

A GENI WHITEHOUSE
WHITE PAPER

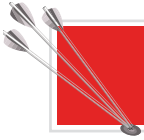


WHY IT'S SMART TO PUT SALES TAX ON YOUR RADAR
(AND EVEN SMARTER TO PUT IT OUT OF YOUR MIND)

BY GENI WHITEHOUSE, CPA, CITP

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Wake Up and Make the Auditor Some Coffee.

Sales tax first popped up on my radar when I was in public accounting. I had a long list of items to worry about for my clients. At the top of my list was accurately reflecting their financial results, then came making sure their accounting and reporting systems were working properly, then I worried about minimizing their corporate tax liability, then came timely filing and payment of payroll taxes, making sure that owners made their personal income deposits, and on and on. But it wasn't until the end of a reporting period while reconciling balance sheet items that sales tax briefly made it to my list. At that point I would locate the sales tax return, agree the outstanding liability to my financial statement, and clear it from my mind. It never even made it to my "Top 20 List of Client Risks."

That is, until the day the phone rang. It was a client calling to tell me they had been chosen for a sales tax audit. This company had experienced rapid growth over a short period of time and ended up growing their business through an ever-expanding team of reps across multiple states. Guess what that meant from a nexus perspective? Needless to say, I became immersed in this project as we tried to determine where my client stood. I then spent months working with auditors, gathering information, helping them sort out the fines and then settling up with the various states. Once that was finished, we could finally begin making the necessary corrections to the process at the front end.

While accountants tend to get involved only when there is a problem with sales tax compliance, their clients expect them to be proactively helping them avoid risk of all kinds. Big problems can result if this area of tax is not explicitly addressed. Don't wait until the auditor calls to address sales tax for your clients.

Why is NOW the Perfect Time for Accountants to Revisit Sales Tax?

The world of commerce has changed drastically in the last decade and it continues to change at an increasing pace. Geographic and cultural boundaries are blurring. This decade has seen online sales growth in the double digits. States are banding together to recover lost revenue from remote online sales. New ideas, tools, and technologies are everywhere. And sales tax—a tax imposed at the point of transfer of goods (and increasingly services)—is constantly evolving to keep up with these changes. That means you need to evolve, too.

But just because you need to update your understanding of the growing risk and complexity of sales tax compliance doesn't mean that you have to spend too much time worrying about it. Just as there are new reasons to be concerned, there are also new tools available to help minimize the burden of complying.

Where does sales tax fit on your “Top 20 List of Client Risks?” Where is it on your clients’ list?

In a small informal survey of CPAs representing small, medium and large firms around the U.S., I found that:

- 67% of CPA respondents believed they should be doing more to service and protect their clients in the area of sales tax compliance.
- While a majority of respondents – 75% – offered consulting services in the area of sales tax, not all of those firms say they routinely review nexus implications for their clients.
- 51% of firms had seen more than 5 clients audited in the last year.
- 42% of firms surveyed were unaware of the amnesty provisions offered under the Streamlined Sales and Use Tax Agreement which was enacted in October of last year.
- Only 41% of the respondents knew what accounting software their clients used.
- Finding new clients was high on many firms’ list of priorities, as was making more per hour and getting more done with less. Continuing staff shortages seem to be driving firms of all sizes to focus on automation and operational efficiencies. Automated sales tax solutions might be a great way for these firms to achieve their objectives and expand their practice, without hiring additional staff.
- The same percentage of respondents, namely 41%, see sales tax consulting as valuable services for every client as view the services as something to offer only at a client’s request. Firms who address this area of taxation on a reactive basis may be doing their clients and their own practices a disservice.

67% of CPA respondents believed they should be doing more to service and protect their clients in the area of sales tax compliance.

Why Sales Tax Should be on Your Radar.

As a CPA, you want to help your clients avoid exposure and leverage opportunities. If sales tax is not on your radar, you may be under-serving your clients.

First of all, you may be giving your clients a false sense of security. Your clients trust you to protect them from exposure. They may assume that you are looking at their sales tax returns in enough detail to alert them to potential problems. A cursory review of their ending liability is not going to uncover hidden problems. You are in a position to help them apply the right tools to this issue.

