



THE BRENNAN GROUP

Sales & Use Tax

A Comprehensive Guide to
Understanding and Managing
Sales & Use Taxes

Sales and use taxes are one of the most commonly misunderstood areas of state and local taxes. For many businesses, especially those operating across multiple jurisdictions, navigating the complexity of varying state laws, exemptions, and filing requirements can lead to significant challenges — and costly consequences.

Even when your internal systems are doing their best, missteps like misclassified transactions, missed exemptions, or incorrect filings can result in:

- Overpayments that reduce your bottom line
- Underpayments that increase your audit risk
- Compliance gaps that lead to penalties, interest, and unnecessary exposure

Sales and use tax is not a “set it and forget it” task — it requires expertise, ongoing attention, and a clear strategy.

Two Key Areas That Create Value

At The Brennan Group, we view sales and use tax through two lenses — both of which are essential to creating value and reducing risk:

- ***Sales & Use Tax Historical Review (Reverse Audit)***

A backward-looking review to identify overpayments, recover missed refunds, and correct historical errors before they become audit triggers.

- ***Sales & Use Tax Compliance (Ongoing Filing & Reporting)***

A forward-looking approach to ensure timely, accurate filings in every applicable jurisdiction — avoiding penalties, notices, and interest.

Each component is critical. Together, they provide a full picture of your tax health — helping you avoid surprises and keep your business compliant across state lines.

What You'll Learn in This Guide

This guide is designed to simplify the complexity of sales and use tax and walk you through:

- How to identify and recover overpaid taxes
- What a complete and effective compliance process should include
- How nexus works today — and why you may owe tax in states where you have no physical presence
- What to expect in the event of an audit — and how to reduce that risk

We'll break down the essential elements of SALT strategy and help you understand what it takes to protect your business — and your budget — from tax-related surprises.

What is SALT?

SALT stands for State and Local Tax, and in the tax industry, it's most often used to refer to Sales and Use Tax reviews. These reviews — sometimes called reverse audits — are designed to identify where businesses may have overpaid tax and uncover areas where compliance gaps could lead to exposure. Whether you're reviewing past transactions for missed refund opportunities or ensuring your current filings are accurate across jurisdictions, a SALT strategy is all about reducing risk and finding value in your tax operations.

Sales & Use Tax Historical Review (Reverse Audit)

Identify Overpayments. Correct Deficiencies. Reduce Audit Risk.

Sales and use tax is complex — and the reality is that most businesses are overpaying or underpaying somewhere. Between changing tax laws, inconsistent vendor charges, and the nuances of multi-state exemptions, it's easy for transactions to be misclassified or filed incorrectly.

That's where a Sales & Use Tax Historical Review, often called a reverse audit, creates real value.

Why Historical Reviews Matter

Reverse audits look back at your historical purchases and filings to answer two critical questions:

Did we pay tax where we didn't need to?

Did we miss tax we should have reported?

Uncovering and correcting these issues isn't just about refunds — it's also about cleaning up exposure before a state audit finds it first.

Many companies assume their systems or vendors are doing this correctly — but even with automation in place, it's not uncommon to find six or seven figures in recoverable taxes or unrecognized liabilities.

Common Issues We See During Reviews:

Reverse audits look back at your historical purchases and filings to answer two critical questions:

- Paying sales tax on exempt manufacturing equipment or inputs
- Failing to accrue use tax on out-of-state purchases
- Vendor-charged tax in incorrect jurisdictions
- Missed exemption certificate applications
- Misunderstanding state-specific taxability rules

Missouri: A Commonly Overlooked Opportunity

In most states, businesses can only look back 3-4 years to claim refunds on overpaid tax. But Missouri is different. Missouri allows you to look back and recover sales and use tax refunds for up to 10 years.

This is an unmatched window of opportunity—and many Missouri-based businesses either aren't aware of it or don't realize just how much they've left on the table. *If your business is based in Missouri or operates significant purchasing activity in the state, the value of a historical review is exponentially higher.* We've seen companies recover hundreds of thousands in overpaid tax simply by leveraging this extended statute.

A Proven Process to Eliminate Gaps

A thorough review doesn't just look for refunds — it maps out exactly where your process is breaking down. Here's what an effective reverse audit typically includes:

1. Data Review & Reconciliation

Analyze your accounts payable transactions, sales and use tax returns, and exemption certificates for accuracy and consistency.

