



ALASKA
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“Build Tax Better”

Sales Tax Basics:
Audit & Data
Analysis

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Compliance Efforts

- Registration
- Filing
- Remittance

Audit Efforts

- Purpose
- Time frames
- Estimations & Assessments
- Remittance & Collections

Records Keeping

- Standards and retention requirements

Data Analysis

- What to look for



Sales Tax Compliance Efforts

Sales Tax Compliance Efforts

There are three main areas of sales tax compliance that communities should focus on:

1. Registration / Licensing

- Are businesses registering with your community as required under code?

2. Return filing and Remittance

- Are businesses filing sales tax returns as required?
- Are businesses remitting collected sales tax as required?

3. Tax Collection

- Are businesses charging the proper sales tax on the required transactions?

Registration / Licensing Compliance

Most communities require either businesses to either register or obtain a business license with the community prior to conducting business.

Here are some ways that a community can research and track new businesses:

- State of Alaska Business Licensing
 - Review new licenses for your community on a periodic basis and outreach to business owner.
 - Can download lists of business licenses, and search by physical address / mailing address.
- Social Media
 - Common that new businesses will advertise on community social media pages, or pay for social media advertising.
- Word of mouth
 - This works best for smaller communities, simply knowing who is doing what in the community.

Return Filing & Remittance Compliance

Here are some ways to pursue filing & remittance compliance:

- Modify filing frequency schedule
 - Consider allowing less frequent filing for those sellers that are not regularly in business.
 - Forcing monthly filing on everyone can easily lead to delinquencies.
- Filing reminders
 - It can be beneficial to mail a filing reminder or return forms to businesses as a prompt for them to file.
- Regular delinquency notices
 - Sending regular notices to businesses with unfiled returns prompts most businesses to submit.
- Escalation via estimated assessments
 - Continued failure to file returns can be readily addressed by creating an estimated assessment of their tax liability.
 - Creation of assessment allows you to pursue collections actions on the balance due.



Sales Tax Audit Efforts

Sales Tax Audits - Background

Q: What is a Sales Tax Audit?

A: An audit is simply a review of a business' records, focused on comparing their reporting and remittance to their records.

Q: What is the purpose of a sales tax audit?

A: 3 things:

1. Verify that the seller remitted all the collected sales tax,
2. Verify that the proper tax was collected and
3. Verify that the seller properly granted sales tax exemptions.

Verifying that collected tax was remitted

- Pick specific filing period that doesn't appear to be an outlier.
 - Picking a high or low filing period may not be representative.
- Requests records from business such as:
 - Sales reports / POS Reports
 - Copies of Invoices
 - Bank statements (especially if business is sole-proprietor)
 - Federal Income Tax Return (would allow for annual comparison)
 - Seller should be using same accounting basis for sales tax reporting as income tax reporting
- The business records for the month should support what was reported

Verifying that proper tax was collected

- Review transaction detail from sales reports / invoices
 - Sales reports & invoices should be of sufficient detail including:
 - Item(s) / service(s) sold
 - Tax charged
 - Shipping / delivery address
- Review detail on transactions or line items that weren't taxed
 - Was a transaction or line item improperly exempted?
 - Common errors: Shipping charges, "reimbursements", incorrect resale claims
- Review bank statements, comparing with POS reports to match up daily deposits
 - Business would need to be on a cash basis, or at least not operate on an invoicing system that allows for future payment by the customer.

Verifying Exempt Sales

- Review any transaction that wasn't taxed
 - Verify why transaction wasn't taxed
 - Does it line up with exemption allowed in sales tax code?
 - Was the transaction simply not taxed in error?
 - Did business document an exemption certificate with the transaction?
 - Not all exemptions are granted based on an exemption certificate.
 - If your community issues exemption certificates, the business should have documented one in their records.
 - If your community does not issue exemption certificates, it could be more difficult to verify proper exemption claims.
- If the business did not properly exempt a transaction, the business is liable for the uncollected sales tax.



RecordKeeping & Data Analysis

Recordkeeping Standards

The ability to conduct effective compliance and audit efforts starts with recordkeeping.

Basic Recordkeeping standards:

- Sales tax returns should capture sales for the period, including exempt sales by exemption category.
- Return data should be entered into a system of record so that the data can be analyzed later.
 - Excel spreadsheet, Access database or other software.
 - Quickbooks is not a good option since it is primarily for accounting and financial reporting.
- Registered businesses should also be tracked to assist with registration compliance pursuits.

Data Analysis

- Data analysis can't happen until you have records.
- The records must be in a system that allows you to pull the data in a manner than can be analyzed.
- Having available data will allow you to effectively select audits based on trends and reporting red flags.
 - The data will also assist you with preparing audit assessments resulting from an audit inquiry.
- Data will allow for more informed changes such as tax rate changes or exemption changes, as the impact of proposals can be investigated beforehand.

Final Thoughts

- Have a multi-pronged approach to compliance:
 - Registration compliance
 - Filing / Remittance compliance
 - Tax collection compliance i.e. auditing
- Effective compliance is reliant on effective recordkeeping
 - Must be able to track which businesses are registered.
 - Return data should be recorded so that it can be analyzed at a later date.
 - Return data analytics allows you to see trends and red flags for your audit program.

THANK YOU



Strengthening Local Governments