Government Guide

Summer 2018

A momentous court decision regarding sales tax

By Marilyn Mays, CPA, CGMA

Last quarter I wrote an article titled "Paying online sales tax is a good thing. Really!" that pointed out the loss of state and local government sales tax revenues from online retail shopping, versus the brick-and-mortar retail stores, will impact everyone in one way or another. For decades, state and local governments could not require an out-of-state vendor to collect state and local sales taxes if the retailer had no physical presence within the state/local jurisdiction. But a decision made by the U.S. Supreme Court last week regarding the South Dakota v. Wayfair, Inc. case could require a business with an economic presence in the state/local jurisdiction to collect sales tax. The Wayfair decision leads to businesses charging sales taxes based on the location of the customer making the purchase. Even though this decision is for South Dakota, other states and local governments are aligning their economic nexus law with South Dakota.

Although the U.S. Supreme Court decision in the Wayfair case overturns a requirement for a business to have a physical presence in a state before collecting sales tax, South Dakota's economic nexus law contains three provisions.

- One is a safe harbor provision for transacting limited business in the state that falls below a threshold,
- Second, collecting tax is not retroactive, and
- Third, the state is a member of the Streamlined Sales and Use Tax Agreement which reduces administrative and compliance costs for taxpayers and even provides state-funded sales tax administration software.

South Dakota's economic nexus law imposes the sales tax collection and remittance requirement on out-of-state sellers delivering more than $100,000 of goods or services into the state or engaging in 200 or more separate transactions for delivery into the state. This threshold eliminates the collection and remittance burden from small businesses that fall below the threshold. Some states have already passed an economic nexus law but those states that have not passed a law must apply these provisions to ensure their law passes constitutional muster.

Governments now have an opportunity to increase revenues without increasing tax rates. Governments are not the only ones excited about what this Wayfair decision means to them, but retailers are thrilled too. They understand the industry is changing with internet purchases and believe the Court's decision recognizes a necessary change in sales tax policies. This decision establishes a level playing field between the brick-and-mortar and online retailers by permitting governments to collect sales taxes on online sales. The online retailers will not have the 5% to 10% price advantage when compared to the brick-and-mortar stores who have always been required to collect and remit sales tax.

There is still work ahead for state and local governments to prepare to enforce their sales taxes on internet vendors. Change is necessary for both governments and retailers to evolve into today's e-commerce. This U.S. Supreme Court South Dakota v. Wayfair, Inc. decision will change our future.

If you have any questions, Marilyn can be reached at (480) 839-4900 or MarilynM@hhcpa.com.

Fast Facts

- Founded 1957
- 17 Partners
- 150+ team members
- 50% are CPAs
- Arizona's largest locally owned accounting firm
- Your money stays in the state
- Serving the government industry since 1957
- Average 10+ years of experience per auditor
- Your team works exclusively on government audits

Government Guide

Recommendations for capital asset accounting
By Cailee J. Lewis, CPA

Capital assets are typically the largest line item on a government's statement of net position, yet it can be the lowest priority for some governments in terms of tracking assets and reconciling timely. There is a considerable amount of time spent by responsible personnel in reviewing the list of capital assets and reconciling them to the trial balance to ensure that capital assets are valued properly and the list is complete. Seems easy, right? You would be surprised at how difficult this can be. Waiting to reconcile capital assets until year-end can not only be more time consuming but also lead to numerous errors.

Typically, most capital asset purchases are budgeted before the fiscal year. Therefore, when reconciling, you should compare the budgeted capital assets to ensure they are included and if not, determine why. Next, look through your expense accounts for purchases that could be capitalized. The staff charged with reconciling capital assets should be familiar with the government's capital asset policy so they know what thresholds and asset lives to use. Normally, the most common accounts that could have expenses that need to be capitalized are accounts with the descriptions for repairs and maintenance, equipment purchases or small tool expense accounts.

An important aspect of recording capital assets in your software is the ability to identify those assets. At minimum, you should include the following:

- Asset description, including serial number (if available)
- Cost
- Date of purchase
- Vendor name and invoice information
- Type/category of asset
- Useful life
- Tag number
- Location of asset
- Funding source if purchased with federal funds

What about capital assets that were disposed of during the year by either selling them or just getting rid of them? To ensure that all assets exist, a government should have a system where a tag number is placed on each asset and a periodic inventory of your listing should be performed (also a requirement of the Uniform Guidance). This can help ensure assets have not gone missing and that any asset taken out of service is noted. It is also important to communicate with the finance department regarding disposals or trade-ins of capital assets. Doing so would ensure the proper journal entries are prepared and recorded.

The key to accounting for capital assets is timeliness. If reconciliations are performed at least quarterly, risk or error is reduced tremendously. It's important to have controls and processes to ensure all capital assets are accounted for properly – which ultimately leads to accurate capital asset reporting in the financial statements.

If you have any questions, Cailee can be reached at (480) 839-4900 or CaileeL@hhcpa.com.

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Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.