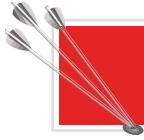
Secondly, the time at which your client is most exposed is precisely the time at which he is least likely to address his compliance issues. Think about it: Your client is immersed in growing his business. The company has expanded its reach, hired new salespeople, and increased its revenue potential. It has also exposed itself to new liability. During times of growth, companies do not have the time or inclination to divert resources to compliance concerns. Your help in handling those problems can free them to focus. For these businesses, the true cost of sales tax is the diversion of critical resources from growing the business. You can help your clients minimize this cost.

Third, sales tax adjustments reduce profits. Companies are struggling to increase revenues and reduce expenses. The last thing they want is to have an unplanned sales tax assessment force them to convert a pass-through tax into a corporate expense.

In order to serve your clients well, it's imperative that you become aware of two sales tax scenarios:

- 1. With existing sales tax rules, there is increased risk and exposure for your clients**
- 2. As new rules are adopted by certain states, there may be benefits for your clients**

You need to put both scenarios on your radar so that you can provide the level of service your clients expect.



Sales Tax Radar #1: Existing Rules (In A Changing Environment)

1. Stealth Bombs of Sales Tax

Even if your clients think they have a handle on the existing rules, they might not be keeping up with the implications of all of the changes occurring in the marketplace. Here is just a sample of sales tax rules from various states that may have unwanted consequences for your clients. What else needs to be on your radar?

- **Prickly proximity.** In Utah, napkins located near a donut can change its character from food (which is often exempt) to prepared food (which is taxable).
- **The blunder of bundling.** Installation charges (which would other-wise be exempt) are taxable when included with the cost of a product.

According to the state of West Virginia, popcorn prepared by the seller and sold with a drink and candy for one price is a bundled transaction subject to a 6% rate. However, if the popcorn, drink and candy are sold individually, the popcorn and drink are subject to the 6% rate while the candy is subject to the 3% rate.

- **The sin of self-transporting.** In Alabama, if delivery is made in the seller's vehicle, transportation charges are subject to sales tax. If made by common carrier and stated separately, they are not.
- **Flummoxed by flour.** In most states, the addition of flour changes the character of an item from candy (taxable) to food (nontaxable). Items that require refrigeration are also excluded from the definition of candy in many states.
- **The agony of accessorizing.** Clothing is exempt in Minnesota, but clothing accessories are not.

- **The risk of repairing.** When supplies are used or consumed in rendering repair services, the repairer cannot purchase the supplies under a resale exemption. The supplies are subject to tax at the time of the purchase by the repairer.

In Pennsylvania, purchases of any supplies such as tools, solvents and rags that are used by an automobile repairer and do not become part of the vehicle are subject to sales tax.

- **The vexing vending machine.** In California, items that are normally exempt when sold in a store may be subject to tax—the tax applies to 33 percent of gross receipts from vending machine sales of cold food products (including non-carbonated water) and hot drinks.

In Florida, a vending machine transaction can trigger sales tax at three levels - on the sale of tangible items, on the lease or license to use a vending machine, and on commissions paid to the location owner by the operator.

2. Businesses are Changing How They Sell and Buy.

You can sell anything online in a matter of minutes. All you need is a credit card and a computer connection. PayPal will create a secured site for handling a single item sale with a price you name and they'll even create the "Buy Now" button that goes on your website. The minute that button is live on your client's website, there is potential exposure for sales tax liability in a new state.

And you can buy anything from anywhere. Your client goes online to buy that perfect painting for his front office and has it shipped by someone with no nexus in his home state. Bang, he has incurred Use Tax liability. Your client doesn't think this is cause to call you up and ask a question. And he doesn't think about it when he orders the other 50 or so items he needs to redecorate his office. But the state auditor thinks about it when he shows up.

All the auditor has to do is take a quick run through your client's credit card receipts for the last year or two to find some use tax liability. And then he'll turn to those PayPal transactions.

Buying and selling items over the Internet is only one way your client could be triggering increased sales tax exposure. These are other more subtle changes in his business operations that could trigger a change in your client's sales tax liability:

- Removing items from inventory for use in his business
- Moving an item from one state to another—what's exempt in one state might not be in another
- Buying an item in a lower-rate jurisdiction and then using it in a different one
- Bundling a product and service in one transaction
- Hiring a subcontractor in another state
- New state and local rules, rates, and jurisdictional boundaries

3. Sales Tax Rates Change Constantly.

There are on average 1.9 changes in a sales tax rate every DAY of the year. You need to help your clients stay on top of these changes. If they under-collect sales tax, they will have to pay the difference (plus penalties and interest) out of their profits. If they over-collect, they could weaken their competitive position and risk a potential lawsuit.

