



# In-Depth Sales Sourcing Study Saves Research Firm \$3M in State Taxes

## Challenge

A research firm was looking for an opportunity to reduce its taxes in three of the highest taxing jurisdictions, which accounted for only 46% of their sales but 90% of their total state and local taxes.

## Solution

SALT experts completed a detailed sales factor sourcing study spanning four years of contracts, prior returns and interviewing management to better approximate taxable income by analyzing the individual demographics of each of the firm's clients.

## Result

The firm filed refund claims of over \$3M and in under a year had already received payments from two of the jurisdictions. They also established a future method that was accepted on audit and will yield long-term annual tax savings.

## Challenge

A research data and analytics group offered a wide range of marketing services to media owners, brands and agencies, including some of the world's most recognized brands. The firm came to Armanino's state and local tax (SALT) team with a minor tax question but, upon further review of their state tax returns, our experts recognized a potential opportunity to significantly reduce their state and local income taxes.

The firm was attributing 46% of their income to California and New York, two states with high tax rates, as they were apportioning based on their clients' headquarters locations. After initial review of the firm's state returns, the SALT team identified several ways to report their sales more accurately.

## The Tax Issue

Each state has its own basis by which it recognizes taxable income. The apportionment of the firm's taxable income wasn't as simple as using the billing address of their clients' headquarters. The statutes and regulations require income tax reporting based on where the firm's client is deriving the benefit of the service.

If the firm's client is using the market research for specific demographics outlined in the contract, the benefit of the service would approximate those demographics and locations. The information the firm supplies to its clients doesn't apply to the location of the client's headquarters, but rather is used by the client more broadly in the markets where the client wishes to expand.

## Solution

The research firm engaged Armanino to clarify and further define the sales sourcing laws and statutes within key states and localities, especially in California, New York State and New York City, to clearly establish where each of the firm's clients

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was deriving the benefit. Examining the data and approximating the benefit over multiple years was no simple task.

It required an in-depth sales factor sourcing analysis, in which Armanino’s professionals looked at the contracts from a four-year period and requested demographic areas and the research requested by the client . Having outlined this, the SALT team was able to apportion the sales more accurately to the states as well as outside of the United States.

Once the proper apportionment was established, Armanino’s experts completed a study and amended the state tax returns for the firm. Because the study was so thorough, the firm had an “audit ready” binder for the state and local auditors to examine. They received refunds in two of the three jurisdictions in less than a year, and the third major location is currently being audited.

## Results

After establishing the research firm’s new filing methodology, the apportionment percentage was reduced significantly in both California and New York. In all, this resulted in a savings of \$3 million in taxes previously paid.

Armanino additionally provided the firm with a multistate corporate income tax planning method for the future to ensure the proper tracking of income from each of the firm’s clients in all states. In addition to the \$3 million refund, the firm will also have state tax savings annually going forward.

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