

Business tax tip #2

What Sales Records Do I Need to Keep?

What does the sales and use tax law say about records?

You are required to make your business records available for inspection by an auditor from the Comptroller's Office at any time during business hours. Your records must adequately distinguish taxable sales and purchases from non-taxable sales and purchases. If you do not have adequate records, the Comptroller may compute a liability by projection from available records, by a survey of similar businesses or on any other reasonable basis. You must keep all records pertaining to sales and purchases for four years.

The burden of proof is on you to demonstrate that you collected and paid the sales and use tax correctly.

What do I need to keep?

You should keep the kinds of general business records that are appropriate for your type of business. These general business records might include a general ledger, subsidiary ledgers, journal entries, bank statements, check stubs, and federal and state income tax returns.

Are there any records I should keep specifically for sales and use tax purposes?

For sales and use tax purposes, you will also need to keep, as appropriate:

- Original invoices
- Resale certificates
- Bills of lading
- Sales slips
- Receipts for purchases
- Purchase orders
- Mailing or shipping documentation for out-of-state deliveries
- Cash register tapes
- Documentation for exempt sales
- Completed copies of any Real Property Contractor 1% Sales and Use Tax Exemption Certificate (**Form COT/CD 132**) used in qualifying purchases by contractors and subcontractors

Are computerized records acceptable?

A computerized tax accounting system is acceptable if:

- It can produce visible records necessary to verify tax liabilities;
- It permits a transaction to be traced back to the original source or forward to the totals;
- A description of the system, including flow charts and procedures, is available; and
- Controls exist to ensure accuracy.

How long should I keep records?

You must keep all records pertaining to sales and purchases for four years.

What are adequate records?

To be adequate, your records must show whether your sales or purchases are taxable or exempt. Your records should also show separately-stated sales tax amounts. An auditor must be able to follow the flow of each transaction and match up all documents pertaining to that transaction. Documents or books of records that are incomplete, missing or illegible are not adequate records.

Do any kinds of sales require special documentation?

Yes. Sales to exempt nonprofit organizations and sales of items that will be resold need special records. Six special situations are outlined below.

- 1. Sales to exempt nonprofit organizations** Certain qualified nonprofit organizations are exempt from paying tax on the purchase of items which will be used in carrying out the business of the organization. The state of Maryland issues exemption certificates to properly qualified organizations. You should record the eight-digit number from this certificate on your copy of the receipt or sales slip. For more information, request [Business Tax Tip #6, Retail Sales Involving Exemption Certificates.](#)

- 2. Sales of items that will be resold** You do not have to collect tax on most items you sell that will be sold again. You will need to keep a resale certificate, signed by the buyer and bearing the buyer's Maryland registration number. If one of your customers makes frequent purchases for resale, you should keep a blanket resale certificate on file. For information on special limitations applicable to cash, check or personal credit card sales of less than \$200, please request [Business Tax Tip #4, If You Make Purchases for Resale.](#) If you do not have necessary resale certificates on file, you can be held liable for failing to collect and remit the proper tax.
- 3. Sales of materials to be incorporated in production activities** Materials that will be incorporated in property to be produced for sale are not subject to tax. You should use a resale certificate to document the tax-free sales of these raw materials. For more information, request [Business Tax Tip #9, Sales and Use Tax Exemptions for Production Activities.](#)
- 4. Sales to corporations with Direct Payment Permits** A few large corporations have Direct Payment Permits which authorize them to pay the tax directly to the comptroller. If you make a sale to one of these corporations, you must record the Direct Payment Permit number with your records of the sale.
- 5. Sales to foreign diplomats** The U.S. Department of State issues a white plastic tax exemption card to qualified diplomats. You must record the tax exempt number from the back of the card onto the sales slip. Please be aware that the certificates may not be valid for all purposes. Cards with BLUE stripes entitle the holder to an exemption from the tax on all purchases. Cards with GREEN stripes entitle the holder to an exemption from the tax on all purchases except the tax on transient accommodations. Cards with RED stripes entitle the holder to an exemption from the tax on purchases of taxable items which exceed the \$50, \$100 or \$200 levels printed on the reverse side of the cards.
- 6. Out-of-state deliveries** You are not required to collect tax on articles that you have delivered to an address outside the state of Maryland if you have no reason to believe the articles are intended for use in Maryland. Your records should clearly state that an item was delivered out-of-state.

Remember

- Use the forms we sent you because they are pre-coded. Copies or forms that are computer-generated will not be accepted.
- Use your account number in all your correspondence about your sales and use tax account and on checks you remit.

- If you have no tax to report, you must file by calling 410-260-7225 by the due date. Otherwise, you will receive a notice of delinquency.
- If you have more than one place of business, you need a separate sales and use tax license for each location.
- Show sales and use tax as a separate item on a sales slip or invoice. Otherwise, there is no record that you collected or that your customer paid tax.
- You may assume and absorb all or any part of the sales and use tax on a retail sale and pay that tax on behalf of the buyer. The vendor must, however, continue to separately state the tax from the sales price at the time of sale to the purchaser. If the vendor absorbs all or any part of the tax on the sale, the vendor shall pay the tax with the return that covers the period in which the vendor makes the sale.
- If you have more than one business location and are receiving separate returns, you can save time and money by filing a single consolidated return. Contact Taxpayer Service to establish a consolidated account.
- Collect sales and use tax on items that you sell for nonprofit organizations if those items are ordinarily taxable. This is true even if the nonprofit organization would not collect tax on items it sells directly.