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PRODUCT & SERVICE GUIDE

3 Ways to Win New State and Local Tax Clients

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Gail Cole • Aug. 14, 2015



Large corporations with armies of attorneys and accountants excel at taking advantage of tax credits and finding cost saving elements within a specific industry. Yet smaller companies tend to self-censor, assuming they don't qualify. The good

news is that there are **millions** of small and mid-sized businesses in the United States alone, compared with thousands of large businesses. The people behind small and mid-sized businesses are everywhere: they eat lunch at your favorite restaurants; they jog down your favorite trails; and they'll be at the next party you'll attend. *You may even find yourself sitting next to one during your next flight. And they are just waiting for you to tell them something they don't already know.*

Three areas are ripe for the reaping of new clients:

1. R&D Tax Credit – size doesn't matter
2. Construction – cost segregation
3. Sales and use tax – automate!

R&D Tax Credit

Many business owners think they're too small to claim R&D tax credits, but when it comes to tax incentives, size shouldn't matter.

Only a fraction of small and mid-sized companies eligible for the Research and Development tax credit take advantage of it; many don't even try because they erroneously assume they don't qualify. Show them how they can take advantage of it and they'll want you as part of their team.

For example, do they know that the R&D credit is open to the apparel industry as well as aerospace? That both software developers and dairy farmers could qualify? Do they know the following?

- In June 2014, the IRS **made it easier** for small and mid-sized businesses to claim the R&D credit. See instructions for **Form 6765, Credit for Increasing Research Activities**.
- Lab rats don't own the R&D tax credit. People in street clothes (like architects and engineers) are eligible, too.
- Improving outdated products and processes, which small businesses do regularly, can be enough to qualify.
- Eligible businesses can claim unclaimed credits for past open tax years (3 years).
- The credit carries forward up to 20 years, making it ideal for start-ups.

In addition to the federal R&D tax credit, research and development tax credits are available in approximately **40 states**. State codes generally conform to the federal definition of R&D expenses that may qualify for a tax credit, but some stray from

them, and the incentives and credit offered vary by state. California, for example, [modifies the federal definition of gross receipts](#) for the R&D tax credit. And that's just a very small aspect of one state's policy.

Clients depend on your expertise to help them negotiate and take advantage of both federal and state tax credits.

Cost Segregation

Construction and real estate can be contentious, thorny industries. Sometimes, a high tolerance for pain and stress is required in order to achieve what's best for the organization. Take cost segregation—a voluntary technique to avoid under-utilization of depreciation advantages that can greatly benefit taxpayers. Potential clients will undoubtedly understand the depreciation of fixed assets but the more advantageous depreciation provided by a Cost Segregation Study is best undertaken by someone with expertise. Claim depreciations without sufficient documentation to back them up and you could easily find yourself paying heavy back taxes, fines and penalties.

Timing and strategy matter. Different approaches are needed for different property types (apartments versus manufacturing facilities; retail stores versus warehouses), but any leasehold improvement could qualify for a Cost Segregation Study.

Potential clients will want to work with you if you:

- Can provide clients with expertise in construction and engineering as well as tax.
- Have an in-depth understanding of relevant legal precedent and changing tax laws.
- Know how differing circumstances affect the depreciation of the exact same type of property.

Sales and Use Tax

There are more than 12,000 sales tax jurisdictions in this country and their rates are all subject to change. State and local jurisdictions regularly change rates, alter boundaries, amend regulations, and eliminate existing exemptions and create new ones. In addition, state sales tax holidays exempt small handfuls of products during specific periods of time; in some states local participation is mandatory, and in some states it isn't. Every time there is a change, businesses are impacted. And as with all things related to taxes, failure to comply can be costly.

As a CPA, you know this. But do you know about automated sales tax Software-as-a-Service?

Can you help future clients:

- Facilitate exemption certificate management?
- Apply accurate sales tax rates for all transactions?
- Handle mercurial product taxability rules and regulations?

With automated sales tax SaaS, you can, perhaps allowing you to devote more time to helping clients by securing R&D tax credits or producing a Cost Segregation Study.

Gail is a sales tax expert with [Avalara](#) and has a penchant for digging through the depths of BOE sites and discovering and reporting rate changes across the country.

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