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SALES TAX & COMPLIANCE

4 Tips on Amended Sales Tax Returns

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Shane Ratigan • Apr. 20, 2017

For tax professionals, amending returns is a fairly regular component of the filing cycle. Updated K-1s, revised W-2s, discovered 1099s or even good old-fashioned preparation errors can all give rise to an amended return. For your retail business clients filing sales tax returns, the need for amended returns, hopefully, is not a regular occurrence, but as they say … “sales tax happens.”

The majority of sales tax return filers are on a monthly filing schedule, so the opportunity for amendments happens 12 times a year. Even a solid sales tax operation can find itself in need of an amended return. Besides the hand-wringing that accompanies any tax related issue, many of your clients probably lack the experience or confidence to amend a sales tax return on their own. So, even for clients who handle their own month-to-month sales tax compliance in-house, an amended return (or *returns*, yikes!) presents an engagement opportunity for tax professionals. Without dwelling on the reasons a sales tax return might need to be amended, let’s skip to the process itself.

As is often the case with sales tax, there is great variance in state-by-state return amendment process complexity. In many states, the process is not complicated at all; in fact, many states allow amended returns to be filed electronically. In other states, an amended return follows a path unique from the regular filing regime.

Here’s an organized, four-step process that should help:

#1: Determine the rules in your client’s state(s). This probably goes without saying, but it’s worth repeating here: don’t rely on another state’s process you might have already mastered. For example, in some states, a simple resubmission of the original return with amendments included satisfies the amended return requirements. Writing “Amended Return” on the amended copy might be good enough, and some states even suggest using different colored ink for the amended portions. Other states suggest a cover letter with an explanation of the circumstances.

When an original return was filed electronically, some states allow an electronic amended version, but others require a paper form. In these cases, a typical requirement is that the electronically filed form confirmation document must be submitted with the amended paper form. For states that allow electronically filed amended returns, look out for special instructions for items such as due dates, timely collection discounts or even special “amended return” checkboxes.

#2: Does your client owe or is it owed? If an amended return results in a payment to a state, send a check or arrange an appropriate EFT. Enough said. Rest assured the state will reply promptly with any penalties or interest due. In some states, it is your client’s customers who are technically responsible for the payment of taxes due, but on all occasions, your client is responsible for remitting the taxes due. Leave it up to your clients to decide if they wish to chase down their customers for additional taxes due, but always remind them *they* are incurring penalties, interest and audit risk by not remitting, not their customers.

If an amended return results in a refund to your client, note that some states require a direct contact with a state's representative before filing such a form. Other states require a refund to be applied to future obligations, while others even require a special refund request form. Finally, note that the period for requesting a refund is limited and usually shorter than other look-back time periods. Don't dilly-dally if a refund is expected.

#3: How many returns are in the mix? In some states, your clients are filing multiple forms based on the amount of locations they operate. While there is not much of an opportunity for efficiency in most multiple location scenarios, it's really important to keep this possibility in mind as you scope out a potential amended form engagement.

#4: How many reporting periods are at stake? This is a familiar refrain, but it's worth repeating: states vary considerably in their preferred format for amending multiple periods. Keep an eye out for the ability to amend multiple period returns through a single process, especially in states with electronic filing. There is an opportunity here for some real gains in efficiency, thereby streamlining the process your firm must endure and, perhaps, some savings in fees for your clients.

In all cases where an amended sales tax return is required, time is of the essence! For refund requests, the available timeframe is usually limited, often two years from original filing. For amended returns that require additional payment, penalties, interest and the risk of audit linger for a longer process. Even for clients who handle their regular filing and remitting process themselves, the need for an occasional amended return can overload their internal machine and create an opportunity for your firm to pick up a fresh engagement.

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