

[Date]

[Client Name]

[Client Address]

[City, State, Zip Code]

Subject: Management Letter Regarding Sales Tax Nexus and Voluntary Disclosure Agreements (VDA)

Dear [Name of Management Contact],

The purpose of this letter is to summarize our findings regarding your company's potential sales tax nexus obligations and the recommended path forward through Voluntary Disclosure Agreements (VDAs).

I. Identification of Nexus

Based on our review of your business activities, we have identified that the company has established "nexus" (a legal connection) in the following states: [List States]. This nexus was triggered by:

- Physical presence (e.g., inventory, employees, or office space).
- Economic nexus (exceeding state-specific sales or transaction thresholds).

II. Potential Exposure

By operating in these jurisdictions without registering to collect and remit sales tax, the company has accumulated a prior-period tax liability. This exposure includes uncollected sales tax, interest, and substantial failure-to-file penalties.

III. Voluntary Disclosure Agreement (VDA) Recommendation

To mitigate these costs, we recommend entering into a Voluntary Disclosure Agreement with the affected states. The primary benefits of a VDA include:

- **Waiver of Penalties:** States typically waive late filing and late payment penalties.
- **Limited Look-back Period:** Liability is usually limited to the past three or four years, even if nexus existed longer.
- **Audit Protection:** Successful completion of a VDA generally protects the company from audits for the periods covered.

IV. Required Actions

To proceed, the company must:

1. Quantify historical sales data for the identified states.

2. Submit anonymous applications to the state revenue departments.
3. Register for sales tax permits upon execution of the VDA contracts.
4. Implement a sales tax collection system for future transactions.

V. Conclusion

Addressing these issues proactively through a VDA is significantly more cost-effective than waiting for a state-initiated audit. We are available to assist with the quantification of your exposure and the filing of the necessary applications.

Sincerely,

[Your Name/Firm Name]

[Title]