

Sales and Use Tax

By Richard A. Vallari CPA, CMI

In the world of health care, preventive care refers to measures taken to avert medical conditions and control health care costs. From simple tasks such as washing hands and immunizations, to more complex tasks like annual checkups and screenings, the idea is to detect health concerns early to keep cost and suffering to an absolute minimum. Unfortunately, too many people disregard preventive health care until their doctor discovers an ailment.

Using this analogy, business owners are often guilty of ignoring the “health condition” of their business records in regards to Sales and Use Tax. The importance of Sales and Use Tax compliance is often neglected until the Department of Taxation sends one of their demanding form letters notifying you of their intent to audit your records for compliance. When the letter is received, the fear of the business owner often stems from the concern of underpayment of Sales and Use Tax, along with related costs for interest and penalties. However, preventive care in business records for Sales and Use Tax compliance may not only show where underpayments have occurred, but also where overpayments of Sales and Use Tax may exist. This preventive care is known as a Reverse Sales and Use Tax Audit.

A Reverse Sales and Use Tax Audit is similar in many respects to a Sales and Use tax Audit conducted by the state. The ultimate goal is compliance of applicable sales and use tax laws. The major difference is that when the state discovers errors, the cost is compounded by interest, and sometimes penalties. Ultimately, the state auditor’s focus is on underpayments, not overpayments.

Sales and Use Tax compliance failures within a business accounting system can result in paying too much or too little in Sales and Use Tax as legally due. An inadequate Sales and Use Tax compliance system will create problems during an audit. Through my experience conducting Reverse Sales and Use Tax Audits I have observed several reasons for inadequate Sales and Use Tax compliance systems. This most common problem stems from business expansion, downsizing, and employee turnover.

Most businesses use their accounts payable department to address Sales and Use Tax functions, and while these employees are often competent in addressing accounts payable compliance, they do not fully understand the complexities of Sales and Use Tax.

I have also noticed two reasons for Sales and Use tax overpayments by businesses. First, suppliers often charge Sales Tax to avoid an assessment on their end if they are audited. Second, suppliers may charge Sales Tax since a resale or exemption certificate has not been submitted. Both of these situations often occur due to the labor intense nature of reviewing records and a lack of understanding of the mechanics of Sales and Use Tax by the person in charge of compliance. In any event, a business may pay tax to its supplier that is not legally due.

I strongly urge you to take the time to review the Sales and Use tax compliance system used in your business. If your business has not been audited within the last five years, a Reverse Sales and Use Tax Audit of your records should offer you some comfort that preventive care has been implemented, as your chance of being audited is very possible.



Rich is the founder of Southwest Sales tax Solutions, LLC. He has 23 years of experience in the accounting industry, including over 20 years of experience handling sales and use tax issues. He has worked in both industry and public accounting, including one of the National CPA Firms. Rich is a CPA, licensed in Nevada, a member of the American Institute of Certified Public Accountants, and a member of the Nevada Society of CPAs. He also is a member of the Institute of Professionals in Taxation, earning his designation as a CMI.

This designation is widely known as a mark of achievement and distinction in the sales and use tax field.