

A photograph of three people in a warehouse. On the left, a man in a white hard hat and light blue shirt looks at a tablet. In the center, a woman in a white hard hat and light blue shirt holds a clipboard. On the right, a man in a yellow hard hat and orange safety vest looks on. The background shows high industrial shelving with boxes.

Cash Saving Opportunities for State & Local Taxes

MANUFACTURING INDUSTRY

MARCH 27, 2025

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Today's Learning Objectives

01

Identify three types of tax credits applicable to the manufacturing industry



02

Describe the process needed to maintain tax credit compliance



03

Define the concepts of a reverse audit



In order to receive CPE, attendees must actively participate throughout the session and be in attendance for at least 50 minutes for each CPE credit hour.

Agenda for Today



Incentive Programs



Reverse Audits



Unclaimed Property

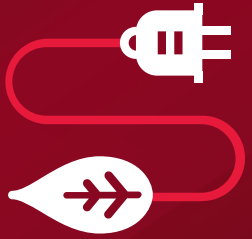


Q&A

Incentive Programs



Incentive Programs to Support Manufacturers



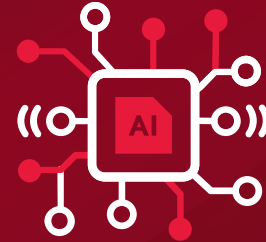
Utility Incentives

- ▶ Incentives available at sites in AL, KY, IL, MS, NY and TN



Green and Recycling Credits

- ▶ Possible for recycling and sustainability investments



Incentives to Support AI

- ▶ New AI incentive programs
- ▶ Data center incentives
- ▶ Training grants and credits

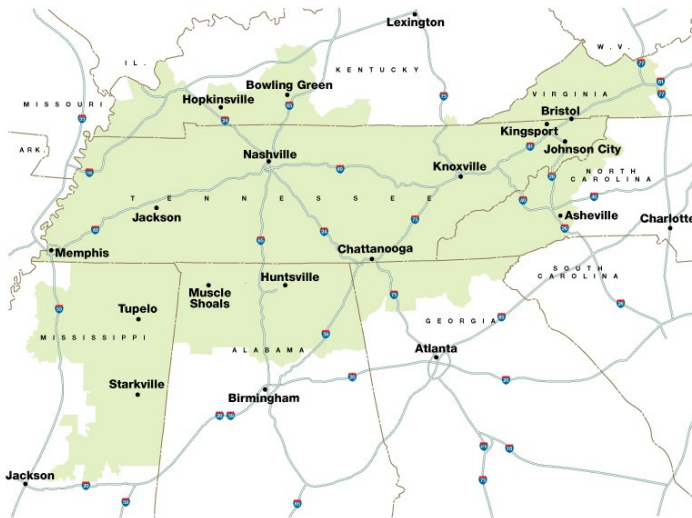


U.S. Expansion Driven By Tariffs

- ▶ Highlight: withholding tax rebates

Tennessee Valley Authority Economic Development Incentives

Tennessee Valley Authority (“TVA”) offers a unique range of economic development incentives that provide above-the-line incentives to eligible businesses located within the TVA Zone.



Incentives Overview

- ▶ Discretionary, performance-based incentives
- ▶ Available to eligible businesses in the form of monthly utility reduction over a 6-year term and/or up-front cash grant
- ▶ Utility credit paid directly to the eligible business over a period of 6 years, but BDO has assisted clients in securing longer incentive terms
- ▶ Savings may range between 8% - 12% of monthly electricity costs

Minimum Eligibility Requirements

- ▶ Must be part of an eligible industry sector and located within TVA Zone
- ▶ Must achieve and maintain 250-kilowatt average, monthly electricity demand
- ▶ Must maintain an average employment of at least 25 full-time employees at the facility
- ▶ Must achieve certain investment thresholds
- ▶ In some cases, project must be competitive

ReCharge New York Utility Incentive Program

- ▶ Negotiated utility incentive for almost all types of companies with locations in New York
 - Non-profits qualify
- ▶ Must have monthly peak demand of at least 350 kW of electricity
- ▶ Incentive is offered over 7-year period and may provide reduced electricity rates as low as 2 cents/kW
- ▶ Do not need to be adding new jobs or expanding the facility!



