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Gail Cole • Jan. 07, 2018



Many small and mid-size businesses hire accountants and bookkeepers with the expectation they'll help prevent an audit. Unfortunately, you can't guarantee your

clients won't be audited for sales and use tax. No one can: States need sales and use

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their business. In fact, more than half of all audits in the United States target just a handful of industries: construction, food service, manufacturing, retail, and wholesale/distribution.

In addition, auditors often focus efforts on businesses with a high volume of exempt transactions. Specific events, such as late filing or a dramatic change in taxable or exempt sales year-over-year can also draw an auditor's eye. Perhaps most surprisingly, [many audits are aimed at out-of-state companies](#) with ties to the state.

The more you help you clients institute best practices, the less likely they'll raise the red flags auditors seek.

Top errors audits uncover

There's no one reason businesses are found liable. However, different businesses are prone to different errors, and auditors tend to scrutinize these areas. For example, retailers that sell to consumers in multiple states may not collect and remit tax wherever they have [nexus](#) (an obligation to collect). Companies that sell to non-profit entities may not properly charge those entities tax as required (not all non-profits are entitled to a sales tax exemption on all purchases).

And then there's use tax: Businesses across all industries often fail to remit use tax on taxable items purchased tax-free from vendors in other states, or items taken from inventory for business or personal use. In fact, in South Dakota, use tax errors account for seven out of [the top 10 errors found during audits](#).

Helping your clients understand exemptions, use tax obligations, and where they have an obligation to collect and remit sales tax puts them in a strong position to weather an audit should one occur.

What to expect during an audit

If audits are universally dreaded — and they are — it's because they cost businesses

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should be up to date and readily available, invoices should prove the proper amount of sales tax has been collected and remitted on taxable sales, and records should show that use tax has been paid whenever due. Auditors will only linger where there's cause to do so; time is money for them, too.

Get a handle on sales and use tax

A high percentage of accountants — nearly 70 percent according to a 2015 Wakefield Research Report — admit to being flummoxed by sales and use tax: It is, they say, “one of the most confusing aspects of the accounting team's job.”

That's understandable. Sales and use tax laws reflect the independent natures of state and local governments: Exemptions, rates, and taxability laws vary from state to state, and in some states, from city to city. Even the best-intentioned accountants may struggle to keep clients informed and compliant. For some, dealing with sales and use tax is a full-time job. Since that's unlikely to be an option for your clients, be sure you're in the best position to help them get sales and use tax right.

Learn more about who gets audited, why, and the impact audits have on companies in [Sales and Use Tax Audits Uncovered](#).

Gail Cole began researching and writing about sales tax for [Avalara](#) in 2012 and has been fascinated with it ever since. She has a penchant for uncovering unusual tax facts, and endeavors to make complex sales tax laws more digestible for both experts and laypeople.

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