4. Transactions are Crossing Jurisdictions at an Increasing Rate.

There are more than 13,000 sales taxes imposed in the U.S. by nearly as many taxing jurisdictions. As your clients become more mobile and sell into new areas, their exposure increases. You need to help them get a handle on their liability.

How many of your clients are fully informed about nexus rules? Certain activities may trigger nexus in a state. For example, does your client:

- Make sales into states where he doesn't collect sales taxes?
- Make deliveries to those states in his own trucks?
- Send repair or maintenance employees or representatives into various states to perform work on their behalf?
- Sell items through a website or catalog and then accept returns at a brick and mortar store?
- Market jointly with an affiliate that sells through catalog or Internet?
- Use in-state solicitors— employees, agents or independent contractors—to make sales into a state?

5. Jurisdictional Boundaries are Harder to Determine.

In many states, the lines between different jurisdictions can be drawn between houses on the same street even within the same ZIP code. This means that it is more difficult than ever to determine the correct rate of tax to apply. While legacy systems that base their calculations on ZIP+4 rate tables used to be adequate, today's jurisdictions require sales tax calculations that are accurate down to the rooftop level.

6. States Need Revenue.

Sales tax audits are ripe sources of potential revenues for desperate state taxing authorities.

With heightened strains on the economy, strains on state revenue have been increasing and in fact, many state governments are facing massive shortfalls resulting from the increase in remote (non-taxable) online sales, a slumping retail sector, housing problems and the resulting decline in property tax revenues.

Consider this announcement from the Pennsylvania tax authorities where sales tax accounts for 28% of their revenues:

REVENUE DEPARTMENT RELEASES FISCAL YEAR 2007-2008
COLLECTIONS (7/1/2008)

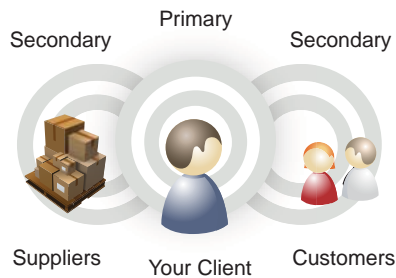
HARRISBURG -- Secretary of Revenue Tom Wolf today reported that the state collected \$2.6 billion in General Fund revenue in June, \$135 million, or 4.9 percent, less than anticipated.

Sales tax receipts totaled \$710.2 million for June, which was \$30.2 million below estimate. Sales tax collections for the fiscal year totaled \$8.5 billion, which was \$32.3 million below estimate, or 0.4 percent less than anticipated.

Personal income tax (PIT) revenue in June was \$1 billion, which was \$8.9 million below estimate.

As a result of shrinking surpluses, states like Pennsylvania are now actively reviewing their sales tax coffers for additional funds. Typically, if an auditor visits a company and looks at their records, he knows he will find a balance due. For the states, it comes down to a question of cost versus benefit: how many auditors do they need to hit their revenue targets?

Figure One: The Expanding Reach of An Audit



Auditors are likely to begin their audits in the area of your client's business that is most exposed (and easiest to assess) and then will extrapolate their findings across a broad range of other areas. Once an auditor uncovers a liability at one company, he or she has access to the invoices sent and received and then can potentially widen his circle of audit assessments. The audit net continues to expand from that single company to its vendors and customers until the auditor runs out of time or energy and the coffers have filled back up. Sales tax is an easy source of revenues for any state government in need of a revenue infusion.

Sales tax represents a major portion of many states' revenue. As of 2007, these 35 states rely on sales tax for more than 25% of their total revenue.

