

State Tax Enforcement Is Increasing:

What Individuals and Businesses Must Know About Residency Audits, Nexus, and Collection Actions

By Jacob Linn



State tax enforcement has surged in 2023 and 2024 as states face budget gaps and rising compliance obligations. Taxpayers searching terms like state residency audit, how to prove domicile, multi state business tax rules, state tax nexus, and state tax collections after pandemic are all seeking the same critical information: how state enforcement affects them.

Why States Are Increasing Audits and Collections

Many states relaxed enforcement efforts during the pandemic. That period is ending. States are now pursuing:

- Residency audits
- Payroll withholding audits
- Sales tax and marketplace facilitator audits
- Multi-state corporate income tax reviews
- Remote worker nexus assessments
- Business license enforcement
- Aggressive collection actions

These changes affect both individuals and businesses.

Residency Audits Are Becoming More Aggressive

States known for residency disputes include New York, California, New Jersey, Maryland, and Massachusetts. Taxpayers who moved during the pandemic are now receiving audit letters questioning whether they truly changed domicile.

Auditors now request evidence such as:

- Driver's license and voter registration history
- Travel records
- Medical provider records
- Home ownership and utility usage
- Social and community ties
- Business activity records

Businesses Face Heightened Multi-State Exposure

States are expanding definitions of economic nexus, meaning even small companies can be considered legally present in a state without physical operations. Remote employees, digital advertising, online sales, and service delivery can all create a nexus.

States are also increasing payroll audits related to employee classification, contractor rules, and withholding accuracy.

Sales Tax Enforcement Is Increasing Too

Software companies, contractors, consultants, and e-commerce sellers are seeing more sales tax notices. Many states now tax digital products, online services, and SaaS offerings, creating new compliance obligations.

Why You Need a State Tax Review Before Year-End

There is still time to evaluate and correct state tax exposure before December 31. Individuals can take steps to document residency and avoid future disputes. Businesses can review nexus, payroll compliance, and sales tax obligations to prevent penalties and assessments.

If you want to protect your hard-earned dollars and reduce your exposure to state audits or collection actions, our team at Strategic Tax Planning can conduct a comprehensive review and prepare a tailored plan for 2025.