



SPECIAL REPORT

Easing the Burden of Sales Tax Compliance: A Simple, Cost-Effective Approach

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About the Author

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Introduction

With over 58,000 U.S. cities and counties, each with their own tax rules and regulations, sales tax compliance is labor-intensive, complicated, and costly for companies who do business across state lines.

Being the “tax collector” for multiple tax jurisdictions means monitoring rates in hundreds and sometimes thousands of locations, getting those rates into financial or point-of-sale applications, collecting the correct amount of sales tax, and preparing and submitting returns. While automation can reduce this burden, automating all the tasks within the compliance process is unrealistic for most companies. Instead, automating specific, time-consuming tasks within the sales tax compliance process can be the most effective and cost-efficient solution.

This report focuses on one aspect of the compliance problem: the requirements around monitoring ever-changing sales and use tax rates across jurisdictions. Companies can deploy easily-accessible, quickly implemented, and affordable third-party sales and use tax rate tables as an effective tool for satisfying critical business requirements for this tedious part of the compliance process.

Based on extensive experience in the field of sales and use tax consulting, this report examines how the use of third-party tax rate tables can measurably improve the tax compliance process by reducing the burden and risk involved.

Zeroing in on Tracking and Maintenance of Rates

Often, automating individual tasks and processes within the sales tax compliance effort – rather than attempting to re-engineer the entire process – can yield the biggest “bang for the buck” for many companies. Case in point: automating rates tracking and maintenance.

Using sales tax rate tables to automate a portion of the compliance process focuses on improving a set of tasks that typically involve a high amount of manual effort as well as a significant risk of error. Third-party sales and use tax rate tables eliminate the manual searching and tracking of rates using government Web sites, state forms, and booklets as well as the manual maintenance of these rates in spreadsheets or other documents. Automatic updates from tax rate table vendors mean that companies no longer need to dedicate resources to remain current on the hundreds of rate changes and new taxes added each year.

Automating this effort-intensive portion of the compliance process:

- Offers a cost-effective, simple solution to a complex problem
- Reduces manual efforts and overhead costs
- Improves accuracy and mitigates audit risk
- Reduces total cost of ownership through fast implementation and easy maintenance

In addition, some tax rate table vendors provide tools to help companies upload the tax tables directly to financial systems for an additional automation boost. Organizations currently using financial systems that require manual input and updating of sales and use tax rates can further reduce effort and error within the compliance process with automated import of third-party rate data.

Determining the Right Fit for Sales Tax Rate Tables

There are many situations where sales tax rate tables, either stand-alone or implemented in concert with other tax compliance or business solutions, can be the most cost-effective and efficient means to reduce the burden of the compliance process.

While each business situation is unique, there are a number of characteristics that indicate the potential for using third-party sales and use tax rate tables. In general, companies with some or all of the following requirements are good candidates for evaluating sales tax rate tables as a viable, cost-effective solution:

- Multiple taxing jurisdictions
- Medium to low volume of sales transactions
- Currently relying upon manual efforts to track rates and changes
- Limited IT budget and expertise

Real-World Examples of Reducing the Tax Compliance Burden

The following case studies highlight companies where sales tax rate tables proved to be a suitable, cost-effective solution to the tax compliance problem. These companies thoughtfully defined their unique business and tax requirements, and used tax rate tables as an integral part of the solution.

Case Study 1: Highly-Effective, Low-Cost Solution for Growing Manufacturer

Requirements:

- Support current legacy business system used for use tax accrual purposes

Solution:

- Leverage third-party sales tax rate tables by making modest modifications to the existing business system

Benefits:

- Eliminated manual process
- Reduced errors
- Freed tax professionals for other work
- Provided an auditable transaction history
- Independent source for tax rate information ensured accuracy

A fast-growing, mid-sized manufacturer and reseller of pharmaceutical products needed to address the manual efforts and potential errors involved in the sales tax compliance process. With business increasing, the limited-value, tedious process was taking too much of the tax professionals' time. The company sought a solution that would require minimal business system changes while automating the highly manual and repetitive part of the compliance process: sales tax rate tracking and maintenance.

Case Study 2: Easily Accessible Rates Lookup for Technology Provider

A small hardware and technology services provider discovered during an audit that the company was inconsistent in how it calculated sales tax. With nexus in approximately ten states, contract administrators were assisting the sales force with sales tax questions and using software with no native tax functionality. The company needed a way to quickly provide consistent, up-to-date rate information for quotes and contracts.