DEPENDENCY ON SALES TAX FOR STATE REVENUE	
State	Sales Tax as % of Revenue
Washington	61.4
Florida	60.9
Tennessee	59.6
South Dakota	56.6
Nevada	51
Texas	50.7
Hawaii	50.2
Mississippi	49.3
Arizona	45.9
Arkansas	39.3
Indiana	38.5
South Carolina	37.2
Nebraska	36.5
Idaho	36.1
New Mexico	35.4
Wyoming	34.5
Georgia	34.2
Michigan	33.5
Utah	33.2
Kansas	32.5
Louisiana	32.1
Rhode Island	31.7
Ohio	31.4
Missouri	30.6
Maine	29.5
New Jersey	28.7
Wisconsin	28.7
California	28.5
Kentucky	28.5
Pennsylvania	28.1
Iowa	27.6
North Dakota	27.2
Illinois	26.5
Alabama	25.7
Minnesota	25.1

35 states rely on sales tax for more than 25% of their total revenue.

Source <http://www.taxadmin.org/FTA/rate/07taxdis.html>



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NATIONAL PRESENCE - LOCAL TOUCH

7. Expanding List of Items Subject to Sales Tax.

States are looking to reduce the list of items that are exempt from sales tax. And guess where they are looking? At professional services. That's right: Accountants, lawyers and other professionals might have to start paying sales tax on the services they provide. In fact, they are already subject to tax in five states.

Don't take my word for it - take it from the Comptroller of New York.

"Sales taxes are an important source of revenue for New York State's local governments. This revenue stream has helped local governments cope with the rising cost of providing services and mitigate property tax increases.

The degree to which local governments depend on sales taxes varies, but their overall reliance has increased over the past 10 years. For instance, counties saw an increase in sales tax revenues, as a share of total revenue, from 21.3 percent in 1996 to 26.9 percent in 2006. Sales tax revenues now exceed the real property tax as the largest revenue source for counties."

From a report of the Office of The New York State Comptroller County Sales Tax, Collections by Region, July 2008

8. The High Cost of a Sales Tax Audit.

How much of your client's profit could be at risk in an assessment? While there are few sources of statistical information related to sales tax assessments, a review of recent tax cases shows the following assessment activity:

The State of New York assessed one company \$560,095.35 on sales of \$19 million covering a four year period from March 2001 through May 2004.

New Jersey charged a company \$16,164.89 on sales from April 2001-June 2004.

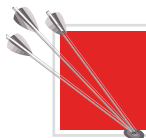
The Idaho state tax commission assessed \$36,723 on sales made from January 2002 to December 2005, but by the time they were finished, penalties and interest added another \$20,000 to that figure.

Wisconsin assessed one company \$20,371.20.

These are just some of the recent assessments that made it to court. Numerous assessments are paid without dispute or are settled out of court.

The total cost of sales tax audits includes the following:

1. Cost of time spent reviewing records and responding to auditors
2. Cost of professional assistance
3. Tax assessment
4. Penalties
5. Interest
6. Future year scrutiny



Sales Tax Radar #2: New Rules (and Opportunities)

Understand the “Streamlined” Effect.

Your clients may benefit from the new rules that are part of the Streamlined Sales and Use Tax Agreement (SSUTA) that has been adopted by many states. These rules, which are designed to encourage efforts at the federal level to allow states to require remote sellers to collect sales tax, have made sweeping changes in the way sales tax will be computed, administered, and calculated.

Skeptical? A healthy dose of skepticism is one of the reasons accountants are such valuable advisors to their clients. And yes, we’ve all seen those consortiums with their promises of simplicity before. But don’t let your skepticism keep you from helping your clients take advantage of some of the benefits that are already available under these new rules.

The agreement requires member states to comply with uniform sourcing rules, to simplify exemptions within a state and to generally make it easier for small businesses to figure out what rate of tax to pay. The agreement also provides a centralized registration system that uses a single application to register a filer in all participating states. It drastically reduces the importance of nexus debates in states that are participating as it deems all transactions, unless received by the purchaser at the seller’s location, to be taxable at the place of delivery.

The agreement goes into unexpected territory when it makes provisions to help pay for automated solutions to aid in compliance, complete with a system of certifying the providers and making them, not your clients, liable for certain types of errors. In addition, it builds in limited amnesty offers, and mandates that states provide standardized databases and adhere to common dates for posting rate and jurisdictional changes.

Summary of Key Provisions of the Streamlined Sales and Use Tax Agreement as of October, 2008

Definitions

Section 202 – Certified Automated System (CAS)

Software certified under the Agreement to calculate the tax imposed by each jurisdiction on a transaction, determine the amount of tax to remit to the appropriate state, and maintain a record of the transaction. (A CAS does everything but remit the payment for the seller.)

