5 Key Triggers State Auditors Look For That Can Initiate A Sales Tax Audit for Companies

Companies can reduce the risk of having a sales tax audit by understanding and identifying key triggers governments use to identify potential audit targets

PHILADELPHIA, PA, UNITED STATES, April 17, 2024 /EINPresswire.com/ -- In 2024, companies are facing a growing number of sales tax audits by states, according to Michael Cohn, Editor-In-Chief of AccountingToday.com (https://www.accountingtoday.com/news/state-sales-tax-changes-could-mean-more-audits). Cohn said, “Economic pressures are forcing many states to find ways to make up for revenue shortfalls.” In addition to rate increases and increases in the number of taxable categories, improvements in technology and greater cooperation by states with the IRS have facilitated the flagging of companies to be audited by state governments, leading to the initiation of a growing number of audits planned.

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> *Bill Flick - President & Co-Founder FM Cost Containment*

According to sales tax thought leader, Bill Flick, President & Founder of FM Cost Containment, “Companies can reduce their risk of having a sales tax audit by understanding and identifying key triggers governments use to identify companies that are most likely to improperly pay sales taxes.” Flick lists 5 of the most likely triggers his company has encountered:

1) If one’s company has recently been audited where the audit has demonstrated an under-payment of taxes leading to a revenue recovery for the state.
State governments know that companies can be slow in adjusting their systems. One revenue-generating audit often triggers another one the following year or so. That said, if the initial audit shows proper tax payment or even an overpayment and a refund, this trigger will often be mitigated.

2) If the company is in an industry where audits of other companies in that industry have generated added revenue for the state.
It pays to monitor the public record of sales tax audits to see if a number of companies in one’s

industry are being audited. Once a tax authority finds under-payments in an industry, they tend to go after other companies in that industry who often follow similar accounting practices.


Bill Flick - Co-Founder & President FM Cost Containment

3) If the company exhibits atypical filing practices.
Most companies in most industries file similarly. However, if a company with large revenue files for zero sales taxes, files for zero use taxes and/or files late, these actions will often trigger an audit.

4) Follow-through from auditing of a vendor or customer.
If a vendor or customer is audited and found to have made or have caused errors or mistakes, related to your firm or industry, tax authorities will tend to follow that trail and initiate an audit of the connected firm too.

5) Passage of new state tax laws, revisions to them or court rulings.
With over 10,000 jurisdictions in America that both do and don't charge sales and use taxes, it can be difficult to keep up with the changes. However, when laws change, tax authorities often seize the opportunity to audit to capture revenue from those companies that are slow in adapting to the new law.

Said Flick, “For many companies, sales and use tax are not priorities…until an audit happens. Being mindful of potential triggers can help financial leadership within a company prepare for or even eliminate the risk of facing one.” Flick also noted, “The typical presumption by both parties in a tax audit is that there is money owed by the targeted company. However, our company has found that, for many large companies that conduct business nationally or in a number of states, a sales tax audit can actually lead to a reduction in taxes or even a refund.”

ABOUT FM COST CONTAINMENT
FM Cost Containment is one of the leading forensic tax recovery firms in the United States. FM specializes in tax confirmation and recovery of overpayments of taxes, as well as tax audit defense, utilizing proprietary research and knowledge of little-known technicalities in the tax laws of each of the 50 states, including over 10,000 tax entities throughout the nation. Headquartered in the Philadelphia Metropolitan Area, FM Cost Containment provides services throughout the U.S.

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