2. Identification of Overpayments & Underpayments

Flag transactions that were either taxed unnecessarily or where tax should have been self-assessed but wasn't.

3. Application of Statutory Support

Align findings with each state's statutes, rulings, and exemptions to ensure defensibility and support refund claims or corrections.

4. Documentation of Findings

Prepare a compliance review report that clearly outlines:

- Refunds owed
- Exposures identified
- Recommendations for process improvements

Resolution & Implementation

File refund claims or amended returns as needed, and provide the framework to prevent the same issues from recurring.

When Should You Conduct a Review?

If it's been more than 3 years since your last review — or if you've expanded into new states, changed ERPs, or launched new products or services — it's likely time to take a fresh look.

And if you're in Missouri, this review might be one of the most valuable financial exercises your business can do.

Monthly Sales & Use Tax Compliance

Get It Right, Every Month — Across Every Jurisdiction

Sales and use tax compliance isn't just about sending in a return. It's about getting the right tax to the right place, at the right time — every month, across every applicable jurisdiction.

For growing companies or those selling into multiple states, this is where risk often builds up quietly in the background. Small errors compound. New jurisdictions are overlooked. Filings go in late. And the assumption that “software has it covered” starts to show its cracks.

Why Monthly Compliance Is High-Risk

Sales tax compliance touches every part of your operation — invoicing, AP, reporting, ERP systems, even where your team works. And while filing returns might feel routine, the stakes are anything but.

Here's what's on the line:

- Penalties & Interest for late or incorrect filings
- Loss of Timely Filing Discounts offered in some states
- Non-Filer Notices that trigger audits or account suspensions
- Overpayments due to outdated or incorrect tax mapping
- State-by-State Risk if nexus is triggered and registration is missed

Most businesses don't get hit because they're not trying — they get hit because they're relying on outdated setups or assumptions that don't match the complexity of today's rules.

What Makes Compliance So Complex?

- *Every state is different.*

Over 45 states (plus D.C.) impose sales tax — and each has its own rates, rules, filing calendars, and reporting requirements.

- ***Laws change constantly.***

States update taxability rules, product classifications, and thresholds frequently — sometimes without obvious public notice.

- ***There are over 60,000 unique tax jurisdictions.***

Local tax rates and sourcing rules (especially in home rule states) make even simple shipments complex.

- ***Software isn't always enough.***

Tax automation tools are powerful — but they still rely on accurate inputs, updated mappings, and proper configuration. Errors at setup or during business changes (new states, new SKUs, etc.) often go unnoticed.

Here's What a Strong Compliance Strategy Looks Like:

- ***Jurisdiction Mapping & Nexus Monitoring***

Know where you're registered, where you should be, and which returns are due — across all relevant states and localities.

- ***Accurate Data Extraction***

Pull the right numbers from your ERP or accounting system — invoices, exempt sales, taxable sales, use tax obligations — cleanly and consistently.

- ***Timely & Accurate Filing***

File returns and remit payment in every applicable state, on time and in full — avoiding notices, penalties, and interest.

- ***Payment Authorization & Reconciliation***

Track and document every tax payment made (especially EFTs), reconcile accounts monthly, and document any discrepancies.

- ***Jurisdictional Correspondence & Issue Resolution***

Handle inquiries, notices, and audits from state and local tax authorities — with the documentation to respond clearly and confidently.

- ***Ongoing Legislative Awareness***

Monitor state tax law changes that could impact filing requirements, exemptions, or taxability — and adjust accordingly.

Warning Signs That Your Compliance Process Needs Attention

- You're getting notices or penalties from states
- Tax payments are being held up in approvals
- Your filings are late, rushed, or handled manually
- You've had recent business changes (new states, services, etc.)
- You're relying on automated software with minimal human oversight

A well-run compliance process doesn't just prevent problems — it creates peace of mind. When it's working, you stop worrying about notices, you stop bleeding cash through overpayments, and you start operating with confidence across state lines.

Understanding Nexus

Why You May Owe Tax in States Where You've Never Set Foot

Most businesses understand the concept of physical presence — you operate in a state, you collect and remit tax there. Simple enough. But since the 2018 Wayfair decision, that's no longer the full story. Now, businesses can owe sales tax even in states where they have no offices, no employees, no inventory — not even a P.O. box. Welcome to the world of economic nexus.

