Bookkeeping, Record Keeping and Documentation Required for Sales Tax and MN Care Tax payments, Deposits, Filing returns and Audits.

If you are recording your sales correctly and keeping detailed documentation of all transactions and reports on which you based your tax payments and tax returns, you will find that a sales tax or MN care tax audit can be very simple process.

Sales tax and Use tax

Sales Tax If you sell taxable items or services, you must charge your customer sales tax on these sales. You collect this tax from your customer and pay it to the state on a monthly, quarterly or annual basis.

Use Tax If you purchase a taxable item or service but the vendor does not collect sales tax, you are required to calculate the amount of sales tax that you should have been charged and pay it in as use tax. You pay this Use tax on the same return as your sales tax on a monthly, quarterly or annual basis.

This means that you have to review every purchase you make, determine if you should have been charged sales tax and pay use tax if no sales tax was charged. You also must keep records of all of these transactions.

Sales Documentation & Reports

1) **Documentation**
   Keep documentation of each individual sale including item / service sold, whether or not it is taxable, sales tax rate and amount collected. If you have out of sate sales, this should be indicated on the transaction as well. It's important to keep a record of each and every transaction. If records cannot be found to prove that a transaction is non-taxable, it will be taxed in an audit.

2) **Reports**
   Reports should include totals of all of the above, including a total of all sales (without sales tax included), total of taxable sales, total of non-taxable sales, total sales tax collected and total sales tax that should have been collected (which will likely be a different amount than what you collected because of errors that will naturally occur as sales transactions are recorded on a daily basis).

3) **Bank Statements**
   Your deposits should be reconciled with your sales reports. You should be able to prove that the cash that is recorded as sales was deposited into the bank. A monthly reconciliation of this should be part of your bookkeeping practices. If undergoing an audit, the state will use your bank deposits as an ultimate proof of cash received from your sales. The burden of proof will fall on you to prove what amount of these deposits was subjected to sales tax and MN care tax and what was not.

4) **Source Documentation**
General accounting principles require that you keep a copy of the source document for all deposits. This usually consists of a copy of a paper check or an electronic receipt from the customer of a deposit made to your account. This documentation may also be used in an audit to prove whether or not a sale was taxable.

5) **Copies of Tax Returns and Payments**
Keep copies of all of the sales tax and MN Care tax returns you file and receipts of payments made. You can find this documentation on the MN Revenue e-filing website. It's a good idea to download or print the data and save either as an electronic file or a paper file.

6) **Cash or Accrual method of Accounting**
Pay attention to whether or not your accounting method is cash basis or accrual basis. Its most likely that you will be paying your sales tax using a cash basis accounting method. This means that you pay only the sales tax that you have received as cash and not the sales tax that you may have charged on an invoice that has not yet been paid. This is important to know when filling out your sales tax and MN care tax returns. However, Accounts Receivable reports are created on an accrual basis, which could cause conflicts in reporting and paying your sales and MN care taxes. This also can become an issue when you are audited as the auditor may reconcile your sales on a cash basis when you may have been paying in on an accrual basis. Because of this, it's advisable to initially have your accounting and sales tax reporting set-up by a tax professional who can show you what reports to run for accurate reporting.

Things to know about if you are audited

- You may be audited regardless of whether or not you file your returns and payments on-time. MN Revenue conducts a number of audits each year which are without basis.

- The auditor will give you a list of documentation required for them to complete the audit and allow you to compile this information prior to the auditor arriving.

- The audit can take from one day to several days depending upon how detailed and accurate your bookkeeping is and how large your business is. The audit will be conducted at your office location, if possible.

- The auditor will give you a report of their findings which you or your tax professional should review for accuracy. The auditor will not be familiar with your business or record keeping and may make some assumptions regarding the information. Or there may be information that you neglected to provide that could make a big difference in the amount that they calculate is owed to them. You will be given time to review and contest their findings. It's important that you do this. They can make mistakes and it's your responsibility to find them.

The Minnesota Revenue website. www.revenue.state.mn.us The Minnesota Revenue website is a great resource and relatively easy to use. All information that you need is included on this website. The representatives are generally knowledgeable and helpful. There are individual fact sheets for all items that are be taxable. If you don't have time to read through all the information, just call them and ask what is and isn't taxable.

It's your responsibility to know and understand what is taxable and to file your returns and payments on-time. If you don't file your returns and make your payments by the deadlines, you will be assessed a penalty:

"If you don't file your return on time, we'll assess a 5 percent penalty. If you don't pay the tax on time, we'll assess a penalty of: 5 percent if your payment is up to 30 days late, 10 percent if it's 31 to 60 days late, and 15 percent if it's more than 60 days late."