

Client Alert

An Informational newsletter from **Tonneson + Co**

Almost every state in the nation now faces severe budget crises, if not outright fiscal deficits. As a result, states are allocating more resources to tax collections and audits and are increasing their focus on expanding or asserting “nexus” claims.

States are quickly improving their skills at information mining, and often send a nexus questionnaire to companies that aren’t—but perhaps should be—registered and paying tax. If you have received questionnaires from any state, that state has flagged you on their radar screen as likely having nexus in that state.

Your business has nexus if you have physical presence in a state. So, how does each state define having a presence? Sometimes the answer isn’t simple. There are several questions we ask when clients ask us to consult in this area.

- What is the nature of your business?
- Exactly what activities are being performed by employees or agents of the company, in which states?
- What is the frequency of those activities?

We ourselves recently received a letter from the State of Washington regarding that state’s new standard that creates nexus without physical presence. For more information, check the Washington Department of Revenue website <http://dor.wa.gov/EconomicNexus/>.

If nexus can be established, your company may be required to collect sales taxes and may be subject to income taxes in that state. That state could demand reporting and payment of back taxes from the day you began doing business in that state along with interest and penalties. States typically show no mercy when they catch a company quietly ignoring its state tax liability.

However, many states will negotiate with business taxpayers that self-disclose with the intention to catch up on back taxes, and not only over interest and penalties, but even on the tax amount itself. In addition, exposure can also be limited by taking advantage of a growing number of voluntary disclosure or tax amnesty programs. The state tax risk is not only from outside of your home state but from within your home state as well. You may not be collecting sales tax properly or you may be subject to use tax on certain purchases.

We have extensive experience in dealing with multi-state nexus issues. On a complimentary basis, we would be happy to meet with you to discuss your particular facts and circumstances and identify potential areas of concern in this regard. Please call us at 781-245-9999 or email us at info@tonneson.com if you would like to meet with us.

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