Physical vs. Economic Nexus

PHYSICAL NEXUS:

Triggered by a location, employee, warehouse, or other tangible presence.

ECONOMIC NEXUS:

Triggered by sales activity alone — typically based on either sales revenue or transaction volume in a given state.

In short: If you're selling into a state and cross a certain threshold, that state may expect you to register, collect, and file — whether you're physically there or not.

The Impact of the Wayfair Decision

The U.S. Supreme Court's 2018 ruling in *South Dakota v. Wayfair* eliminated the requirement for a business to have a physical presence before a state could enforce sales tax obligations. Since then, nearly every state with a sales tax has adopted economic nexus thresholds.

These thresholds typically look like:

- \$100,000 in annual sales, or
- 200 individual transactions (though many states have since dropped the transaction count)

If your business exceeds the threshold in a state — even unintentionally — you may be required to:

- Register for a sales tax permit
- Collect sales tax from customers in that state
- File and remit on a recurring basis

What Triggers Nexus?

Some common triggers include:

- Selling physical goods into multiple states
- Offering digital products or SaaS
- Having remote employees
- Using third-party fulfillment centers (e.g., FBA warehouses)
- Advertising or soliciting sales in certain jurisdictions
- Outsourced service providers acting on your behalf

If any of these activities sound familiar, it's worth reevaluating your state-by-state footprint.

What to Do if You Suspect Economic Nexus

An effective nexus strategy starts with visibility. Here's what businesses should be doing now:

- ***Conduct a Nexus Study***

Review your sales activity across all states to identify where thresholds are met — and where you may have missed a registration requirement.

- ***Document Your Exposure***

Know which states you're registered in, which you're not, and where exposure may exist.

- ***Evaluate Your Risk Tolerance***

Consider whether voluntary disclosure or back registration is necessary to mitigate potential penalties.

- ***Monitor Thresholds Going Forward***

Many businesses cross thresholds mid-year — continuous tracking is essential.

Nexus Rules Continue to Evolve

Some states have changed their thresholds. Others have introduced marketplace facilitator laws. Remote work can now contribute to physical nexus. And states continue to ramp up enforcement — particularly through audit notices triggered by sales platforms or state-to-state data sharing.

When the State Comes Calling: Sales & Use Tax Audits

How to Prepare, Respond, and Protect Your Business

Sales and use tax audits aren't guaranteed — but they are a real risk for businesses with complex operations, multistate activity, or inconsistent compliance. The good news? With the right strategy, they're also highly preventable.

States are increasingly data-driven in how they select audit targets. Businesses that file accurately, on time, and consistently — with proper documentation and up-to-date nexus tracking — are much less likely to be flagged.

Still, when issues do surface, whether through a state inquiry or vendor audit spillover, being prepared makes all the difference.

What Triggers a Sales or Use Tax Audit?

Audits are often triggered by one or more of the following red flags:

- Inconsistent filings across states or months
- Late or missing returns
- Unusual deductions or exempt sales spikes
- Cross-state sales growth without corresponding registrations
- Use tax reporting gaps on out-of-state purchases
- Non-filer notices (especially from new nexus activity)
- Vendor audits: if a supplier is audited, the state may expand its reach to include you
- Auditor's Choice: If an auditor has success in a similar company they may come knocking on your door.

In many cases, audits stem from system deficiencies, not intentional non-compliance. But that doesn't soften the penalties — or the disruption to your team's time and resources.

What Auditors Look For

Sales and use tax auditors are trained to find both underpayments and over-applied exemptions. Their reviews often focus on:

- Sales tax collected vs. tax remitted
- Validity and completeness of exemption certificates
- Use tax accruals on untaxed vendor invoices
- Proof of taxability decisions for specific products or services
- Jurisdictional accuracy — was tax charged to the correct state and local authority?
- Statutory compliance with state-specific rules or recent changes
- Exemptions taken by companies that they disagree with.

If discrepancies are found, the audit can expand. Penalties and interest can stack up quickly — especially in states with aggressive collection practices.

How to Reduce Audit Risk

You don't have to be perfect — but you do need to be prepared. Here are the best ways to reduce your risk of audit, or minimize your exposure if one occurs:

- ***Conduct Regular Historical Reviews***

Identify overpayments and underpayments before the state does. A reverse audit can uncover exposure and proactively correct errors.

