



## Why Review Sales & Use Tax in NY?

By William DiLorenzo – Published on Thursday, March 17, 2020

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Recently The Tax Foundation released a comparison of each state's tax rates, collections and burdens in their annual report, "Facts and Figures"<sup>1</sup>. The third table in this report ranks each state based on how favorable their tax laws are for businesses. Looking at New York specifically, we can see that their overall ranking is 49<sup>th</sup> out of 50. This highlights how important it is for businesses to comply with tax regulations in order to minimize the amount of tax paid.

The most interesting comparison one can draw from these rankings is between corporate tax and sales tax. New York ranks as #13 in terms of their corporate taxes, indicating the relative ease companies could have in reviewing their corporate tax accounting. Conversely New York's sales tax ranking is #43, indicating the relative difficulty companies could have. The reason this is so interesting (and concerning) is that most companies, either through their internal processes or via an outside firm, will review their corporate taxes but trust broad heuristics when handling their sales taxes. This would not be a problem if their assumptions weren't often antiquated or incorrect, which can cause companies to pay sales tax erroneously.

Last year New York State reported that just over 6.8 billion dollars was collected in corporate income tax<sup>2</sup>. This is no small amount to be sure; however it pales in comparison to the 31.7 billion dollars in sales tax paid. That's more than 4 times the amount of corporate income tax!

The disparity between sales tax and corporate tax begs the question; why would a company review their income tax processes, which ultimately lead to the amount of tax they pay, but not their sales tax processes? The scope of reviewing any business's bills, even small ones, can be extremely time consuming. This situation tends to push companies towards a heuristic model and leaves sales/use tax reviews as the forgotten ingredient for financial health. However as previously stated, companies already hire outside firms to review their income taxes periodically so why not hire a firm specializing in sales and use tax to do the same?

Taking into consideration the unfavorable nature of New York State's sales tax laws and the sheer volume of tax collected, it is almost inconceivable why any company would not consider a review of the sales taxes they pay. Following a heuristic approach might function fine in other states, but following that approach in New York can lead to substantial sales tax overpayments.

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<sup>1</sup>[https://www.tax.ny.gov/research/collections/fy\\_collections\\_stat\\_report/2018\\_2019\\_annual\\_statistical\\_report\\_of\\_ny\\_state\\_tax\\_collections.htm](https://www.tax.ny.gov/research/collections/fy_collections_stat_report/2018_2019_annual_statistical_report_of_ny_state_tax_collections.htm)

<sup>2</sup><https://taxfoundation.org/facts-and-figures-2020/>