Recordkeeping Requirements for Sales Tax Vendors

Introduction

If you are registered for purposes of Maine State sales tax you have a responsibility to collect the proper amount of sales tax from your customers and to remit the tax you have collected with your timely filed sales tax return. The law provides that the sales taxes you collect from customers constitute a special fund held in trust for the State Tax Assessor.

As a registered retailer, you must keep accurate records of all sales and purchases that you make. Keeping detailed records of your business operation is necessary in order for you to prepare accurate and complete sales tax returns. Detailed records also serve to document the accuracy of your returns in the event that you are audited by Maine Revenue Services.

While this document does not provide an exhaustive list of the records you must keep, it does give an overview of those records and references to more resources on recordkeeping requirements.

Recordkeeping rules

When you file a sales tax return, the return must show:

- Total sales
- Taxable sales
- Exempt sales
- Purchases by your business that are subject to tax on which no tax was paid to the seller
- Credits (if any), and
- Any other special fees due

All of your records must be dated and kept in good order. The records must provide sufficient detail to identify the taxable status of each sale and the exact amount of tax due and collected. The retailer must be able, through its records, connect an exempt sale to a particular customer to the exemption document on file for that sale or customer. If you provide an exemption certificate when you make a purchase, you must maintain a record of the purchase and be able to prove the exempt use.

What records to keep

Sales records

You must keep records of every sale, the amount of every sale, and the sales tax on each taxable sale.

You must retain a true copy of each:

- Sales slip, invoice, receipt, contract, statement, or other memorandum of sale
- Guest check, hotel guest check, and
- Cash register tape and any other original sales document

If no written document is given to the customer, you must keep a detailed daily record of all cash and credit sales in a daybook or similar journal. Ask your accountant for help if you aren't sure how to do this.

If you sell both taxable and nontaxable goods or services, you must identify which of the items you sell are subject to sales tax and which are not on the invoice or receipt. For example, a cash register tape must list each item sold with enough detail to determine whether that item is subject to sales tax. You must always either separately state the amount of sales tax due on the invoice or receipt that you give your customer, or include a statement on the sales or invoice provided to the customer that the stated price includes Maine sales tax.

If you deliver the product or service to a place other than your place of business, you must maintain records that prove where delivery took place. Special rules apply to motor vehicles, trailers, snowmobiles boats, firewood and wood pellets.

For more information, see Instructional Bulletins 13, 24, 42, and 47 on the Maine Revenue Services website at http://maine.gov/revenue/salesuse/salestax/bulletinssales.htm.

Purchase records

Records must be maintained to establish the taxable status of all purchases of property or services.

Purchase records should include records related to:

- Purchases subject to sales tax
- Purchases for resale (e.g., inventory and raw materials), and
- Purchases exempt from sales tax for reasons other than the "sale for resale" exemption

Purchase records must substantiate all expenses and cost of goods sold. These records should also show that the business purchases bear a reasonable relationship to the business sales. You should keep any other record or document that, given the nature of the business, would be necessary to prove that you have collected and paid the proper amount of sales or use tax due.

Point-of-Sale (POS) systems

POS systems are utilized to record sales to customers. In many ways, POS systems take the place of a traditional cash register. If your business uses a POS system, you must comply with the rules and requirements outlined in this section.

When using POS systems, all sales and transactions are made through a computer system. The system records what is sold, the selling price, and the quantity sold. The system calculates the total due, including tax, and computes how much change is due. The system should record every sale and track all transactions.

POS system sales records to be kept

Each POS transaction record must provide enough detail to identify the taxability of each sale and the amount of tax due and collected. Detailed information required for each sales transaction includes, but is not limited to:

- Individual item(s) sold
- Selling price
- Tax due
- Invoice number
- Date of sale
- Method of payment, and
- POS terminal number and POS transaction number

Summary documents should be designed so the details underlying the documents, such as invoices and vouchers, may be identified and made available upon request. Any additional reports and schedules relating to the preparation of the tax return must be maintained and made available upon request.

POS system purchase records to be kept

Detailed information required for each purchase transaction includes, but is not limited to:

- Individual item(s) purchased
- Purchase price
- Total invoice amount
- Invoice number
- Date of purchase
- Vendor name
- Purchase order number, and
- Method of payment

Any related inventory system must also be maintained and made available upon request. Any additional purchase reports, schedules or documentation that reconcile to other books and records, such as purchase journals or a general ledger, must be maintained and made available upon request.

In order to be considered complete, the electronic records must permit the direct reconciliation of the receipts, invoices, and other source documents with the entries in the books and records and on the returns of a taxpayer. If this reconciliation is not possible, the records may be deemed inadequate to permit a detailed audit and another audit methodology (such as a sampling) may be used.

POS system internal controls

Users of POS systems must maintain auditable internal controls to ensure the accuracy and completeness of the transactions recorded in the POS system. The records must provide the opportunity to trace any transaction back to the original source or forward to a final total.

Required audit trail details include, but are not limited to:
- Internal sequential transaction numbers
- Records of all POS terminal activity, and
- Procedures to account for voids, cancellations, and other discrepancies in sequential numbering

The POS audit trail or logging functionality must be activated and operational at all times, and it must record:
- All activity related to other operating modes available in the system, such as a training mode, and
- All changes in the setup of the system

Failure to have the POS audit trail or logging functionality activated and performing these functions is evidence of a lack of adequate POS system internal controls. All documentation describing the automated data processing of the POS system must be made available upon request.

How long must I keep these records?

You must keep all records for **a minimum of six years** from the due date of the return to which those records relate, or the date the return is filed, if later. (Title 36, Part 1, Chapter 7, §135) The records must be made available to Maine Revenue Services upon request. Maine Revenue Services may require records to be kept for a longer period of time, such as when the records are the subject of an audit, court case, or other proceeding.

If you use a POS system and the system lacks the storage capacity to comply with the six-year retention period, any data that has been removed from the system must be transferred, maintained, and be available in a machine-sensible and auditable form. If you change POS systems, the data from the old system must be transferred, maintained, and available in a machine-sensible and auditable form.

Maintaining records electronically

If you maintain records in an electronic format, all the requirements for paper records also apply to records created and stored electronically. Records that are maintained in an electronic format must be made available to the Maine Revenue Services in an electronically readable form.

See MRS Rule 103 at http://www.maine.gov/revenue/rules/homepage.html.

When your records are considered inadequate

Records may be considered inadequate if:

- They do not verify sales receipts
- They do not verify whether those receipts are subject to sales tax
- They do not provide details of each individual transaction (summary reports and daily summary or "Z" tapes are not sufficient)
- They do not verify the taxable status of purchases
- They do not show that the business purchases correlate to the business sales
- It is not reasonably possible to conduct a complete audit using those records
- The records are not made available to the auditor;
- The records are not in a form that can be audited by Maine Revenue Services; or
- An evaluation of the accounting system discloses that the system does not provide adequate internal control procedures that ensure the accuracy and completeness of the transactions recorded in the books and records (e.g., the lack of sequentially numbered invoices or guest checks, or the lack of dates on receipts)

Consequences of inadequate records

If the records are considered inadequate, you may:

- Be subject to an estimated audit methodology to determine any additional taxes due; and
- Be subject to penalties and interest if additional tax is found to be due.