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Illinois Construction Stuff and Stuff

By Norm Cowie, CCE

Psst! Do you want a FREE humor book? If so, make sure you read the end of this article.

Back to business: When I learned the State of Illinois was going to audit us for State taxes, I wasn't alarmed. In fact, I welcomed it.

After all, didn't we pass the last two audits with flying colors? Didn't I write a pamphlet for all of our stores showing the dozen known exemptions along with examples and easy-to-understand procedures? Weren't we sticklers about making sure we have documentary evidence for each sale? Didn't I visit our stores and go over tax-exemptions on a semi-regular basis?

Yep, to all of that.

So a tax audit? Hah, a minor blip. Barely a concern. I knew the auditor would be so dazzled by our most-excellent tax policies we would be showered with praise, exempted from all future audits and a grateful State would reward us with a complementary tax credit. (Yeah, I'm a dreamer)

Overall, we did all right but we still fell short in a few areas:

1. Expired certificates. Some of our certificates were chiseled into stone tablets back in the Fred Flintstone days. We assumed a certificate from a body such as the City of Chicago was good in perpetuity, regardless of whether it was dated 2011 or 1972. The auditor agreed most exempt organizations would retain their exempt status, but it wasn't a given.' She said it was our responsibility to make sure we had an unexpired certificate to be sure. Recent events confirmed what she said. The tax-exempt status of a number of non-profit hospitals and other health providers in the Chicago area are up in the air due to an Illinois Supreme Court decision in Provena Covenant Medical

Center v. Department of Revenue. The hospitals were issued 'provisional' letters to use pending a final decision on their exempt status. This has been going on for nearly a year, and when I spoke with someone at the Illinois Department of Revenue, he said it's still uncertain and he expects the health industry to introduce new legislation that will clear everything up.

2. Unacceptable certificates, like 'Certificates of Registration' and documents exempting Federal taxes rather than state. These errors weren't really my department's fault and occurred despite my best efforts. We were audited for cash sales as well as credit transactions, and even after repeated training and the aforesaid pamphlet, sales people for cash transactions routinely accepted any piece of paper that looked official or mentioned the State or Federal government.
3. Certificates from customers that didn't quite "measure up."
4. The auditor didn't like letters on the customer's letterhead simply stating the tax exempt information, because there is no evidence the exemption is unexpired. She was right, because in many cases the exempt number referenced was an expired number. The auditor said we should insist on the actual certificate. We found that many customers claimed they couldn't obtain the actual certificate, but when we made the calls ourselves to the tax-exempt body, we rarely encountered trouble.
5. Resale certificates that 'didn't make sense.' The auditor said we should challenge

certificates that don't 'make sense.' We sell electrical material, so if a customer sends a resale certificate that states they are buying rugs, we should challenge the certificate because we don't sell rugs. Companies applying for credit routinely send their resale certificates even if they do not intend on reselling the material. (True, they should self-assess themselves if they buy something for consumption, but the auditor said we should challenge this ourselves.)

Fortunately, we were given the opportunity to correct these deficiencies, and we did well in the audit. But as a result of the audit, we did tweak our policies:

1. We accept only the unexpired tax exempt certificate issued to the exempt body.
2. We enter the expiration dates into our computer system, and once the date expires, the system automatically changes the account to taxable. We send letters to the customer prior to expiration asking for updated documents. If your system doesn't do this, you should set up a manual system.
3. A salesperson cannot override tax. All certificates are sent to our Credit Department for review, and once accepted, we set it up.

Okay, I'm out of room. As far as the free book, I'm giving away PDF copies of my new humor vampire/werewolf book, *WereWoof*. For your free copy, email me at n.cowie@comcast.net.

—Norm