

# Assess exposure up front with sales and use tax services.

Your diagnostic guide and checklist



# Your quick guide to help clients mitigate sales and use tax issues

Clients look to you, their trusted business advisor, to coach them toward financial success. This includes assessing potential exposure issues with sales and use tax — issues that can accumulate over the years and result in major penalties. This guide offers you a road map for walking your clients through the sales and use tax assessment process.



## 1. Gather high-level data.

Have clients list all information that will help you understand the nature of their business, including:



Products



Services



Customers



Business location(s)

Also have clients answer the question:  
How familiar are you with sales and use tax?

## 2. Collect detailed answers to the following questions.

### Sales tax:

#### Nexus

- Are any salespeople or employees permanently located in other states?
- Do any salespeople travel to other states to solicit sales?
- Does the company deliver goods to other states via common carrier or with its own vehicle?
- Does the company have inventory at a warehouse in another state or own/lease property in other states?
- Do employees or independent contractors complete any installation, repair work or training in other states?

#### Taxability of products sold

- Who, when and what is involved in determining the taxability of a sale?
- When invoicing sales, are items separately stated or billed as one amount?

- Are charges for delivery of products included in the charge that is subject to tax?
- Are fixed asset sales invoiced and reported on sales tax returns?
- Does the company deliver goods to customers electronically?

#### Compliance and document retention

- Does the company collect and remit local taxes as appropriate?
- Has the company ever collected, but not remitted, sales tax in another state?
- How are exemption certificates maintained?
- Are returns filed on a monthly, quarterly or annual basis?
- Do total sales reported on the sales tax return tie to the actual gross sales for the period? Do they tie to the income tax return?
- Do you currently use a sales tax technology solution to calculate sales tax and to file sales tax returns?
- What documentation is maintained to support the sales tax returns previously filed?
- How do you currently update your sales tax rates?
- Overall, how will our firm obtain sales data for filing purposes?

### Use Tax:

#### Remittance of use tax

- Is use tax reported?
- Are fixed asset purchases reviewed for use tax?
- Does the company make internet or out-of-state purchases? If yes, are these purchases reviewed for any use tax due?
- Is use tax reported on items removed from inventory and used by the business?
- Are credit cards used on a regular basis for expenses? And are employees required to provide receipts in all situations?
- Overall, how will our firm obtain use tax data for filing purposes?

### 3. Final steps

Data collected from this list of questions will help you assess your clients' level of exposure and expand your advisor role.

#### Consider these next steps:

- **Analyze client responses** to identify compliance risks and areas in need of improvement.
- **Quantify potential risk** to assess level of assistance the client requires.
- **Once risk is assessed, work with the client to put new procedures in place** to help solve compliance issues and mitigate future exposure. Consider levels of risk and assistance:
  - **Basic risk** Register client and file returns in states where client has nexus-generating activity.
  - **Elevated risk:** Also address past years of non-compliance via the Voluntary Disclosure Program, which offers a limited look-back period geared to relieve clients of penalties and interest rate charges beyond a certain year.
- **Assess other tax return types**, including income, franchise or gross receipts, to determine if the client is required to file.
- **Meet with the client** to review your findings and discuss action steps to correct cited issues.
- **Introduce the client to the functionality of a sales tax automation solution** to support procedural enhancements.

“When we onboard a new client, we want to make sure that we cover sales and use tax up front to identify exposure or filing issues before they can grow and become significant over time.”

**Craig Cooke, CPA**

Partner, Wipfli LLP CPAs and Consultants

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