Requirements:

- Centralized, up-to-date rates need to be easily accessible by all contracts administrators

Solution:

- Incorporate access to third-party sales tax rate information through a custom look-up tool hosted on the company's intranet

Benefits:

- Centralized source for up-to-date taxability and tax rate information
- Improved accuracy and consistency of sales tax calculations in contracts and project cost analyses
- Low-cost, easily maintained solution

Case Study 3: Up-to-Date Tax Rates Facilitate Customer Price Quotes

Requirements:

- Provide instant access to up-to-date sales tax rate information within the software being used in the customer service center

Solution:

- A subscription to a third-party rate table, which had the capability of linking sales tax rate tables to the customer service software

Benefits:

- Expedited sales process
- Reduced errors with always accurate, always up-to-date rate information
- Low-cost solution, with no major changes to business systems

A mid-sized services outsourcing business, with sales consultants in every state, found that simple tax rate requests were bogging down the sales process. Sales professionals called into the company's large customer service center to request sales tax information for particular locations to assist them in providing a customer quote or when writing a contract. It was taking too much time and effort to locate the specific tax rates and ensure they were current.

The Bottom Line: A Viable Solution for Large Companies, too

In all of these examples, initiating a wholesale change of business systems or a full implementation of a third-party tax calculation software may have also solved the tax issue, but would have required an effort and cost grossly out of proportion to what the business really needed.

Finally, while large companies do not use third-party tax rate tables as frequently as small and medium-sized businesses, there are many instances where tax rate tables can be successful in larger organizations. Whether it's to accommodate gaps caused by acquiring a new business, create an economically scalable solution for a unique but important tax process, solve an immediate business issue, or overcome a core systems architecture flaw, many large companies have used tax rate tables as part of an overall automation strategy.

Things to Consider When Selecting a Tax Rate Table Vendor

Once a company has determined that third-party tax rate tables are an appropriate solution to sales and use tax compliance automation, the next step is to assess vendors for these solutions. While accessibility and price are usually the major drivers for the selection decision, there are other important factors to consider:

- Access to all relevant jurisdictions
- Both sales and use tax rates are covered
- Immediate access to updated rates online
- Is the vendor a trusted provider of tax information? Does the vendor purchase its rates or research them itself?
- How long has the vendor supplied rates? Does the vendor support its product with product specialists, technical teams, and/or a sales team?

One additional note: ensuring that tax rate tables are broken out by jurisdiction can be very important for some companies. The reason behind this is a concept called intra-state nexus. For example, if a company is primarily in three states and doesn't have a physical presence in a particular jurisdiction, then the local portion of the tax may not be applicable and the rate will change (in some instances, the local portion of the combined tax rate – the county, city, and district level tax – is not applicable).

A Simple, Affordable Solution to the Burden of Sales Tax Compliance

The consulting-based experiences presented in this report reflect one simple approach to automating a portion of the complex and labor-intensive sales and use tax compliance process. By leveraging third-party tax rate tables, companies have a low-cost solution that is easy to implement and maintain, which can bring significant improvement to the compliance process by reducing the effort and risk involved in rate tracking and maintenance.

Whether used as a stand-alone solution or in conjunction with other applications, third-party tax rate tables can satisfy tax automation requirements for projects of all sizes and should not be overlooked as one aspect of a tax automation solution. This report shows that automating individual tasks – such as rates tracking and maintenance – can bring the “biggest bang for the buck” for many companies. Keeping it simple can go a long way towards solving the complex and burdensome sales tax compliance problem.



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About BNA Sales & Use Tax™ Rates

BNA Sales & Use Tax Rates is a Web-based solution that delivers real-time up-to-the-minute sales and use tax rates for every taxing jurisdiction in the United States. With powerful, customizable features, this is the only product available today that lets you look up and schedule automatic delivery of the rates you need when you want them. On-screen cues let you know when unique tax circumstances exist and immediately identify rates that have changed. Export real-time data directly to your point of sale or billing systems with our optional Rates Exporter module. A CD version of the product is available upon request.

Also available is BNA Sales & Use Tax Forms – a comprehensive library of nearly 3,400 state, city, and local sales and use tax forms.

BNA Sales & Use Tax Rates and Forms are easy to implement and use. As a cost-effective solution to sales tax compliance automation, BNA Sales & Use Tax Rates and Forms keeps you up to date, accurate, and in compliance.

Rated 4 stars by the CPA Technology Advisor