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# What You Should Know About Sales Tax Due Diligence

[DUE DILIGENCE](#), [SERVICES FOR PRIVATE EQUITY FIRMS](#), [STATE AND LOCAL TAX](#)  
BY

Sales tax is rarely a top priority for either buyers or sellers, but should not be overlooked when evaluating a deal. A sales tax due diligence review can uncover improperly filed returns, nexus issues, and improper taxability categorization. Any of these can result in a tax liability or tax assessment in the event of audit. It is very common to see companies with employees or representatives physically present in multiple states, but only registered for sales tax in their home state.

State tax laws generally provide that the purchaser of a business, or substantially all of its assets, is responsible for unpaid tax liabilities of the seller (to the extent of the purchase price).

**Sales tax issues can impact negotiations, delay closing and even result in abandonment of the purchase.**

The transactional nature of sales tax causes exposure to grow exponentially, because errors have the potential to increase tax liability with every sale and each passing year.

It is important for buyers to understand the seller's business from a sales tax perspective in order to assess tax risk. A proper due diligence review should help the buyer (buy-side diligence) or seller (sell-side diligence) understand:

- Where the target company should be registered for sales tax based on its sales tax nexus
- Whether the target is properly filing its returns and administering its sales tax responsibilities
- If the target obtains and maintains proper documentation from its' customers related to exempt sales
- The target's sales and use tax procedures in place
- The estimated sales and use tax exposure of the target

A thorough understanding of the items above could 1) impact the transaction price, 2) result in a portion of the purchase price being held in escrow pending resolution of the tax issues, or 3) require an indemnification provision within the purchase agreement. The buyer's understanding of these items will also provide direction in prioritizing and addressing potential sales and tax issues subsequent to closing.

Contact our [experienced due diligence team](#) to get ahead of sales tax issues that

might affect your transactions.

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