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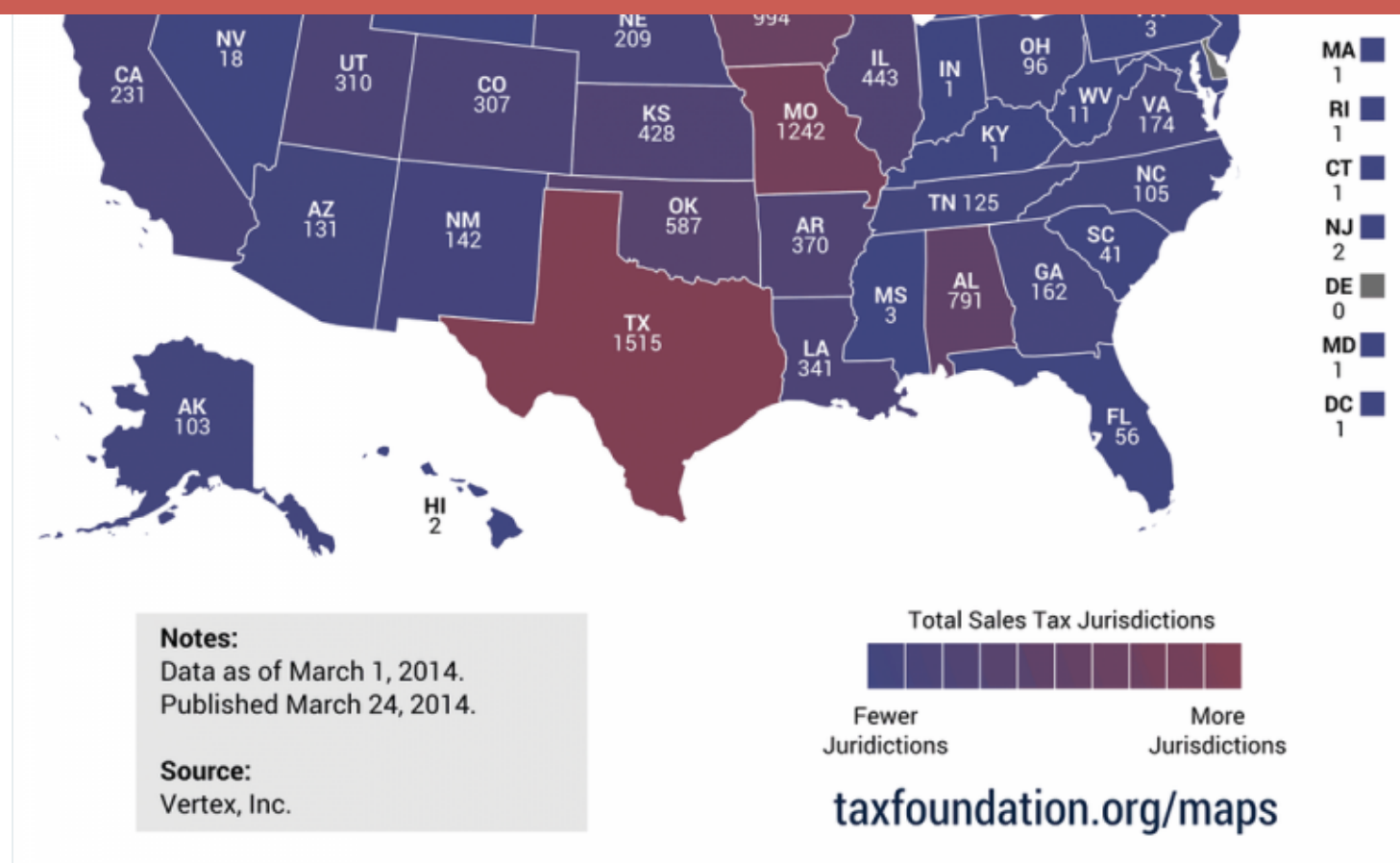
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change in gross revenue should result in a small change in the associated accounts. In an attempt to discover why one established contractor was selected for audit, I reviewed their sales tax filings and created the below table.

Sep. 12, 2014

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Are you or your clients risk averse and totally rational?

- “This high profile, attention-grabbing color is not an issue for me;”
- “I wear my seatbelt, drive slightly under the posted limit and *never text*.”
- “As a reasonable person *I know* that every deviation from the norm invites a moving violation.”
- “Law enforcement personnel like *sales tax auditors* look for things outside the norm, those *red flags* indicate non-compliance.”

Historically, a business' gross revenues follow seasonal patterns and even a small change in gross revenue should result in a small change in the associated accounts.

In an attempt to discover why one established contractor was selected for audit, I

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Q1 2011 330,172 1,968,318

Q2 2011 335,540 1,324,887

Q3 2011 768,663 2,450,371

Q4 2011 1,904,788 2,724,815

Q1 2012 11,994,786 2,420,044

Q2 2012 14,760,647 0

Q3 2012 18,557,313 0

Q4 2012 15,797,641 0

Red Flags

1. 2011 use taxable purchases exceed gross sales by a million dollars each quarter. Established businesses normally have *some* use tax but not 2 ½ times greater than revenues.
 - Could the accounts be backwards or the contractor be *reporting labor sales* as gross revenue and materials as use taxable purchases, thus understating gross sales?
2. Revenues double between Q2 & Q3 – 2011, again between Q3 & Q4 – 2011 and a 5 fold increase between Q4 – 2011 & Q1 – 2012, growth the stabilizes at over 10 times prior quarters.

- The doubling of revenues Q2 & Q3 2011 *is possible*. Note- as revenues doubled use

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companies, such as:

- Erratic ratios of sales to use tax,
- Rapid growth,
- Zero returns
- Large increase of sales

Data, while important is still reported by a person. Based on the above red flags the following questions should be asked.

- Did key personnel leave?
- Was 5x growth delayed billing or prior period underreporting due to staffing issues?
- Does the entity need hands on training and coaching?
- Should I visit the entity and observe their operations?

September SALT Checklist

- Analyze your clients for tax audit red flags (see related article)
- Examine client internal controls relating to state and local tax issues and for future protection from audits
- Filings – in addition to current tax obligations, help clients get up-to-date on delinquent tax filings
- Reporting – review clients' year-to-date SALT expense and liabilities for accuracy
- Planning – estimate and schedule all state and local tax filings that will be due in Q4
- Legislation – recent legislation has affected taxes in Illinois, Utah, and California. Make sure you're up-to-date on SALT-related legislation in all states where you

have clients

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