Green Incentives

Utility Incentives Available from Utility Provider

- ▶ Prescriptive rebates
- ▶ Custom programs
- ▶ Economic development rate riders

Sales and Property Tax Exemptions for Renewable Energy

- ▶ Solar or wind power
- ▶ TN “green energy production facility exemptions”



Furthering AI Solutions

- ▶ New AI-specific incentives and leverage data center incentives
- ▶ Training grant/credits to support new technology investment



New AI-Specific Incentive Programs

- ▶ MA AI Hub Incentive: Part of Mass Leads Act signed November 2024
 - Regulations and details are still being developed
 - May be similar to existing Life Science incentive: flexible incentive that may be in the form of refundable income tax credit or special sales tax exemption
- ▶ Next NJ AI Program: Bill signed July 2024
 - Income tax credit worth up to 25% of qualified investment
 - Must invest at least \$100M and create at least 100 new jobs



Data Center Incentive Programs



Majority of States Offer Data Center Incentives

- ▶ Most common exempt sales tax, property tax, and/or provide utility incentives
- ▶ Most require significant investment (\$50M+ and new job creation)

GA Programs

- ▶ Sales tax exemption
- ▶ Requires minimum investment of \$15M by “high-tech” business or \$100M - \$250M (depending on county). Co-location may qualify.

IL Program

- ▶ Sales tax exemption and income tax credit
- ▶ Requires minimum investment of \$250M and 20 new jobs (can include co-location or multi-tenant)

Top State Training Grant and Credit Programs



California Employment Training Panel (“ETP”) Grant

- ▶ Cash grant for eligible training for new and existing jobs based on a fixed hourly amount (\$11 - \$28/hour)
- ▶ May reimburse for wages paid to internal instructors



Indiana Skills Enhancement Fund

- ▶ Cash grant for new **and** existing qualified employees
- ▶ May reimburse for wages paid to internal instructors



South Carolina Manufacturers Retraining Grant

- ▶ \$1,000 per qualified, **existing** employee issued annually over 5-year period
- ▶ Available for first-line workers and supervisors



Virginia Jobs Investment Program (Training Grant)

- ▶ Cash grant for new **and** existing qualified employees
- ▶ May reimburse for wages paid to internal instructors

Imposition of Tariffs

Tariffs may lead to additional U.S. investment by manufacturers; Incentives opportunity



Triggering Events and Types of C&I Benefits

State and local governments offer statutory tax credits and discretionary business incentives to encourage **economic development** and induce businesses to engage in the following activities:



New Location
or Expansion
Projects



Job Creation,
Retention,
Workforce
Training



New Investment
(Real/Personal
Property)



Employing
Disadvantaged
Individuals



Investment
in R&D



Investment
in Green
Initiatives and
Renewable
Energy

Triggering Events and Types of C&I Benefits



Discretionary Incentives

- ▶ Withholding Tax Rebates
- ▶ Cash Grants or Refunds
- ▶ Real and/or Personal Property Tax Abatement
- ▶ Utility Incentives
- ▶ Industrial Development Bonds
- ▶ Free Land/Infrastructure Assistance
- ▶ Sales and Use Revenue Sharing/Exemptions

Statutory Credits/Exemptions

- ▶ Job Tax Credits
- ▶ Investment Tax Credits
- ▶ Training Tax Credits
- ▶ R&D Tax Credits
- ▶ Pollution Control + Recycling Credits
- ▶ Location-Based Tax Credits (zones, port bonus)
- ▶ Sales and Use Exemptions

Sample Withholding Tax Rebate Programs

Primary incentive used in several states; can provide annual cash benefit over a period of 10 or more years.

