



Procurement Company

Corporate Restructuring to Save Tax \$\$\$\$

EHTC State and Local Tax Services

INCOME & FRANCHISE TAX

- Tax Minimization Studies
- Business Structure Reviews
- Allocation and Apportionment Planning
- Combined, Consolidated, & Unitary Planning
- Nexus Studies
- Amended State Tax Returns from IRS Audits
- Single Business Tax Training

SALES & USE TAX

- Reverse Audits
- Compliance System Review
- Direct Pay & Compliance Agreements
- Exemption Certificate Documentation
- Industrial Processing / Manufacturing Exemption
- Utility Studies
- Nexus Studies
- Sales & Use Tax Training
- Transportation Company
- Procurement Company

PROPERTY (AD VOLOREM) TAX

- Real Property Tax Reviews
- Personal Property Tax Reviews

TAX AUDIT & APPEALS

- Sales & Use Tax Audit Defense & Appeals
- Income & Franchise Tax Audit Defense & Appeals
- Property Tax Audit Defense & Appeals
- State and Local Tax Litigation Support
- Merger & Acquisition Due Diligence Reviews
- Voluntary Disclosure

BUSINESS INCENTIVE SERVICES

- Business Relocation & Expansion Services
- Tax Credits, Exemptions, & Abatements
- Grants, Financing, & Infrastructure Assistance

Solution Overview

The primary objective of a corporate restructure using *Procurement Company* is to reduce the payment of sales and use taxes on the use of tangible personal property in a business. This reduction is accomplished by establishing a *Procurement Company* subsidiary that will purchase tangible personal property from suppliers and lease the property to affiliated subsidiaries. The *Procurement Company* will register for sales and use taxes in the applicable states and issue valid resale certificates to the suppliers to substantiate the exempt purchases. Once the property is on lease with the affiliated subsidiary, the *Procurement Company* will collect sales and use tax from the subsidiary and remit the tax to the taxing authorities. At the end of the lease, the procurement company will either lease the property to other affiliates or sell the property to unrelated third parties.

Tax Saving Benefit

Provided the *Procurement Company* is properly structured, the sales and use tax benefit is estimated at 1% of the purchase price of the assets. The benefit may vary depending on the size of the company and the amount of tangible personal property purchased by the company.

An Example of the Sales and Use Tax Savings

Company X is anticipating the purchase of non-manufacturing equipment with an anticipated cost of \$1 million. Assuming Company X is in a state with a 7% sales and use tax rate, Company X would remit sales tax in the amount of \$70,000 to the supplier or as a use tax to the taxing authorities.

Provided a *Procurement Company* subsidiary is implemented, properly executed resale certificates will be issued by the *Procurement Company* to the supplier allowing the purchase of the assets without the payment of sales and use tax. The *Procurement Company* will then lease the equipment to Company X on a hypothetical 5-year lease arrangement with a monthly rental of \$10,000. The *Procurement Company* would invoice sales tax in the amount of \$700 per month to Company X and then remit the tax to the taxing authorities.

Once the 5-year lease arrangement reaches its term, the *Procurement Company* may sell the equipment to a 3rd party unrelated entity or lease the equipment on a subsequent lease to another corporate affiliate. With the *Procurement Company* structure on this hypothetical example, Company X will disburse sales and use taxes for the lease in the amount of \$42,000 instead of the \$70,000 on the purchase. The net savings will increase as more assets are added to the lease portfolio.



About EHTC

Echelbarger, Himebaugh, Tamm & Co., P.C. (EHTC), a professional corporation was established in 1977 by Dennis M. Echelbarger. Since that time, our Firm has grown to become one of the largest, most successful, local accounting firms in the Greater Grand Rapids, Michigan area, and we are a recognized leader in the business community. Our success is based on building partnering relationships with our customers. We are large enough to serve a wide diversity of customers but small enough to maintain personalized attention.

EHTC's professional team is highly trained to provide technical and consulting services in the areas of accounting, taxes, and strategic planning to nonprofit, profit and service organizations and related entities.

Minimizing your tax liability requires careful, advance planning rather than preparing tax returns as deadlines near. Our tax professionals provide complete tax services and are assisted by our extensive tax library and the latest technology.

We pay careful attention to your unique circumstances such as your current requirements and your plans for the future. We then recommend a plan that best suits your needs while minimizing financial risk.

Structure of the Procurement Company

The parent company will establish a new wholly owned subsidiary to house its capital asset procurement operations. The parent company will contribute cash to the new *Procurement Company* entity in exchange for stock. The *Procurement Company* entity will acquire assets used in the company's operations from the unrelated suppliers. The *Procurement Company* will then lease the equipment to the affiliates for a specified lease amount. It is important for the lease agreement between the parent company and the *Procurement Company* subsidiary to have standard contractual and legal language. The lease terms must maintain the true lease tests which include:

- Evidence of the parties intention to create a bona fide lease at the time of the lease execution
- The lease term is less than 75% of the economic useful life of the asset
- Conveyance of possession and the use of the property to the lessee for the lease term in exchange for the consideration paid

Business Strategies to Maintain a Corporate Structure using a Procurement Company

A corporate restructure using a *Procurement Company* will be successful provided the following five steps are maintained:

- The purchase of the property by the *Procurement Company* must qualify as a sale for resale
- The sales and use tax must become payable to the Department as lease payments are received
- The lease must pass the true lease test for sales and use tax purposes.
- The sale of equipment at the end of the lease period must not result in an additional tax burden for the *Procurement Company*
- The corporate structure must be technically documented to overcome any challenges by the tax authorities

EHTC's Restructuring Using a Procurement Company

EHTC has seasoned tax professionals who have worked with clients in analyzing their need for *Procurement Company*. If the situation is beneficial to set up *Procurement Company*, then our tax professionals will prepare the work plan to implement the project and a technical analysis allowing the restructuring in a particular state. Our tax professionals will become involved in the training of company employees on any necessary procedures to be followed to comply with the newly established *Procurement Company*.