



## CLIENT SUCCESS STORY: PUBLIC COMPANY TAX PROVISIONS & REPORTING

### Experience and Efficiency Yield Quick, Clean Tax Provisions and Opinions, More Tax Credits and Deductions, and Lower Service Costs

**Background:** Our client, a specialty pharmaceutical company, had been in existence for more than a decade when it engaged us several years ago. At the time, the client was asking us to formulate tax provisions which supplemented their annual reports to the SEC on Form 10-K. The client's public company audit work was being performed by a Big Four firm, which could not simultaneously perform certain tax work for the company because of Sarbanes-Oxley rules. The client was aware of our stellar reputation, and hired us directly to work on tax-related matters.

**Client Goals:** Our client needed quick and reliable preparation of its state and federal tax returns, as well as its tax provisions pertinent to financial statements filed with the SEC. Income tax provisions had to be made for payment of state and federal income taxes, and accrued tax liabilities, deferred liabilities and prepaid obligations had to be properly determined. In addition, the client wanted to take full advantage of any tax deductions or credits that it had not previously identified, and they wanted to do all of this cost-effectively. The

client also wanted a tax summary memo with narrative text that could clearly explain the tax provisions and be incorporated, to whatever extent necessary, into filing Form 10-K. The client required a firm to do the tax provisions and tax returns that had the proper experience and professional credibility necessary to meet the scrutiny of a public company auditor.

**Obstacles and Challenges:** The client had a small accounting department with very little tax support and lean personnel. The Big Four audit firm was demanding and continual revisions to the financial statements were needed while pushing for reliable and accurate tax provisions within the tight time frame necessary to meet the Form 10-K filing deadline. The client had also gone through a number of refinancing initiatives, as well as considerable employee and stockholder turnover, complicating its tax provisions and reporting. Furthermore, the client had multiple locations, many equipment purchases related to research and development ("R&D") tax credits, and a variety of accelerated and/or straight-line depreciation

approaches it had taken to the write-down of its assets over time, thus complicating its tax picture.

**AAFCPAs Solution:** Utilizing our significant tax-related experience, we compiled essential information needed to formulate and support the client's tax provisions. We reconstructed data from prior tax returns, purchasing and payroll records, and other sources that were not designed for tax reporting support. We helped the client set up processes for more efficient preparation of tax provisions in the future, as required by Sarbanes-Oxley regulations. This included setting up a system utilizing Section 382 analysis, which tracked the ongoing shareholder turnover, thereby insuring real-time monitoring of ownership changes pertinent to cumulative calculations of available operating losses and tax credits. Our system also enabled easy identification and tracking of certain expenses that were either 50 percent or 100 percent deductible under IRS rules. In addition, we provided ongoing review of tax credit and deduction opportunities after our initial engagement, as well as ongoing monitoring of business changes that could affect calculation of net operating losses going forward. This insured that net operating losses, and tax deductions would be annually taken or carried forward in a manner that would optimize their beneficial after-tax impact on the bottom line. This was all done without requiring the client to use any specific, expensive software to track or capture information because of our demonstrated ability to adapt systems to fit the client's resources and needs.

**Results:** Our approach enabled the client to meet its financial reporting deadlines and tax reporting requirements for year-end while helping company managers to better understand and quantify their tax obligations and exposures with unqualified certainty. That enabled the client to deliver a Form 10-K that accurately stated there was no reason to believe that any of its tax positions required risk disclosures due to uncertainty of outcomes. In the first year, our client saved roughly 33 percent on the service costs for formulation of its tax provisions (as compared to charges incurred in the prior year for the same work). Furthermore, we identified a number of potential tax credits and deductions that had not been previously taken, such as credits for research and development expenses, and helped to set up systems for capturing that going forward. Because of our work in streamlining the client's systems for capturing and reporting information, we also enabled the client to keep their annual service costs associated with our firm essentially flat for the last several years. We also freed up the client's scarce internal staff, saving them about a week's worth of annual manpower with our approach. The net savings – from better service efficiencies and better recognition and timing for tax credits and deductions – has easily exceeded our client's expectations. They remain extremely pleased with the services, benefits, and exceptional value we deliver.

**About AAFCPAs:** AAFCPAs is an attractive alternative to the Big 4 and National CPA firms. We provide best-value assurance, tax, accounting, and

business & IT advisory solutions to nonprofit organizations, commercial companies, and wealthy individuals/estates. Since 1973, AAF's sincere approach to business and service excellence has attracted discerning clients along with the best and brightest CPA and consulting professionals. AAF donates 10% of its net profits annually to nonprofit organizations.

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