- ▶ AR: Create Rebate
- ▶ KY: Kentucky Business Investment (KBI)
- ▶ IN: EDGE (refundable income tax credit)
- ▶ OH: JobsOH Grant and Credit
- ▶ OK: Quality Jobs Grant

- ▶ MD: More Jobs for Marylanders (refundable income tax credit)
- ▶ MS: Advantage Jobs
- ▶ NJ: Emerge (refundable income tax credit)
- ▶ NY: Excelsior (refundable income tax credit)
- ▶ SC: Job Development Credit



Reverse Audits



Defining Concepts



- ▶ Definition and value
- ▶ Focus areas
 - Utilities
 - Repair parts and consumables
 - Services
- ▶ Process overview
 - Data, ERP, outputs
 - State laws, exemptions, processes
 - Documentation, support
 - Timing, audits, checkups, internal reviews



Reverse Audits

DEFINITION/MEANING/VALUE	
Definition	<ul style="list-style-type: none">▶ A proactive review conducted to identify over/under-payments of sales and use taxes. It's a refund review.
Meaning	<ul style="list-style-type: none">▶ Purchase or sales data is pulled, typically output to Excel or tool of preference and the reviewer follows practical steps to isolate the area of interest. Taxed transactions for a refund review, nontaxed transactions for a liability review.▶ Practical steps include, separate by state, remove out of statute transactions, remove immaterial transactions and mark over/under-payments.▶ Summarize findings and if material pursue the refund or address the liability.
Value	<ul style="list-style-type: none">▶ Manufacturing is consistently one, if not the best industry for these reviews. Common refund recoveries of \$100,000s to \$1,000,000s.▶ Commonly contingent fee based so you only pay for successful results, and they can offset other liabilities, pay for additional services, and errors can be corrected for future periods ("roll forward").

REVERSE AUDITS

Value: where is it?

FACILITIES

- ▶ Plants
 - Utilizing exemptions
 - Interplant transfer
 - Utilities
- ▶ R&D
- ▶ Headquarters
 - Over allocation
- ▶ Warehouses
 - Expansion
- ▶ Data centers
 - Expansion
 - Production software

OVERPAYMENTS

- ▶ Manufacturing
 - Utilities
 - Repair parts
 - Consumables
 - Material handling
- ▶ Services
 - Real property services
 - TPP services
 - Nontaxable services
- ▶ Software

OTHER

- ▶ Sales credits
- ▶ Direct to consumer
- ▶ P-cards
- ▶ State agreements
- ▶ Interest

REVERSE AUDITS

Utilities!!!



Electricity/Natural Gas/Other

- ▶ Look at your bills
- ▶ Fully exempt “if”: OH, NY, WI
- ▶ Reduced rate: AR, LA, TN
- ▶ Lowering the tax base: KY, FL, MI
 - Supporting documentation: KY, MI
 - Expiration dates: IA, IN
 - Other benefits: credits and incentives



REVERSE AUDITS

Production Related Expenses

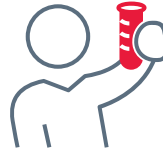
- ▶ Posting details: tax engine; circumventing systems
- ▶ Overly conservative or lack of understanding
- ▶ Separate certificate
- ▶ Direct use and associated expenses
- ▶ Supplier doesn't have your exemption certificates



Repair Parts



Consumables



R&D or QA



Material Handling

REVERSE AUDITS

Services



- ▶ Nontaxable Services
 - Established Sectors
 - Professional Services: Design, Testing, Inspection, Training
- ▶ TPP Services
 - Labor, Maintenance
- ▶ Real Property Services
 - Labor, Consumer of Materials



Process Overview: Data



The Foundation of a Review

- ▶ Transaction Data Review: Volume
 - ▶ ERP: SAP, Oracle, Microsoft Dynamics
 - ▶ Engines: Vertex, Avalara, Onesource, Sovos
 - ▶ Leverage technology to help bridge the gap of IT-Tax
 - ChatGPT: Prompts
- ▶ Outputs
 - More the better
 - Tools
 - Alteryx
 - SQL
 - Excel
 - Access
 - Power BI



REVERSE AUDITS

State Laws and Exemptions



Working With Vendor

- ▶ Breakout the review by state
 - Best Practice
 - Data Limits
 - Focus Area
 - Scale to more reviewers
- ▶ State Research
 - Bloomberg
 - CCH
 - DOR Websites
- ▶ Taxability
 - Exemptions: use it to its fullest extent
- ▶ State Processes: How to recoup the tax most effectively



