Data Technology Meets Compliance

Davis Davis & Harmon LLC ("DDH") constructed a sound audit strategy, generating tens of millions in sales tax savings for the client and expediting the audit process.

DDH was engaged by a Fortune 500 retailer and power-generation company to perform a sales tax compliance review to identify potential audit exposure, design the detailed transaction data file, improve their compliance process, and implement audit sampling best practices.

Challenge

- There were no detailed transaction data files to support sales tax return filings during a state sales tax audit.

- There was a communication gap between the tax department and IT.

- Client generates over 97 million records per quarter.

- Because client remits over $21 million in sales tax per quarter, even infrequent errors can cause a material tax liability when errors are projected through sampling.

Solution

DDH became the liaison between the tax and IT departments to clearly communicate the needs of the tax department.

DDH selected the appropriate data fields and designed a file layout format from the available fields to create a usable transaction detail file for state sales tax audits.

DDH developed a sampling protocol from the transaction population to minimize the impact of infrequent and/or data errors.

DDH identified incomplete or invalid exemption certificates and managed the collection of new certificates to replace the invalid certificates.

Results

DDH successfully decreased the clients audit exposure from $75 million to $5 million creating a $69 million savings.

DDH's data file design significantly reduced the client's costs and time associated with pull supporting documentation, improved audit turnaround times, and decreased accumulated interest during audits.

DDH implemented a process to update certificates before starting the audit so that certificates can be accepted under "Good Faith" requirements, reducing tax assessments by millions of dollars.

DAVIS DAVIS & HARMON LLC
SALES TAX EXPERTS