

The following article originally appeared in the June 8, 2008 issue of the DGC e-newsletter.

Simple Steps You Can Take to Avoid a Use Tax Audit

by Steve Minson, CPA

In an effort to be more efficient and control costs, many companies turn to the internet to purchase items for their companies. These items are often purchased using a company credit card. Sometimes employees purchase them directly and are subsequently reimbursed. Other times the company is billed directly by the vendor.

Regardless of the method of payment, Massachusetts law requires companies and individuals to pay 5% sales tax on goods, whether they were purchased in Massachusetts or not. Companies pay this tax in the form of use tax. If your company sells products, then you are probably very familiar with the MA Sales Tax regulations. But, all companies—manufacturers, distributors, professional service or consulting firms—need to understand the MA Use Tax regulations.

CFOs and Controllers need to develop policies and procedures to ensure that they are in compliance with these laws. Where do you begin? Well, here are three simple things you can do to limit your risk for an audit:

EDUCATE YOURSELF

As a CFO or Controller, you should learn more about the MA Use Tax laws (www.ma.gov) and understand how they affect your business. Train anyone who does purchasing for your company. Make them aware of which items/services are subject to sales tax, and which aren't, so they can make sure the tax is appropriately applied.

REVIEW YOUR PROCEDURES AND POLICIES

Build steps into your accounts payable and expense reimbursement procedures to check expenses and accounts for any sales tax due. Evaluate your current vendor policies. If there is a vendor whom you use frequently, make sure they are following the laws. If they are not, talk to them and get them to charge you when appropriate.

FILE BY APRIL 15TH

Even if you have determined that you do not have any tax liability, file a Use Tax return by April 15th. This will start the statute of limitations. That way, if you ever get audited, the Department of Revenue can only go back three years.

To learn more about how DGC can help your company with this important topic, please contact Steve Minson @ sminson@dgccpa.com or 781-937-5300.