

Are You Prepared for a Sales and Use Tax Audit?

By Richard A. Vallari CPA, CMI

The one letter your client dreads most is the infamous form letter from the Nevada Department of Taxation notifying of their intent to audit your client's business records for Sales and Use tax. If this is your client's first experience with an audit, fear of the unknown quickly sets in. If your client has been through an audit where there was an assessment, the thought of an unexpected drain on cash and time may upset them.

From your client's point of view, reading the letter of intent to audit goes from bad to worse quickly. Not only is the Department of Taxation going to audit their records, they ask your client to produce every record imaginable. By this time, true anxiety has taken hold. This is where you should advise your client to stop, take a deep breath, and relax.

What can your client expect from sales and use tax audit? What records does your client really need to present? How can you make the audit as quick and painless a process as possible for your client?

Most important is the underlying principle that only records that show tax was properly charged, collected and remitted need to be provided. Below are three record-keeping suggestions that, if used, will expedite the audit and keep within the time-frame designated by the Department of Taxation.

First, a sales and use tax audit will review your client's fixed asset purchases and dispositions. As your client acquires and disposes of assets, encourage them to keep a photocopy of each purchase invoice and a copy of the details regarding the disposition of assets in a dedicated notebook or file. By keeping an ongoing file, the tedious task of gathering these documents is already complete. As a bonus, this file assists your client in reconciling fixed asset activity for their federal income tax return, which is another document required upon audit.

Second, a sales and use tax audit will focus on company credit card purchases. Auditors review company credit card purchases not only to ensure sales tax was paid to vendors, but to identify unregistered vendors that may have nexus with Nevada. In the case of out-of-state vendors or online purchases, auditors focus on self-assessment and remittance of use tax. Your client's best protection from audit assessment is accounting for all receipts each month upon review of company credit card statements.

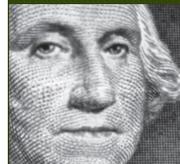
Finally, personal purchases made with a corporate credit card fall within the scope of the audit. Keep in mind that any transaction that passes through business accounts, whether personal or in the course of business is fair game and subject to review during an audit. The best advice to give your clients; **keep personal purchases out of the business.**

Through my experience managing Sales and Use tax audits, a relaxed approach to record-keeping with respect to fixed assets, credit card purchases and co-mingling personal and business purchases results in high audit exposure. Educating your clients about the proper set-up and maintenance of their business records will help them manage the cost of their Sales and Use tax audit defense when the time comes. Additionally, these suggestions, practiced routinely, will result in an efficient audit for your client's business.



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 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. You can contact Rich at (702) 233-0049 or by e-mail at rvallari@cox.net.

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