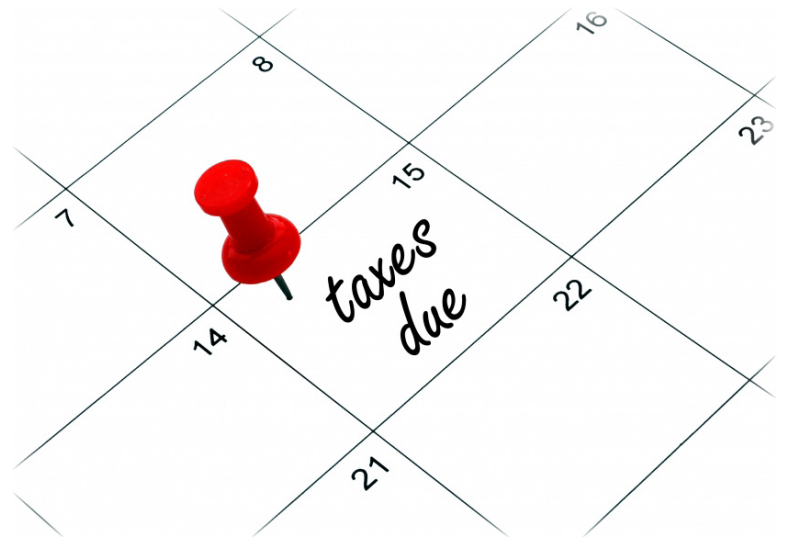


# How to Talk to Your Clients about **Sales and Use Tax**



**A GENI WHITEHOUSE WHITEPAPER**

Geni Whitehouse, CPA, CITP, CSPM

# How to Talk to Your Clients about Sales and Use Tax

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## How to Talk to Your Clients about Sales and Use Tax

### Putting the “Trust” in “Trusted Advisor”

“The most important things are the hardest to say, because words diminish them.”

**Stephen King**

If you are reading this whitepaper, you have already decided to be proactive about raising the subject of sales and use tax with your clients. While your reasons may vary, essentially you have accepted the fact that most of your clients are not in complete control of sales and use tax compliance. That puts you ahead of many accounting firms who are not equally enlightened.

The next step is to begin sharing your newfound sales tax enlightenment with your clients. By approaching the subject from an educational perspective, you can extend the trust relationship that you already have while helping your clients take control of their sales and use tax compliance.

#### **DON'T SAY IT THIS WAY**

“HB 144 was recently passed by the General Assembly and signed into law by Governor Beshear on February 13, 2009. As part of this bill KRS 139.470(23) was repealed to eliminate the sales tax exemption for the sale of packaged distilled spirits, wine and malt beverages not consumed on the premises licensed for their sale per KRS 243.”

**Kentucky Department of Revenue**

## How to Talk to Your Clients about Sales and Use Tax

### Latin is Greek to me

**“The more elaborate our means of communication, the less we communicate.”**

**Joseph Priestley**

**N**exus. Sourcing rules. Jurisdiction. These are the words accountants use when we’re talking about sales tax. While this kind of language is fine for those lively discussions around the water cooler, when you’re talking to a client, you might as well be speaking in ancient Greek.

For those of us in the accounting profession, code sections, acronyms, and Latin words are a fact of life. We’ve spent years learning this secret accounting code, so of course, we want to use it to impress our clients. But to them, this code isn’t impressive—in fact, it’s more of a roadblock to their understanding. And when clients don’t understand us, they don’t look to us for proactive advice. Instead, they involve us after the fact, when it is too late for us to act in their best interest.

It’s not just our language that’s the problem. It’s how we convey information to our clients. We hand them lengthy reports, detailed tax letters, and our idea of graphics (if we use them at all) are just colorized spreadsheets. There is a style disconnect between the way we prefer to share information and the way our primary audience, which is usually business owners, prefer to receive it.

Sales tax is an increasingly important source of revenue for states experiencing massive revenue shortfalls, so now is the time for you to hone your communication skills and begin showing your clients how to reduce their sales tax exposure. Disheartening as it may be, your job is to ditch the Greek and eliminate those roadblocks so you can help your clients avoid unnecessary exposure to sales tax assessments, comply with the myriad sales and use tax rules that apply across the 50 states—and ultimately, increase the value of your services.

## How to Talk to Your Clients about Sales and Use Tax

### From ancient Greek to plain English

“Public speaking is the art of diluting a two-minute idea with a two-hour vocabulary.”

