Reducing The Risk Of Being Targeted For A Sales Tax Audit: 8 Valuable Tips

Companies can reduce the risk of being selected for a sales tax audit by understanding triggers governments use to identify those likely to underpay sales taxes

PHILADELPHIA, PA, UNITED STATES, October 7, 2024 /EINPresswire.com/ -- According to Lucy Dadayan of the Sales Tax Policy Center (https://www.taxpolicycenter.org/taxvox/state-revenue-forecasts-look-bleak-revenue-boom-subsides), "States saw robust tax revenue growth in fiscal years 2021 and 2022, largely caused by federal and state policy actions. But (revenue) forecasts now look much weaker." One way governments generate more revenue is to conduct more tax audits to find underpayments.

> The presumption in a sales tax audit is that money is owed by the targeted company. However, for many companies, operating in multiple states, it can often lead to a reduction in taxes or refund."
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> *Bill Flick, Managing Director, Eisner Amper Advisory Group LLC*

With the Internal Revenue Service (IRS) planning to conduct over 22% more Federal, large corporation audits in 2026, can state sales tax auditors be far behind?

Sales tax thought leader, Bill Flick, Sales tax thought leader, Bill Flick, Managing Director, Eisner Amper Advisory Group LLC, said, "Although sometimes companies get audited for sales taxes simply because they are randomly chosen, there are a number of triggers that can raise the likelihood that a company will be selected for a sales tax audit."

Flick advises that companies can reduce their risk of having a sales tax audit by understanding key triggers government auditors use to identify companies that are most likely to underpay sales taxes. Flick lists some of the most common triggers:

- Underreported sales in a jurisdiction.

Sales tax nexus is the connection between a company and the tax collecting jurisdiction requiring sales tax to be paid. The connection is usually defined as physical presence or level of gross sales in that jurisdiction or a combination of both. If the auditing authority has cause to believe that "local" sales are underreported, compared to one's company's overall sales, that has strong potential to trigger an audit.

- Sales to sales tax ratios not in sync.

If sales to sales tax ratios are not similar to company ratios overall or with industry averages, that might trigger an audit.

- Sales tax amounts filed are not consistent.

If a company pays much higher sales taxes one month and much lower sales taxes another month, it might trigger an audit.

- Sales on Federal tax returns do not line up with state tax returns.

Bill Flick, Managing Director, Eisner Amper Advisory Group LLC

Jurisdictions may compare IRS returns to state returns. If the revenue numbers aren't the same or similar, an audit may be triggered.

- One's industry may be a likely target.

There are some industries, such as retail and food, where history has shown them to be more likely to underpay sales taxes. Businesses in these industries are more likely to get audited.

- When automated bookkeeping has not been updated frequently.

There are over 10,000 sales tax jurisdictions in the U.S. and many of them frequently update or change their laws. If a company's automated bookkeeping software is not updated frequently, it will raise a red flag for auditors to take a deeper dive into the books.

- A vendor or customer has recently been audited.

Jurisdictions find that for many companies who are audited, there is a higher likelihood that mishandling of sales taxes occurs up and down the line. When one company has been audited, the company's vendors and customers, also have greater risk of themselves being audited.

- If one's own company has recently been audited.

Auditors know that companies are often slow in adjusting their systems. Therefore, one revenuegenerating audit often triggers another one the following year or so.

To avoid audits, Flick recommends being proactive and to conduct sales tax self-audits from time to time. As well, he observes that with so many sales tax jurisdictions, laws and regulations, sales tax compliance can be complicated. Therefore, it can be valuable to assign a sales tax expert, in addition to their own accounting team, to manage and oversee their sales tax compliance.

Flick notes that when it comes to sales tax audits, all may not be negative. Mistakes can be made leading to overpayment too. He said, "The conventional presumption by both parties in a tax audit is that there is money owed by the targeted company. However, my experience has been 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."

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