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CERTIFIED PUBLIC ACCOUNTANTS

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Dear Client:

Do you have employees or subcontractors working in other states? Do you have employees that regularly travel to another state? Do you have equipment or inventory in another state? All of these things can require your business to register in another state and submit income, sales and payroll taxes to that state.

This issue is actively pursued by other taxing jurisdictions. During these times when all states and localities are facing tough economic times like spiraling costs of public services, the recession and the shift of programs and funding responsibilities to states and other localities, the states are looking for sources of revenues. Further if they look to out of state corporations they are not angering voters. Governments learned awhile ago that beefing up audit departments is a great way to raise revenues for the states. Auditors have become a revenue source.

It is common for businesses to get questionnaires from other states inquiring about their in-state activities. By the time the questionnaire is sent the state already has an inkling that the company could potentially be required to register with that state. If the company has not voluntarily complied with the tax registration and submission of taxes, the situation is further complicated by the fact that there is no statute of limitations because no return has been filed. The states can go back to the inception of the business to determine when the registration should have occurred. Of course this will be too late to collect sales taxes from your clients or payroll taxes from your employees. It will be too late to allocate out income from your home state to the new state, therefore, that income will be taxed in two states.

What are some of the activities that may subject a corporation to taxation of an outside state or jurisdiction? Employees and or subcontractors working in another state whether regularly or periodically will almost certainly be enough activity to require compliance. Having equipment or inventory (even in storage) in another state can be enough to require registration in that state. Even the slightest physical presence can subject a business to use tax of an outside state.

Other activities outside of a physical presence can cause a business to be registered in other states. Some of these activities include the volume of sales allocated to that state, licensing agreements and even the quantity of mailings into a state that would eventually be required to dispose of the mailers.

If you have any activities that make you suspect that you or your business may be subject to taxation outside of your normal locality, now is the time for us to look at which locality, their tax laws and evaluate if registration and compliance is necessary. After the outside state starts looking at you it is almost too late. It is difficult to get out of penalties and to recover any taxes that may be due.

If you have any concerns, we will be happy to evaluate your specific circumstances.