

## **End of Year Sales Tax Tips**

Though the Coronavirus has slowed things down, the Florida Department of Revenue (“Department”) is still conducting audits. Currently, audits are being performed remotely as best as possible with some auditors going out into the field. However, this does not mean the issues being audited are any different than before the pandemic.

### ***DISCOUNTS v. REBATES***

The difference between a dealer discount and a rebate remains a hot topic and one that is often assessed. Why does it matter? The Department says a rebate is subject to sales tax but a discount is not subject to sales tax.

A discount is allowed to reduce the sales price of an item, such as a motor vehicle. The result is the amount that is subject to sales tax is reduced by the amount of discount offered. A rebate functions similarly from the customer’s standpoint, as the customer’s net out-of-pocket is still reduced. Yet, the Department specifically says a rebate (or coupon), which involves reimbursement by a third-party usually, is included in the sales price of an item. In other words, the rebate is subject to sales tax. If there is any type of a reimbursement involved (such as with a rebate), then the Department will take the position the reimbursement constitutes a rebate, which is subject to sales tax.

Knowing what distinguishes a discount from a rebate, for Florida sales and use tax purposes, can save you significantly on the back end. It is imperative to know the difference and correctly apply this to your business.

### ***LINE 6 CREDITS***

On a Florida sales and use tax return, there is a line entitled “Less Lawful Deductions.” This line is commonly referred to as a “Line 6 Credit.” It is also a line you must be wary of when completing your sales tax returns.

The Department may flag a business that has a sudden but abnormal amount of Line 6 Credits in a given month or if the business has a historically higher amount of Line 6 Credits than those within the industry. The red flag will be examined by an auditor who will determine whether an audit of the business should be performed. But this is not the end of the problem. When the Department is auditing, the auditor will want to know what amounts were taken for the Line 6 Credit. If the information is not perfectly satisfactory to the auditor, you can be guaranteed the Line 6 Credit will be disallowed and an assessment for the disallowed amount will be made. Do not forget interest and penalties will likely be assessed as well.

During some down time, ensure the discount v. rebate is being well documented in the dealership. Additionally, you will need to confirm you have sufficient support for your Line 6 Credits. A good bit of preventative maintenance would be to perform a reverse audit to uncover areas you might not have considered to be at risk. A reverse audit is a great way for a dealership

to help themselves. Although, the Department will certainly do their best to “help” you get everything right during an audit!

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