**John Fitzgerald Kennedy**

So where do you start? Your main goal, when communicating any technical subject, is to *make it relevant to your audience*. Relevance should pervade every aspect of your communication strategy. From the words you use, to the medium you select, to the number of pictures you include with your content, you want your message to reflect the needs of your audience.

If you’re beginning to panic, don’t. You can make your sales tax content relevant without straying too far from your comfort zone. Your firm’s culture and style are your way of standing out from other firms in your area. You’ve worked hard to establish your identity, so you need to stay true to it. With a little planning, you can connect with your audience in a way that reflects your firm’s unique style—and feels comfortable to you.

The following steps will help you create sales tax communications that resonate with your clients and reflect your firm’s style.

#### CLEAR AS MUD?

“Nontaxable advertising is creative promotional services that meet three criteria:

1. there is no functional use of the medium except to carry the message,
2. the agency must be involved in the creation of advertising, and
3. the agency must have a direct relationship with the advertiser.”

**Minnesota Rule 8130.9250, Advertising**

## How to Talk to Your Clients about Sales and Use Tax

### STEP ONE

#### Put yourself in their shoes, and ask yourself, Why should I care?

To create a sales tax message that connects with your clients, you need to understand their perspective. That might mean it's time you step out of your Johnston & Murphys and walk a mile in their flip-flops.

Here are some reasons your clients might care about sales tax (Add your own ideas to this list):

**"Today, communication itself is the problem. We have become the world's first overcommunicated society. Each year we send more and receive less."**

**Al Ries**

- States are increasing their audit efforts, so they are likely to be visiting your clients.
- If the auditors visit, they will probably find some places where additional tax is due.
- If they audit your client, they will likely audit their customers and suppliers, too.
- Audit assessments come out of your client's profit, while their customers pay sales tax that is properly added to invoices.
- Improper sales tax calculations can delay your client's collections.
- By automating sales tax compliance, one member of your client's staff might finally be able to see daylight.

#### IS THERE A DOCTOR IN THE HOUSE?

"There is a suspension of the state's sales and use tax for viscosupplementation therapies from July 1, 2006 through June 30, 2007. The new law does not allow for refunds for any taxes paid on sales of this product during the suspension. (Proviso 72.108)"

**SC Department of Revenue, Sales Tax Seminar Manual, January 2007**

## How to Talk to Your Clients about Sales and Use Tax

### STEP TWO

#### Define your objective.

**“Many attempts to communicate are nullified by saying too much.”**

**Robert Greenleaf**

Once you can articulate why sales tax is important to your clients, you need to be clear about what you are trying to accomplish. Are you planning to offer sales tax compliance services or are you just trying to educate your clients?

First, you need to decide your firm’s level of commitment:

- I want to offer sales tax compliance services (see appendix A)
- I want to partner with a sales tax expert who offers these services
- I want to educate my clients, but not get involved in how they address these issues
- Other \_\_\_\_\_

Next, you need to decide what you want your clients to do:

- Invest in software that automates more of their sales tax process
- Hire you to review their nexus compliance
- Hire you to review their use tax compliance
- Educate their staff on sales and use tax rules
- Pay more attention to the transactions in their business
- Improve their processes to reduce their exposure to sales and use tax assessments
- Quit their jobs and become sales tax specialists for your firm
- Other \_\_\_\_\_

## How to Talk to Your Clients about Sales and Use Tax

### STEP THREE

#### Create your message.

Once you have clarified your objective, you are ready to create your content. Let's face it. We're accountants, not salespeople. We want to provide education and information that helps our clients, so our communication needs to be in that vein.

Here are seven tips for creating sales tax content that will resonate with your audience. You can apply these steps whether you are generating content for presentations, blogs, newsletters, or articles.

#### 1. Focus on three main points.

These might be the three points you want to make in your sales tax communication:

**"Communication leads to community, that is, to understanding, intimacy and mutual valuing."**

**Rollo May**

- ***Sales tax is difficult to calculate and is prone to risk.***  
Sales and use tax involves a number of decisions at the transaction level and is prone to error. (You can help your clients quantify their risk using the sales tax questionnaire available at [www.salestaxquestionnaire.com](http://www.salestaxquestionnaire.com).)
- ***You are likely to be at risk for a sales tax audit adjustment.***  
Most companies have exposure in two areas: purchases that are subject to use tax and sales made to neighboring states.
- ***Here's how you can reduce your risk.***  
The best way to reduce the risk of audit assessment is to use technology that validates addresses, rates, rules, and jurisdictions at the point of sale.

