for multiple sales tax exemptions after the Cherry Bekaert Sales Tax Team negotiated with the New Jersey Department of Taxation to reverse many of the auditor's initial findings. Their audit assessment was reduced by more than $200,000.

Situation

The manufacturer's New Jersey sales tax audit resulted in high assessments for unpaid tax on purchases that the company believed were tax exempt. The company turned to Cherry Bekaert to analyze and challenge the auditor's findings.

Cherry Bekaert's Guidance

The Sales Tax Team focused on multiple manufacturing exemptions that were denied by the auditor. Most notably, the state offers a sales tax exemption for repair parts that have a useful life of more than one year. Proving "useful life" of a manufacturing part can be tricky, particularly given lack of substantial authority defining the term, and that a useful life of identical parts can vary from manufacturer to manufacturer depending on numerous conditions, such as frequency of use and business conditions, and even maintenance policies. Cherry Bekaert conducted extensive research to prove the useful life expectancy of these parts, working with plant personnel and suppliers to document the replacement history of the products. Maintenance records were analyzed to quantify the frequency of replacement. Based on this analysis, Cherry Bekaert was able to document that the average useful life of these products was over 1.2 years.

From years of experience working with manufacturers and manufacturing exemptions, Cherry Bekaert knew the assessment was not correct and worked diligently to create the documentation needed for the client to sustain the exemption.

Result

Our Sales Tax Team presented the findings to the state's auditors which agreed with our findings and took the assessed items off the audit.

Had Cherry Bekaert not been successful in proving the "useful life," the Department of Taxation would have deemed these items to be taxable and moving forward, this would have created additional company expenses of nearly $70,000 per year.

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