REVERSE AUDITS

Recovery Strategies



STATES

Refunds from DORs

- ▶ Use tax claims
- ▶ Sales tax claims: some states
- ▶ Audits

VENDORS

Refunds from vendors

- ▶ Stop reoccurring overpayments
- ▶ Credits vs. cash



REVERSE AUDITS

Supporting Documentation



Invoices

- ▶ Data quality
- ▶ Cloud and soft copy storage
- ▶ Tools: automation
 - Bots
 - System “dump”
 - Macros
- ▶ Handling
 - Zip files
 - Secure uploads
 - Hyperlinking

Reconciliations

- ▶ Return Backup/
GL Tie Outs

Contracts

- ▶ Software/
Maintenance/
Services

Other

- ▶ Census
Data/Affidavits/
Process Knowledge



REVERSE AUDITS

Process Overview: Recap



- ▶ Goal: Identify over/under payments that have a material benefit to your company
- ▶ Task
 - Pull data, better data = better results
 - Isolate focus areas and delegate if possible
 - By state
 - Exclude out of statute and immaterial
 - Identify potential and research the state laws and exemptions
 - Pull invoices if you intend to pursue the refunds
 - Recovery strategies and processes



REVERSE AUDITS

Fitting in Reviews

Timing

- ▶ Under audit?
- ▶ Tax department
 - Value addition
 - Ownership and control
- ▶ Periodical reviews
 - Healthy financial practices
- ▶ Outsource



Unclaimed Property



Unclaimed Property Exemptions, Deferrals and Deductions Chart





Exemptions & Deductions

State	State	A/R (MS09)	A/P (MS08)	Payroll (MS01)	Refunds (MS11)	Royalties	Gift Certificates / Cards	Merchandise / Store	Deminimus	Mailing Deduction
AL	Alabama	NO	NO	NO	NO	NO	YES	YES	NO	
AZ	Arizona	B2B Less than \$50	B2B Less than \$50	NO	NO	NO	YES	NO	B2B, \$50 or less	
CA	California	NO	NO	NO	NO	NO	YES	NO	NO	\$2.00 per owner
FL	Florida	Less than \$10	NO	NO	Less than \$10	NO	YES	YES	NO	
ID	Idaho	NO	NO	NO	NO	NO	YES	NO	NO	
IN	Indiana	B2B	NO	NO	NO	NO	YES	NO	NO	
IA	Iowa	B2B	NO	NO	B2B	NO	YES, if no expiration date	NO	NO	
KS	Kansas	B2B	B2B	NO	NO	NO	NO	NO	NO	
KY	Kentucky	NO	NO	Less than \$50	NO	NO	Limited	NO	NO	
MD	Maryland	B2B	B2B	NO	NO	NO	YES	NO	NO	
MA	Massachusetts	Limited	NO	NO	NO	NO	YES	NO	NO	
MI	Michigan	B2B/ \$25 or Less	\$25 or less	\$50 or less	\$25 or less	\$25 or less	YES	\$25 or less	All Property \$25 or less	
MN	Minnesota	NO	NO	NO	NO	NO	YES	NO	NO	
NC	North Carolina	B2B	NO	NO	NO	NO	YES, if no expiration date	NO	NO	
NE	Nebraska	NO	NO	NO	NO	NO	YES, if no expiration date	NO	NO	
NH	New Hampshire	NO	NO	NO	NO	NO	\$250 or less	YES	NO	
NY	New York	NO	NO	NO	NO	NO	NO	NO	NO	Cost of certified mail
OH	Ohio	B2B	B2B	\$50 or less	NO	NO	YES	YES	NO	Cost of certified mail - up to \$20
OK	Oklahoma	NO	NO	NO	NO	NO	NO	NO	Credit Memos, \$50 or less	Cost of postage
RI	Rhode Island	NO	NO	NO	NO	NO	YES	NO	NO	
TN	Tennessee	B2B	B2B	NO	NO	NO	YES	NO	NO	
TX	Texas	NO	NO	NO	NO	NO	YES	NO	NO	Cost of postage
UT	Utah	NO	NO	NO	NO	NO	YES	NO	NO	
VA	Virginia	B2B	B2B	NO	NO	NO	YES	YES	NO	
WI	Wisconsin	B2B	B2B	NO	NO	NO	YES	YES	NO	
WY	Wyoming	NO	NO	NO	NO	NO	\$100 or Less	\$100 or Less	Credit Memos, \$100 or less	

Disclaimer: This document contains information that is updated annually and is provided for general information purposes only. This is not an exhaustive compliance document. Holders should not solely rely on this document for compliance purposes. For questions, please reach out BDO Compliance team.