## How to Talk to Your Clients about Sales and Use Tax

### 2. Use plain English.

Rather than mentioning nexus, you would say *“In order to have liability in a state, you must first have a physical connection to that state. The connection can be in the form of property, employees, and in some cases a subcontractor based in that state.”*

### 3. Give concrete examples.

Don't write or talk in generalities. Use specific objects in your examples.

**“Words are, of course, the most powerful drug used by mankind.”**

**Rudyard Kipling**

*“Let's say you buy protractors for resale to office supply stores. Your inventory purchases are exempt from sales tax because you have a resale exemption certificate on file with your supplier. One day, you need to draw a perfect angle by hand for a big presentation. You trot out to the warehouse and remove a protractor from a box and then commence drawing the perfect 72 degree angle. When the auditor comes to pay you a visit, the first place he will start is in your warehouse. He'll want to compare the items you purchase for resale to the items that are lying around your office. Any overlap in products will cause him to assess use tax on the items that have been taken out of inventory for use in your office. That protractor on your desk is going to lead to a use tax assessment. If you take a box of protractors out of inventory and donate them to the math club at the local high school, you will also incur a use tax liability.”*



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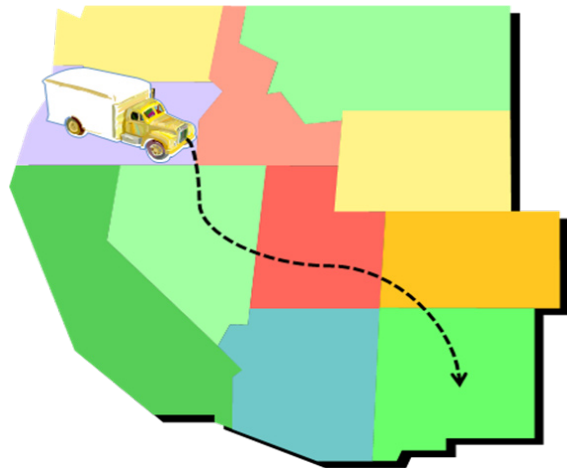
**NATIONAL PRESENCE - LOCAL TOUCH**

## How to Talk to Your Clients about Sales and Use Tax

### 4. Use visuals.

About 60% of people learn visually. So, rather than explaining the concept of “physical presence”, you might want to show pictures representing scenarios that could subject a company to tax in a new state.

*Show a picture of a delivery truck. Explain that delivering items to another state in a company truck can trigger liability for sales tax.*



### 5. Look for oddities or a humorous angle.

Get out the taxability matrix for your state and start looking until you find something weird, funny, or strange and then use that as an example of how arbitrary the rules are.

I always use the donut to make a point about the complexity of sales tax rules. It seems that donuts in close proximity to eating utensils are classified as prepared food, which is not exempt from sales tax in most states. Donuts that aren't close to utensils are exempt as food.



## How to Talk to Your Clients about Sales and Use Tax

### 6. Avoid acronyms.

**“If you wish to converse with me, define your terms.”**

**Voltaire**

Rather than talking about the joys of SSUTA, you will want to inform your clients that *“the Streamlined Sales and Use Tax Agreement (SSUTA) provides a number of unique benefits for companies that choose to voluntarily comply. The agreement includes certification of certain providers of technology solutions plus funding to help companies purchase software to conform to these rules.”*

### 7. Look for local examples and timely articles on sales tax.

Update your slides or articles with links to information that is in the news; look for sales tax rate changes or stories about tax assessments in your area.

You can use Google Alerts to help you stay informed about changes in the area of sales tax. This information is from an article about Myrtle Beach, South Carolina:

*“Most everyone has heard about the property tax credit homeowners will receive because of the new 1 percent sales tax—or tourism fee—that takes effect Aug. 1 inside the city.”*

If I were speaking in South Carolina anytime near August, I would mention this change.

### WHICH PRICE IS RIGHT?

“The state general sales tax is due on the sales price [R.S. 47:301(13)] for transactions subject to the sales tax and on the cost price [R.S. 47:301(3)] for transactions subject to use tax.”

**Louisiana Department of Revenue**

## How to Talk to Your Clients about Sales and Use Tax

### STEP FOUR

#### Start spreading the word.

**“If I am to speak ten minutes, I need a week for preparation; if fifteen minutes, three days; if half an hour, two days; if an hour, I am ready now.”**

**Woodrow Wilson**

Now you are ready to reach out to people. You might decide to write an article in your local paper, or add a new blog entry. Or you might want to host an event. It could be as simple as using e-mail to keep your clients informed about sales tax issues.