Section 203 – Certified Service Provider (CSP)

An agent certified under the Agreement to perform all the seller's sales and use tax functions, other than the seller's obligation to remit tax on its own purchases.

Changes that impact the administration of sales tax

Section 302 – Tax Bases

This section requires local jurisdictions to be identical to the state tax base. These means that items that are exempt at the state level must also be exempt in the local jurisdictions within that state.

Section 305 – Local Rates and Boundaries

This section creates rules regarding frequency and timing of local rate changes for all member states.

Section 308 – State and Local Tax Rates

- a. Requires states to eliminate multiple state sales and use tax rates on most items of personal property.
- b. Limits the number of local sales tax rates per jurisdiction and requires that sales and use tax rates be equal.

Section 310 – Sourcing Rules

Retail sales

- If an item is received by the purchaser at seller's location, is taxed at the rate applicable to that location.
- If it is not received at the seller's location, is taxed at the location where it is received by the purchaser.
- There are additional rules covering a myriad of variations of the second option.

Other

Section 310.1 provides an election effective in 2010 for using origin-based sourcing.

Summary of Key Provisions of the Streamlined Sales and Use Tax Agreement (continued)

Changes that impact a registered seller

Section 303 – Seller Registration

The section provides for centralized registration under the agreement in all member states.

- a. Registration under the agreement in one state registers the seller in all member states.
- b. Member states can not charge registration fees if the seller is filing voluntarily.

Section 306 – Seller and CSP Liability

This section provides liability relief for sellers and their CSP in the event they make certain types of specified calculation errors.

Section 402 – Amnesty for Registrant

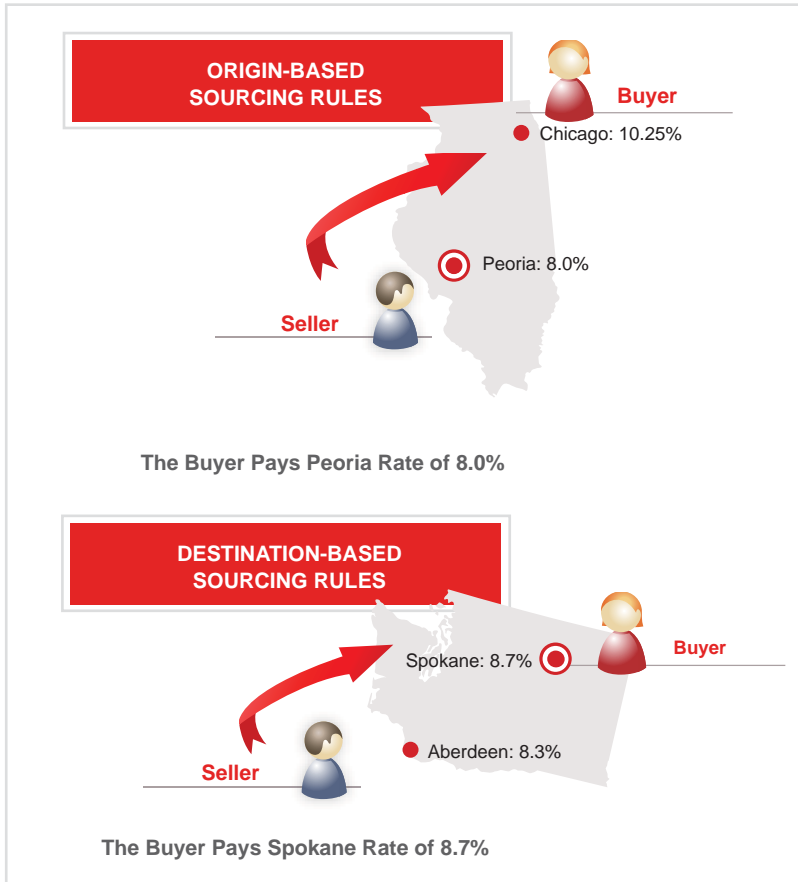
Amnesty is provided to new registered sellers in a given state, if they are not under audit, do not have nexus in that state, and voluntarily register, provided they register within 12 months of that state's adopting the SSUTA.

Your Clients will need Help in Evaluating their Options.