Unclaimed Property GR/IR



What is GR/IR?

GR/IR is commonly referred to as “Goods Received not invoiced.”

GR/IR typically occurs when a vendor/supplier delivers more product than what was placed on a purchase order for the vendor.

This can happen for various reasons including:

- ▶ Large volume of product being delivered
- ▶ Vendor doesn't allow for breaking cases
- ▶ Prepackaged vendor lots
- ▶ Vendor mistakes
- ▶ PO mistakes
- ▶ Vendor ships based on quote instead of actual order
- ▶ Various other reasons



How GR/IR Is Typically Accounted for on Financial Statements

Goods Receipt (GR)

When goods are received from a vendor, the inventory is updated, and a corresponding entry is made in the GR/IR account. This entry represents the liability to pay the vendor, even if the invoice has not yet been received.

Invoice Receipt (IR)

When the invoice is received from the vendor, it is matched against the goods receipt. The GR/IR account is then cleared, and the liability is transferred to the accounts payable.

Purpose

The GR/IR account helps ensure that the financial statements accurately reflect the company's liabilities and inventory levels. It is particularly useful for managing discrepancies between what was ordered, what was received, and what was invoiced.

Reconciliation

Regular reconciliation of the GR/IR account is necessary to ensure that all goods receipts have corresponding invoices and vice versa. This helps in identifying any discrepancies or outstanding issues.

How GR/IR Is Typically Accounted for on Financial Statements

JE SUBJECTS TO CHANGE BASED ON SPECIFIC CLIENT PROTOCOLS

JE# 1

Debit: Inventory Account	\$150	
Credit: GR/IR Clearing Account		\$150

(To record inventory received, not yet invoiced)

JE# 2

Debit: GR/IR Clearing Account	\$100	
Credit: Accounts Payable		\$100

(To record invoice for inventory received)

JE# 3

Debit: Accounts Payable	\$100	
Credit: Cash		\$100

(To record payment of vendor invoice)

JE# 4

Debit: GR/IR Clearing Account	\$50	
Credit: COGs or PPV or P&L		\$50

(To record write-off of discrepancy between inventory received and vendor invoice)

Management of GR/IR Clearing Accounts

Based on our experience, companies manage GR/IR accounts in one of the following ways:



Leave GR/IR Amounts on Balance Sheet

- ▶ Net vendor amounts on a general ledger account gross basis (typically quarterly or annually)
- ▶ Net amounts on a vendor-by-vendor basis
- ▶ No netting, balances grow into perpetuity

Re-class GR/IR Amount to P&L

- ▶ Amounts are written off to P&L as a “clean-up” or correction
 - Typical accounts for P&L write-off include:
 - PPV
 - COGS
 - Misc. income/expense
 - Other

Resolve Discrepancy of Amount by Payment to Vendor/Escheatment

- ▶ Historical policy of paying vendor for all goods received regardless of purchase order
- ▶ Record to escheat liability account and report to state

GR/IR Questions

- ▶ Do you maintain a GR/IR account?
- ▶ Do you have a policy and procedure for GR/IR?
- ▶ How do you reconcile GR/IR balances and document for financial statement audit purposes?
- ▶ Have you considered escheatment with respect to GR/IR
- ▶ Do you have regular audits by your vendors with respect to GR/IR?
- ▶ Do your vendor contracts speak on how to handle GR/IR (e.g., credit to next invoice, refund payment, forfeiture)?