When you are sending e-mails, the subject line is the key to getting the e-mail read.

Here are some sample subject lines you might use for a sales tax topic:

- *“When the state tax auditor comes knocking”*
- *“Keeping more profits: How to reduce your sales and use tax exposure”*
- *“Don’t let your small business become the state’s next source of revenue”*
- *“5 places to find sales tax exposure in your business”*
- *“From marshmallows to dry ice: How to know how much sales tax to charge”*

#### DEFINITIONS THAT POINT TO OTHER DEFINITIONS

“For purposes of this regulation: (1) ‘Retailer engaged in business in this state’ means and includes any person who would be so defined by Revenue and Taxation Code section 6203 if the person were a retailer.”

**State of California Board of Equalization, Regulation 1706, Drop Shipments**

## How to Talk to Your Clients about Sales and Use Tax

### STEP FIVE

#### Prepare to accept the thanks of your grateful clients.

**“Every improvement in communication makes the bore more terrible.”**

**Frank Moore Colby**

Now that you have learned how to educate your clients about sales tax in a way they can understand, get ready to accept their gratitude. They are now in a position to examine their transactions, look for potential risks, and take action before the auditor shows up. They might ask you for assistance or for a recommendation of software that they can use to help with their compliance needs. At any rate, by communicating effectively, you have increased their appreciation of your firm and the services you deliver.

#### **DON'T USE RUN ON SENTENCES LIKE THIS ONE**

“The sales tax levied is: 5% general rate on the gross receipts from retail sales of tangible personal property, communication services, magazines and other periodicals sold over the counter, cigarettes and tobacco products, and admission tickets for recreation activities; from the leasing or renting of hotel, motel, or tourist court accommodations, including bed and breakfast facilities for periods of less than 30 consecutive days; and from the leasing of tangible personal property.”

**From Office of State Tax Commissioner, North Dakota**

## How to Talk to Your Clients about Sales and Use Tax

### Sales tax is a problem in any language ...

... **B**ut sales tax communication needn't be. By following the steps we've outlined above, you can make the subject interesting and informative, which will increase the likelihood of your clients reviewing their exposure to sales tax assessments. You can use available firm resources or get external assistance, but either way, you'll be enhancing your firm's image by creating frequent and meaningful communication on a subject they care about.

**"Wise men talk because they have something to say; fools, because they have to say something."**

**Plato**

#### **AN ELEPHANT IN A RAILROAD CAR—NOT INCLUDED**

"Definition. The term "exterminating services" means eradicating or expelling termites or other insects, birds, rodents and other pests, and includes the inspection and evaluation by a retailer of exterminating services of the nature and extent of an infestation, if any, but excluding the live trapping of non insect pests for later release. Such services are generally rendered to buildings, structures or dwellings located on any kind of real property, but may also be rendered to tangible personal property, such as vessels, aircraft, trailers or railroad cars."

**State of Connecticut, Department of Revenue Services,  
Conn. Agencies Regs. § 12-407(2)(i)(Z)-1**

## How to Talk to Your Clients about Sales and Use Tax

### Appendix A—Practice Building Checklist

- Determine your clients' needs for sales tax compliance.**  
Consider the complexity of your clients' sales tax situation or lack thereof. Also consider the consulting work that you are currently doing for your clients. Are you "leaving a service on the table"?
- Determine the best approach to preparing sales tax returns for your clients.** Are your clients small enough that a manual process would suit their needs or are they complex enough that an automated solution would be warranted?
- Consider your clients' size and nexus footprint.** Often, clients with simple sales tax footprints are overlooked. Even if your clients only file in a handful of states, an outsourced, automated solution may bring great value to them in timesavings and consistency.
- Set up your team.** It is important that your team be focused on the task and that they have access to the technical resources they need. A good guideline would be that for every 15 – 20 clients that you serve, depending on client size and complexity, you should have at least 1 senior level consultant to review the work of 1.5 junior preparers. Keep in mind that your clients are going to ask technical questions of your team, so a sales tax background is vital.
- Determine how the work will be divided among team members.**  
To ensure that your clients are getting the most out of the service that you are offering and to help you gain efficiencies, consider assigning work to specific preparers. This way, the preparer becomes familiar with the nuances of that client and the client knows that they have one point of contact in your practice that "knows what's going on" with their returns.

