



THE CLEVELAND SOCIETY OF ORTHODONTISTS

October 21, 2011

Dear CSO Members,

Please find below the information that we have collected over the past several months concerning the Ohio Use Tax. The information is from various sources. Please share this information with your accountant or advisors.

Recently the Ohio Department of Taxation either faxed or sent information on the Business Tax Amnesty program to the business community. For more information the taxation website is: www.tax.ohio.gov or you can call 1-800-304-3211.

The Collier & Associates newsletters dated 7/1/2011 and 8/15/2011 included articles titled, "Use Tax Audits Are on the Rise" and "Have Your Accountant Register You As A Tax Payer And Start Paying The Tax If You Have Not Already Done So". To request a copy of these articles, please contact Collier & Associates directly at:

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The ODA has also published an article regarding Ohio Use Tax. Please click the following link to access the article: [Current ODA News on Ohio Use Tax](#)

Sincerely,

Dr. Charles Fenell, President CSO

Use Simplified Sales And Use Tax Reporting To Avoid Penalties While Saving Time And Money

Originally published in *The McGill Advisory*, June 2011

Virtually all states impose a sales tax on practice purchases from in-state companies, and a related use tax on items purchased online or from out-of-state companies. Unfortunately, few doctors file sales and use tax returns and pay the taxes due, making them prime audit targets by cash-strapped states seeking taxes, interest, and penalties. Below, CPA Bo Elliot discusses a simplified system to avoid penalties, while saving time and money.

Use Tax Liability

Most doctors forget about their practice's sales and use tax liability, after paying the bills for supply, equipment, and other practice purchases. If the practice is purchasing products from companies operating within their state that charge sales tax, the practice's liability is satisfied once the bill is paid.

However, online and out-of-state companies are not required to charge sales tax, if the company maintains no physical presence in the state. And even some in-state companies may not have a good understanding of when sales taxes are due, and thus may not collect them even though they are obligated to do so.

Most (90%) of doctors are unaware that they must file sales and use tax returns regularly with their state and pay use taxes (equal to the sales tax) on nonexempt items purchased for which sales taxes were not charged. Even doctors that are aware of the need to file and pay these taxes often elect to bury their head in the sand and "play the audit lottery", by not filing and paying the taxes due.

Cash Strapped States Turn Up The Heat

Sales and use tax revenue collected by states plummeted in 2008-2010, as a result of The Great Recession. Now, cash strapped states are searching under every rock for potential tax revenue. Typically, sales tax auditors will select a dentist for audit and quickly determine that sales and use tax returns have not been filed, nor have use taxes been paid, on the rapidly growing amount of practice purchases made online or from out-of-state companies. Over the past two years, profit strapped doctors have increased purchases from online and out-of-state retailers offering lower prices, as a result of the sales tax dodge, and lower operating and capital costs.

On audit, most states will go back 6 years to assess back sales and use taxes due on doctors who have not filed, charge interest on the amounts owed, and impose penalties for failure to file and failure to pay. If the doctor has filed sales and use tax returns, states generally go back only 3 years. Often these assessments run in the tens of thousands of dollars for large practices. Harkened by this "pot of gold", state auditors then start contacting other area dentists in search of additional revenue.

Solving the Problem

Doctors wishing to comply by filing and paying the sales and use taxes due face a formidable task. Sorting through every single invoice to determine if sales taxes were paid and, if not, calculating the amount of use tax due, is an extremely tedious and time consuming process. Calculating the exact tax liability to the penny would take hours each month and divert your staff from activities that you need them to perform in order to maintain profitability. Thus, even the most honest dentist facing this tremendous administrative burden is tempted to “chuck it all” and not file, or file using some fictitious figures pulled from thin air. To paraphrase Will Rogers, the sales and use tax system promises to “make liars out of more doctors than the game of golf”.

Elliot says that his firm uses a tax simplification process to develop a simple formula that can accurately estimate the amount of use tax due for each filing. His firm’s sales and use tax team will analyze your practice purchases, their taxability (some are exempt), and vendors’ tax collection practices, and determine from their analysis the best method to estimate total use taxes due for each reporting period.

Thereafter, the doctor simply reports the estimated use taxes due, quickly calculated by using the simple formula. In the event of an audit, the state is not legally bound to accept the sales and use tax amount calculated based on this estimate. However, in practice most auditors will, if the doctor can show the estimate is based upon the practice’s reliable historical experience. In any event, this good faith estimate of sales and use taxes due will almost certainly avoid costly penalties.

In summary, this simple but effective system takes much less administrative time and creates a reliable mechanism for paying use taxes due, helping to avoid costly audits, interest, and penalties. For more information about this valuable service, contact Elliot at 704.808.5232.

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