- ***Strengthen Monthly Compliance Processes***

Ensure accurate, timely filings — and consistent reporting from your ERP to your returns. Avoid gaps, late submissions, or “one-off” manual fixes.

- ***Maintain and Monitor Exemption Certificates***

Make sure your certificates are valid, up-to-date, and complete — and that they support the correct state-specific exemption for your sale type.

- ***Track Nexus Changes Quarterly***

Economic and physical nexus thresholds shift. If your business has grown, added remote staff, or entered new channels, your compliance obligations may have changed.

- ***Document Your Taxability Positions***

When you make a decision about whether something is taxable or exempt, back it up with a statute, letter ruling, or legal precedent. This can be the difference between owing and overturning an assessment.

The Bottom Line

Audits aren't just about what happened in the past — they're about how prepared you are right now. If your records are clean, your filings are accurate, and your strategy is current, you're already ahead of most businesses.

Myths & Misconceptions: What's Really Costing You

Sales and use tax might not be the most glamorous part of running a business — but it's one of the easiest places for incorrect assumptions to take root.

These common misconceptions can quietly create real financial exposure, overpayments, or compliance gaps. Below are some of the most frequent myths we encounter — and the reality behind them.

MYTH 1:

“We use tax software, so we're covered.”

REALITY:

Automation tools are only as good as the inputs they're given. If tax codes, exemption rules, or business changes aren't regularly reviewed and updated, software can easily misapply tax. These systems often need human oversight to ensure accuracy — especially across multiple jurisdictions or industries with unique taxability rules.

MYTH 2:

“We're not physically located in that state, so we don't owe taxes there.”

REALITY:

Thanks to the Wayfair decision, physical presence isn't required to create a tax obligation. If you meet a state's economic nexus threshold — usually based on sales volume or transaction count — you may be required to register, collect, and remit tax even if you've never set foot there.

**MYTH 3:**

“If we’re overpaying, at least we’re on the safe side.”

REALITY:

Overpayments might seem harmless, but they drain working capital and often go unnoticed for years. Many states also have strict refund windows, so missed exemptions can become lost dollars. Worse, consistent overpayments may indicate that other areas — like use tax accruals — are also inaccurate. Auditors focus on underpayments not overpayments. So just because you are being audited does not mean the auditor will identify and apply overpayments during an audit.

**MYTH 4:**

“Sales and use tax compliance is just a back-office task.”

REALITY:

SALT touches nearly every part of the business — operations, finance, procurement, sales, and systems. When it’s mismanaged, the fallout isn’t limited to late returns — it includes audit risk, reputational damage, and lost margins. Treating it like a strategic function (not just a clerical one) is key.

**MYTH 5:**

“We’ll just deal with it if we get audited.”

REALITY:

That’s a costly approach. By the time the state is knocking, your ability to fix issues or avoid penalties is limited. A proactive review and compliance strategy gives you leverage — whether it’s defending your position or avoiding the audit in the first place.

These misconceptions are common — but preventable. If any of them sound familiar, there's a good chance your process could benefit from a closer look.

Myths & Misconceptions: What's Really Costing You

Sales & Use Tax is Complex — But It Doesn't Have to Be Risky

Sales and use tax has always been one of the more complicated areas of state and local tax. It's full of nuances — exemptions, thresholds, sourcing rules, and industry-specific treatments that don't always follow logic.

But complexity doesn't have to lead to confusion.

And compliance doesn't have to come at the cost of overpayments.

The key is having the right process, clear visibility, and specialized expertise behind your strategy.

When you:

- Review your past filings and recover overpaid taxes
- Tighten up your monthly compliance to prevent errors
- Track nexus and exemption status proactively
- Prepare for audits instead of reacting to them

...you put your business in a position of control.

The Brennan Group Can Help

If your internal team is stretched, unsure, or simply needs a fresh set of eyes — we're here to help.

Our approach is built around creating real, measurable value:

- Identifying refunds and correcting overpayments
- Validating your compliance and reducing exposure
- Strengthening your audit readiness and reporting accuracy

There's no fee unless we save you money. And we keep your time investment minimal, so your team can stay focused on running the business.

Schedule a Free SALT Consultation

Let's start with a free no-pressure review of your sales and use tax health.

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