Although adoption of the agreement by sellers is currently voluntary, a proposal has been presented to Congress to adopt these changes across the U.S. under the Sales Tax Fairness and Simplification Act (S. 34, HR 3396). You have an opportunity to help your clients evaluate the cost vs. benefit of voluntarily complying with the new Streamlined Sales Tax (SST) requirements and taking advantage of any resulting amnesty and indemnification.

Which State Gets Paid?

Origination states view sales tax transactions in the state as payable in the jurisdiction where the item is sold. Destination states view tax as payable based on the seller's location if that is where the item is received, but otherwise taxes are payable to the jurisdiction to which the item is delivered. Under the SSUTA agreement, member states must switch to the destination view of determining tax. *These changes have been made in participating states and apply to your clients whether they elect to voluntarily comply with these new rules or not.* The rate of sales tax collected by a single seller on the same item could be very different under the two scenarios as could the amount of use tax payable on internal purchases.



SOURCING RULES BY STATE	
Jurisdiction	Sourcing
Alabama	Destination
Alaska	N/A - No Sales Tax
Arizona	Origin
Arkansas	Destination
California	Modified Origin*
Colorado	Destination
Connecticut	Destination
Delaware	N/A - No Sales Tax
District of Columbia	Destination
Florida	Destination
Georgia	Destination
Hawaii	Destination
Idaho	Destination
Illinois	Origin
Indiana	Destination
Iowa	Destination
Kansas	Destination
Kentucky	Destination
Louisiana	Destination
Maine	Destination
Maryland	Destination
Massachusetts	Destination
Michigan	Destination
Minnesota	Destination
Mississippi	Destination
Missouri	Origin
Montana	N/A - No Sales Tax
Nebraska	Destination
Nevada	Destination
New Hampshire	N/A - No Sales Tax
New Jersey	Destination
New Mexico	Origin
New York	Destination
North Carolina	Destination
North Dakota	Destination
Ohio	Destination
Oklahoma	Destination
Oregon	N/A - No Sales Tax
Pennsylvania	Destination
Rhode Island	Destination
South Carolina	Destination
South Dakota	Destination
Tennessee	Destination
Texas	Origin
Utah	Origin
Vermont	Destination
Virginia	Origin
Washington	Destination
West Virginia	Destination
Wisconsin	Destination
Wyoming	Destination

* California is a modified origin state. State, county and city taxes are due at the origin, and the district transaction taxes are due at the destination.

Considerations for voluntarily complying with SST.

PROs

- Consistent destination sourcing for all SST states
- Reduced audit liability when certified systems are used
- Amnesty potential in SST conforming states
- Funding assistance for certified solutions in member states
- Single ID number and registration for member states
- Centralized payments to member states through CSP providers

CONs

- You still have to comply with nexus rules in non-SST states
- No relief in states that are already under audit or where you already have nexus
- May increase the reporting burden to states where you have not reported previously, as you must file returns in all SST member states
- Not all states comply, which means you must follow different rules for conforming and non-conforming states



Put Sales Tax Out of Your Mind.

The Options.

Now that I have you sufficiently worried, I'm going to ease your mind. The good news is that today's technology has evolved to the point that it can make sales tax compliance surprisingly painless. So let's review your clients' options for complying with sales tax requirements.

These are the different ways your clients might currently be handling sales tax in conjunction with their accounting software:

1. Manual Compliance.
 - a. Your client manually loads state, county, city and local tax rates into his accounting software. He then manually updates the tax tables for rate changes every time they occur in each jurisdiction in which he files.
 - b. Your client manually updates individual item and customer exemption status information and monitors rules to the best of his ability.

- c. He generates a monthly report showing summary sales tax information, which he uses to compute the tax liability and jurisdiction totals.
 - d. He prepares and files a manual return in the states in which he has nexus (under the old rules) or in all of the SST states (under the new rules).
 - e. He or she makes payments to each of the individual taxing authorities.
2. Hybrid.
- Your client subscribes to a rate table update service which populates the tax rates in his accounting software for all jurisdictions in which he files.
 - Your client manually updates individual item and customer exemption and taxability status and administers the rules.
 - He generates a monthly report showing summary sales tax information, which he uses to compute the tax liability and jurisdiction totals.
 - He prepares and files a manual return in the states in which he has nexus (under the old rules) or in all of the SST states (under the new rules).
 - He or she makes payments to the individual taxing authorities.
3. Fully automated.
- Your client subscribes to a web-based service that is integrated into his accounting software.
 - The solution maintains the rules and rates, validates the calculation on each transaction, generates and files a return, showing the tax due in each state.
 - The vendor remits electronic payments to all appropriate taxing authorities.

