



December 27, 2023

2023/2024 Notice for Sales Tax Audit & Other Information on Retail Sales

Most California businesses will deal with a sales tax audit at some point, and understanding what to expect is the best way to be prepared and get a favorable outcome.

(1) Maintaining good records of daily, monthly, and/or yearly sales register is strongly recommended.

The burden of proof is on the taxpayer to explain any disparity if the findings are inaccurate in a sales tax audit. Therefore, it is imperative that taxpayers to keep accurate sales records. The non-existence of such records will be seen as unhealthy business practice during an audit and will call for unfavorable outcomes. Various records relating to online transactions and Form 1099-Ks must be kept and provided to us.

(2) Reconciliation of sales with bank deposits is recommended for identifying discrepancies and/or any possible frauds.

(3) Retain all purchase invoices including cash paid invoices for up to **four** years. When **purchasing** both taxable and nontaxable items together, please specify the amount spent for nontaxable items on the check stubs when paying by checks, and on the bank statement when paying by credit/debit cards.

(4) **Current trend** shows that the CDTFA is closely going over **business escrows**. At the time of permit close out, taxpayers are getting audit notices. Even during the escrow, the CDTFA will request information from taxpayers and match Form 1099-K information and/or corporate tax returns with those sales figures reported on the sales tax returns. Caution should be given for business escrows that have abnormal consideration (selling price) in relation to reported sales figures.

(5) Online/Internet Sales

➤ Internet shopping platforms like Amazon, eBay, Walmart, Etsy, Uber Eats, etc. are **marketplace facilitators** and they will collect sales/use tax on behalf of those marketplace



sellers who have an agreement with marketplace facilitator and pay sales/use tax directly to the taxing authority.

- Remote sellers (retailers located outside of California) must register with the CDTFA and collect California use tax if, in the preceding or current calendar year, the total combined sales of tangible personal property (through their own website sales, phone orders, catalog orders, etc.) for delivery in California by the retailer and all persons related to the retailer exceed \$500,000.
- The link below will take you to a website where you can find sales/use tax collection requirements by each state:
 - a. <https://www.avalara.com/us/en/learn/guides/sales-tax-nexus-laws-by-state.html>

(6) **Delivery Network Company**

It is now common for retail businesses to utilize delivery network companies such as DoorDash, Grubhub, Uber Eats, Instacart, etc. These companies provide similar, yet different sales reports. In the case of Uber Eats, they elected to become a marketplace facilitator. Thus, it collects the sales tax from customers and remits them directly to the taxing authority, hence, making the sales from Uber Eats platform nontaxable. Depending on how your Point-of-Sales (POS) system is configured, POS sales reports alone would not contain all the necessary information to correctly file and pay sales tax. The best practice for business owners are to provide separate sales reports to your tax preparer so that there would not be a case of overpaying sales tax. Moreover, fees and commissions that are stated on those sales reports from delivery network companies should be accounted to be claimed as income tax deduction.

(7) **Penalty and Interest**

There are penalties and interest for not filing the sales tax returns by the due dates and not paying the sales tax by the dues dates as follows:

- A 10% penalty if you do not file your tax returns by its due date.
- A 10% penalty if your tax payment is late.
- A 10% interest per annum for unpaid or underpaid taxes.