GR/IR Best Practices

- ▶ Clients should **review their GR/IR balances** on a regular and consistent basis in accordance with **GAAP and legal** guidelines and should consider some of the following:
 - Review vendor contracts in conjunction with legal counsel
 - Determine if GR/IR amounts are owed back to the vendor or not under legal provisions or case law
 - Understand current policy and procedures and applicability to vendor contracts
- ▶ Determine appropriate **escheatment requirements**, if any
 - Create GR/IR schedule of amounts owed by state to determine risk profile
 - Review of state statutes and regulations
 - Determine if property type is includable under “catch-all” provisions
 - Determine if any exemptions apply (e.g., DE)
 - Evaluate if legal positions (e.g., pre-emption or other) may apply to GR/IR balances
- ▶ **Evaluate and document other positions** and determinations as appropriate (e.g., corporate reorgs, M&A activity, ERP system changes, policy changes, etc.)
- ▶ Create a **policy and procedure** to be followed in order to record and document GR/IR determinations and positions

Reimbursement/Refunds in Unclaimed property



Refunds

Unclaimed Property Refunds Types

- ▶ Unclaimed property reimbursement: **reclaim a reporting error**
- ▶ Unclaimed property refund: amounts owed to 3rd parties
 - Federal government
 - State government
 - Municipalities
 - Other

Considerations

- ▶ Audit risk with a refund filing?
- ▶ Proof and documentation requirements!
 - W-9/personal ID (e.g., Driver license or SSC, etc.)/affidavit: officer sign, etc.
 - Lot of fraud in this area, be careful with unsolicited requests
 - Hiring a 3rd party, should maintain “private investigator license” and charge statutory fees on state refunds

Certain Refund Resources

- ▶ [Missingmoney.com](https://www.missingmoney.com)
- ▶ [Unclaimed.org](https://www.unclaimed.org)
- ▶ [National Association of Unclaimed Property Administration](https://www.naupa.org)
- ▶ [USA.gov: How to Find Unclaimed Money from the Government](https://www.usa.gov/how-to-find-unclaimed-money-from-the-government)



IRS.GOV ▶

Internal Revenue Services (IRS)

Taxpayers who believe they are owed a refund can check the “Where’s My Refund?” feature on the [IRS.gov](https://www.irs.gov) website. To use it, you must enter your Social Security number, filing status (such as single or married filing jointly) and the refund amount shown on their current tax return. Once the information is submitted, “Where’s My Refund?” will show the status of the taxpayer’s refund.

FDIC.GOV ▶

Federal Deposit Insurance Corporation (FDIC)

Funds remain unclaimed for various reasons, including failure to cash FDIC checks and checks being returned as undeliverable due to an invalid address. However, depositors can reclaim the funds they are entitled to after finding their names in the [FDIC unclaimed funds database](https://www.fdic.gov/unclaimed-funds/).

Example Claim Form and Letter

National Association of Unclaimed Property Administration ►



January 19, 2023

Claim Form Illinois State Treasurer

Unclaimed Property Division
P.O. Box 19495
Springfield, IL 62794-9495
(217) 785-6998

State Treasurer Michael W. Frerichs is committed to returning unclaimed property in the possession of the State of Illinois to its rightful owners. On his behalf, we would like to thank you for your claim.

Please complete and return sections A and D below and provide any documentation requested. More information may be required upon review of submitted documents.

A. Claimant Information	
Name if different than above:	Daytime Phone: () -
Current Address if different than above:	
Email Address:	Date of Birth: / /
SSN/FEIN:	

PRIVACY PROTECTION: Please be assured that the Illinois State Treasurer does not use your social security number for any purpose other than to process your claim and fulfill the requirements of the Illinois Comptroller to issue a check for payment.

B. Property Information				
Owner / Relationship	Company/Security Name	Type of Property	Property ID	Value
		Check No: ████████ Type: CK13: Vendor Checks	██████████	Cash: \$207.66 Stock: 0.000000
		Check No: ████████ Type: MS08: Accounts Payable		Cash: \$43.23 Stock: 0.000000
		Check No: ████████ Type: MS08: Accounts Payable		Cash: \$8.17 Stock: 0.000000
		Acct No: ████████ Type: MS09: Credit Balance -- Accounts Receivable		Cash: \$96.60 Stock: 0.000000
		Acct No: ████████ Type: MS09: Credit Balance -- Accounts Receivable		Cash: \$96.60 Stock: 0.000000
		Acct No: ████████ Type: MS09: Credit Balance -- Accounts Receivable		Cash: \$149.17 Stock: 0.000000

Claim ID: ████████

Claim Date: 01/19/2023

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Q&A



Thank You!





CONTACT US ►

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