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yet.

Andrew Johnson • Aug. 12, 2014



The first thing you should do NOW, and the one thing you should not do, at least not yet.

So you are considering starting or expanding your SALT practice? Excellent! In fact, a recent survey of CPA firms pointed out that 75% of firms are looking to add SALT to their portfolio of services. That means you are on the leading edge and many other firms. That's not surprising to us. We are a CPA firm ourselves and focused entirely on providing SALT services since 1992. We speak from our own experience of over 20 years as a firm. SALT is a profitable niche service with opportunities to offer premium

services. State governments are increasingly hungry for tax revenues and they are

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you already know that as you look out for your clients' best interests, your practice will grow, and state and local tax services (ok let's refer to it as SALT from here on out), but SALT can help accelerate that growth.

So what's the one thing that CPA should do right NOW to start their own SALT practice? And what's the one thing they should not do yet? Well, don't assume you need to go off and hire an outside expert right now. There's no need to spend that time and effort right now, and risk all that capital. You can do this with your existing people. The one thing to need to do NOW, is attend our free webinar about the opportunity. What is the market? How will you begin the process? What is the cost? What are the possible pitfalls?

The free webinar isn't a sales pitch. It is substantive information you can use immediately. What will you learn?

First, you will learn about state tax nexus.

Just briefly, what is nexus? Nexus is that minimum connection that a state must have with you or that you must have with the state in order for them to be able to force you to collect their taxes or pay their taxes. It's a simple definition, but the definition belies the complexity arising from actual day-to-day business activities across different states. How do you know exactly where that line is crossed for every activity in each state? What exactly constitutes enough connection? That's where we run into the difficulties. So you have to become more educated in this area.

Why learn about nexus?? Like I said, it's all about protecting your clients. And learning about nexus will help you to protect your clients. One of the biggest liabilities that could potentially hit a small/medium business is a sales tax audit assessment. Businesses that should be collecting sales tax, but are not, face a growing liability every month. Upon audit by a state, they would be assessed that uncollected tax. It would be a tragedy, we call it the Biggest Tragedy in Sales Tax, because they

would have to pay that tax out of their own pocket, which tax they could have

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But first you have to understand what the current “laws of the land” are when it comes to nexus. A lot of businesses (and their CPAs, unfortunately) labor under the false impression that nexus requires physical presence in the form of an employee or an office building in a state. The truth is, it takes a lot less than an employee or a building to create nexus. I invite you to see our short video our five most common nexus-creating activities for some more information on that. It may surprise you how low the threshold for nexus truly is.

Once you understand what activities create nexus for sales tax, then learn the nuances of income tax nexus. If you have nexus for sales tax, you don't automatically also have income tax nexus in every state. Nexus for sales tax and income tax is like two circles that have large intersecting areas but also have their own independent tests as well. As such, it's possible that you might not have nexus for sales tax but you do have nexus for income tax.

Sales tax nexus is usually the biggest hotspot for your clients, because it carries so much potential exposure. But you also need to be ready to answer your clients on income tax nexus and take action to protect them from potential exposure there as well.

Growing Your Practice

Protecting your clients from state tax liabilities will grow your practice if you know what services they need. Here are some of the solutions you can offer or services you can perform to help protect your clients from the exposures with state tax nexus.

1. Nexus consultation and analysis
2. Exposure analysis
3. Voluntary disclosures and amnesty
4. Registrations

5. System automation for sales tax collection. Get the rates right and constantly

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jurisdictions with changing tax rates and different taxability rules. And it is daunting if you try to handle it manually. Most likely they will benefit automating the process using a reputable third party service to track the ever changing rates and taxability of items they sell.

CPA's can get involved in helping their clients get the system automated and all set up. Then on an ongoing basis, the CPA can assist with the return filing. Sales tax returns are due either monthly, quarterly or annually and income tax returns are due usually on an annual basis.

And that's how your business grows as you protect your clients' vital interests.

Of course, there's more, much more, you can do under the umbrella of SALT. There's consulting and research into taxability of items your clients purchase. There are so many different laws and cases that impact whether what they buy in a given state is even taxable. You could save your clients real money as you help them analyze their larger purchases. You could even identify areas where they have overpaid the taxes and secure refunds for them. Talk about premium, value-added services! As you grow your SALT practice you could get involved in the lucrative service of assisting your clients with revenue agent reviews at the state and local tax level. You may be very surprised how often your own existing clients are under audit by a state. Hopefully this gives you an idea of where you can take this as you gain expertise. And we can teach you how we've been successful and you can just replicate (and improve, I'm sure) on what we've done. But that's down the road a bit.

The first step, in my opinion is to learn all about nexus and how those laws apply to your clients. And fortunately we have lots of resources available to you to become much more knowledgeable on what creates nexus. Learn what the current nexus standards are, and how they evolved to this point. What is the US Supreme Court's role in determining nexus, what is congress' role and what about state governments,

do they have a say? What about movements to pass a federal law on this issue? Has

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you begin now to expand your state and local tax service offering. Which automatically leads to recurring work on the compliance.

- **SBA:** Learn about your state and local tax obligations: <http://www.sba.gov/content/learn-about-your-state-and-local-tax-obligations>
- **NOLO – 50-State Guide to State Laws:** <http://www.nolo.com/legal-encyclopedia/50-state-guide-internet-sales-tax-laws.html>
- **Streamlined Sales Tax Project:** <http://www.streamlinedsalestax.org/>
- **Marketplace Fairness Act Information:** <http://www.marketplacefairness.org/>
- **State and Local Sales Tax Rates in 2014:** <http://taxfoundation.org/article/state-and-local-sales-tax-rates-2014>
- **How State Sales Taxes Work:** <http://money.howstuffworks.com/personal-finance/personal-income-taxes/state-sales-taxes2.htm>

Andrew H. Johnson is a cofounder and principal in Peisner Johnson, one of the largest SALT (State and Local Tax) practices in the United States.

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