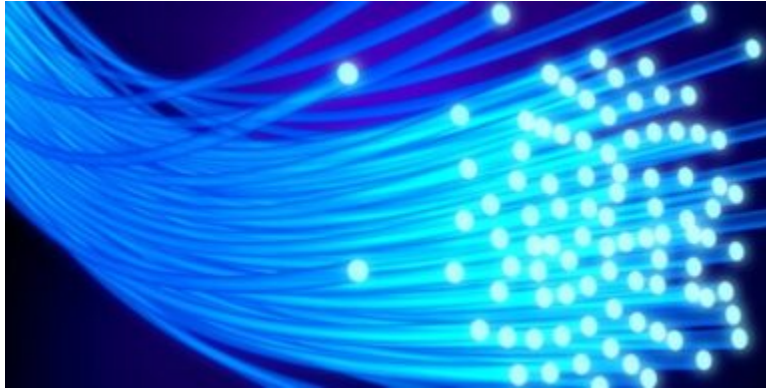


The Truth Behind Sales Tax Audits



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With the myriad responsibilities involved in running a successful business, it should come as no surprise that preparing for a sales and use tax audit is not exactly a high priority or favorite topic of conversation among business owners. There are only so many hours in a day, and many companies choose to put examining their compliance process on the back burner; at worst, the idea is ignored entirely. Even business owners who are ready and willing to tackle the issue rarely know where to begin. But sales and use tax audits don't have to be a specter that looms in the mind of every well-intentioned businessperson. Instead, in the same way we are told the benefits of "knowing thy enemy," knowing one's compliance process as it relates to industry-specific audit risk can make all the difference in the world.

First, an important clarification: Auditors are not the enemy in this scenario, audit risk is. The current tax system is, for many, extremely complex and difficult to navigate, but auditors are simply those tasked with ensuring that business owners — with all the tools at their disposal — are honoring what's owed to the state. Every year, it seems there are fewer states not suffering from a budget deficit, and as a result, states are finding more ways to maximize the amount of sales and use tax revenue, including significantly increasing the audit workforce across the country. In short, auditing is easy money. Furthermore, not only are states adding to their audit divisions, but many of those newly hired auditors are setting up shop outside of their home state and auditing out-of-state businesses. With nexus legislation and use tax reporting requirements proving difficult to pass or enforce, it's no wonder states turn to their audit professionals to save the day.

So, what do you do if you're a remote auditor charged with bringing home the bacon? Easy: You target companies with an obligation to collect and remit your state's tax, and you focus on the industries most prone to error when it comes to compliance. That list is shorter than you might think. According to a study Avalara conducted with Peisner Johnson & Company, nearly 60 percent of state audits are spread among just four or five industries: retail, manufacturing, construction, wholesale/distribution, and food service. This reality is the basis of the newest Avalara whitepaper, [Sales and Use Tax Audits Uncovered: Who Gets Audited, Why They Get Audited, and the Impact on Companies](#).

As the whitepaper reveals, certain industries get targeted by auditors due to the nature of how they operate, like how food service companies are frequently audited because they're cash-based and known to leave cash unreported. Beyond that, the primary reason these industries are targeted is that they historically fail to adhere to state and local sales and use tax regulations. In fact, according to the California Board of Equalization, the number one most frequent error of noncompliance made by businesses typically involves untaxed purchases from out-of-state vendors. Consequently, the data suggests that the bulk of audit assessments resulting from these errors came from use tax not being paid. And these are no small assessments: Avalara's joint study also found that the average cost of an audit is approximately \$114,000 including penalties, fees, and professional counsel. That's quite a price to pay for something so avoidable.

Ultimately, when it comes to sales and use tax audits, the best offense is a solid defense. In the whitepaper, [Sales and Use Tax Audits Uncovered](#), you'll learn the most common audit triggers for each key industry, as well as how best to

prepare and support yourself before or during an audit. Sales and use tax compliance may be tricky, but with the wealth of tools and information available today, business owners have never been in a better position to eliminate risk and safeguard themselves against a costly audit.

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