## How to Talk to Your Clients about Sales and Use Tax

- ❑ **Consider your clients' role in providing information.** For example, will clients be responsible for uploading their own data files by a given date or will they merely have to e-mail them to your team to process? Will you be processing payments on behalf of your client?
- ❑ **Ensure that you have a good end-to-end process for your team to follow.** As you begin to bring on clients to your new practice, think about the process that you are going to use. Setup schedules should detail the flow of work from the beginning of the process to the end of the process so that all team members are accountable for their share—and you can ensure that things are moving along smoothly every month.
- ❑ **Consider your pricing.** Often with smaller taxpayers, a constant flat fee per month makes it easier for them to plan and budget. Larger clients might prefer a per return fee with additional charges for add on services such as e-filing and payment processing.

## How to Talk to Your Clients about Sales and Use Tax

### Appendix B—Communication Plan

Use this worksheet to take inventory of the resources you might use in building your sales tax communication plan.

*Goal inventory—what are you trying to accomplish and why?*

Goal	Benefit to Firm	Value in \$

*Staff inventory—who has skills you might be able to use?*

Name	Skills—(Writing, design, web, etc)	Availability (hours or %)

## How to Talk to Your Clients about Sales and Use Tax

*Existing tools inventory—what are you doing now?*

Tool	Audience	Frequency	Size of list
Newsletter (printed)	<input type="checkbox"/> Clients <input type="checkbox"/> Prospects		
Newsletter (email)	<input type="checkbox"/> Clients <input type="checkbox"/> Prospects		
Web presentations	<input type="checkbox"/> Clients <input type="checkbox"/> Prospects		
Open House	<input type="checkbox"/> Clients <input type="checkbox"/> Prospects		
e-mail campaigns	<input type="checkbox"/> Clients <input type="checkbox"/> Prospects		
Live Events	<input type="checkbox"/> Clients <input type="checkbox"/> Prospects		

## How to Talk to Your Clients about Sales and Use Tax

### Appendix C—E-mail template

Subj. Line: **(Your firm name) can Solve Your Sales Tax Returns & Remittance Issues**

Filing and remittance of sales tax is a significant burden for many (your firm name) clients. We believe that complex, labor-intensive sales tax functions should be:

- Outsourced rather than in-house
- Affordable, saving money, staff time and resources
- Highly accurate, mitigating sales tax audit risk

Do you currently file five or more sales tax returns per month? Are you manually completing your returns and filing remittances? If so, (your firm name) now offers an automated service that allows you to **affordably, accurately, and easily** outsource your sales tax filing and remittance needs.

If you or the person responsible for sales tax returns and remittance at your company is wearing too many hats, our outsourced service will be a significant time and resource saver, allowing you to cross a major recurring, time-consuming task off of your to-do list, at a fraction of the cost required to handle sales tax returns and remittance functions in-house.

In addition, by outsourcing sales tax functions to (your firm name), we will perform quality assurance checks on your sales tax data on a monthly basis—a value-added service that comes at no additional cost to you, and will have a beneficial ongoing effect on your business.

## How to Talk to Your Clients about Sales and Use Tax

Call us today at 949-583-9500 x2500 to further discuss your specific sales tax needs, and determine how we can help you.

If you'd like to get a quick assessment of your existing sales tax audit risk, we suggest taking a brief questionnaire that's been recommended by the editors of Practical Accountant and CPA Technology Advisory magazines: [www.salestaxquestionnaire.com](http://www.salestaxquestionnaire.com)



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## How to Talk to Your Clients about Sales and Use Tax

**G**eni Whitehouse, CPA.CITP, CSPM is the Countess of Communication at Even a Nerd Can Be Heard, an organization devoted to making boring subjects interesting. She is a former partner in an Atlanta CPA firm, and a former Vice President of Sage Software. She has been involved in technology innovation since the late 80's and was a member of the XBRL steering committee. She quickly changed jobs the day she was assigned to work full time on a large sales tax audit for one former employer.

She is the author of *"How to Make a Boring Subject Interesting : 52 ways even a nerd can be heard"* which is available on Amazon.com.

### Statement:

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While funding for this white paper was provided by industry solution provider, SpeedTax, in recognition of the need for an updated analysis of the state of sales tax and marketplace developments, the author has developed this paper based on her own insights about the CPA community, drawn from her experiences as a partner in an Atlanta CPA firm, her role as software company executive, and supplemented by research and surveys, in addition to her frequent attendance and presentations at CPA conferences around the country.

Readers are encouraged to pursue the right solution for their clients in accordance to their particular needs. Any discoveries, comments, or learning along the way are welcomed.

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