

CASE STUDY

TAX ANALYSIS

National services firm realizes dramatic multi-year tax savings through income-sourcing analysis.

SITUATION

The B2B services firm had customers and employees in a number of states and therefore had corporate income tax liability in multiple jurisdictions. The Client had been using a local CPA firm in a large US city for several years.

OPPORTUNITY

Tax authorities—mainly states in this case—use different methods for sourcing taxable revenue. States that use a market-based approach tax revenue if the customer received the benefit of the service in that state. Not surprisingly, many small and growing service companies struggle to effectively analyze the implications of these approaches. As a result, these companies often weaken their cash position at the expense of growth and stability.

ACTION

An analysis of the Client's services and tax filings revealed that the benefits of services provided to a major customer had been sourced to the wrong jurisdiction for the previous two years. This error was due to a false assumption made by the CPA. While this situation hadn't cost the company any money originally, in subsequent periods it went unchecked and cost the Client a material sum. As part of our fractional CFO service, we:

- Set up a process to track and analyze revenue for sourcing to the relevant jurisdiction using the appropriate method
- Oversaw the transition of tax preparation and advisory services to a suitably equipped CPA firm to leverage the analysis and new process

BENEFITS

The client received a combination of refunds (from amended returns) and savings (on current returns using analysis vs. assumption) totaling over five percent of the current year's revenue. The sum of these paid for the advisory services many times over.

DISCUSSION

Technology now exposes service companies in particular to a level of regulatory complexity previously experienced only by global or large national firms. The advisory and organizational choices made when a company is at one stage can often become inadequate before the senior management even realizes it—with dangerous or expensive results. While we do not offer tax advisory and preparation services; our fractional CFO services instead:

- Provide the opportunity to cost-effectively retain a CFO who understands how and when to analyze specific tax-problems
- Have access to a network of right-sized tax advisory firms
- Facilitate collaboration with those firms for the benefit of the client

This case study is based on an ongoing fractional CFO engagement to provide oversight of the Client's accounting, tax, financial planning and analysis, and its treasury management functions. Engagements like this are a very cost-effective way of accessing a sophisticated financial perspective. This case describes one of several valuable outcomes to the Client over the course of the engagement. These fractional engagements typically last until a client has grown enough to necessitate a full-time CFO.