The Best Solution.

Ask any accountant to make a recommendation and the answer will likely be, "It depends." And that is true in this case as well.

If your client has a simple retail business, files in a single state, and doesn't plan to grow or move to Internet sales, a manual process could be sufficient. He may still need your help dealing with tax rates and rules for products that are shipped to other jurisdictions, and he will still have to manage exemption certificates, return filing, and making those payments on time.

Once your client moves beyond retail sales, crosses into multiple jurisdictions, or starts putting people in other states, he is going to need more help in keeping up with sales tax requirements. A hybrid solution will help him keep up with rate changes, but he will still have to stay on top of taxability matrices in various states, monitor exemption statuses, prepare and file returns, and manage all of those payments. If he can afford to dedicate a staff person to managing his taxes, he might still be covered.

Growing, successful businesses quickly find that the hassles of keeping up with all of the rate and jurisdictional changes, sourcing rules, and exemption statuses become too burdensome. Not to mention the return preparation and payment handling. At that point, they decide that their employees can be better focused on higher value activities. That's when they are ready for a fully automated solution.

Web-based automated solutions, often called "Software as a Service" or SaaS, are ideally suited to handling the constant rate and jurisdiction changes that are the norm in sales tax compliance because all those changes are tracked not by you or your client, but by a central service that is accessed via the internet. So long as you or your client ensures his unique company settings - like nexus, product taxability, and exemptions - are up-to-date within the system, with these web-based tools connected to his accounting software at the appropriate points, he gets effortless consistency and accuracy with every sales tax calculation.

SaaS also brings the strengths of a central-service model to returns generation, filing and remittance. Depending on the particular solution, the process of generation, reviewing and approving returns is dramatically simplified using online tools.

All of the elements of sales tax that make compliance painful are the very problems that Software as a Service (SaaS) solutions are designed to solve, namely:

- Constant tax rate changes
- Changing jurisdictions
- Differing nexus rules
- Granular geographical distinctions between one jurisdiction and another – down to the numbered address
- Multiple decision points
- Payments to numerous parties within a single state, and in multiple states
- Changing exemptions in each state
- Multiple tiers of tax

Software as a Service.

"Software as a Service" (SaaS) is a term applied to software that uses the Internet to distribute its solution to multiple users in a consistent way. All files and data are typically stored at a central location, with software updates being applied regularly for all users of the application. Data is managed, secured, and backed up by the service provider. Pricing for this service is typically based on a transaction or per use model for a specified number of users.

SaaS solutions have been in wide use since 2001 but have become increasingly valuable in managing information that needs to be updated constantly and deployed broadly. When compared to traditional desktop applications which take up space on a local server, require local management, and require constant installations of updates and patches, the benefits of SaaS are clear.

Submission of returns and payments to taxing authorities is streamlined using online tool. Submission of returns and payments to taxing authorities is streamlined and outsourced if that is your preference.

What to Look for in a SaaS Sales Tax Solution.

With a SaaS sales tax solution, your client's accounting application continues to function as the repository for the general ledger as well as balance information, invoices, payments, customer lists, and the like. The sales tax solution works in a secondary role and is activated by automated triggers built into transaction processing. In order to provide the best service, your clients' SaaS solution should have the following attributes:

- 1. Integration.** The right solution will provide links to your client's financial and e-commerce solutions so that correct sales tax calculations feed into your invoicing and customer maintenance processes and eliminate the risk of error associated with manual lookups.
- 2. Reporting.** The solution should produce management reports, detailed transaction reports, and maintain a comprehensive audit trail.
- 3. Filing controls.** The solution should provide built-in controls to monitor due dates and balances due, and include role-based privileges to ensure security while enabling quality control.
- 4. Accuracy.** The solution should use sophisticated technology to determine the correct tax rate. Ideally, it should apply mapping technology combined with geographic data to the US Postal Service database of valid US addresses.
- 5. Certified.** The solution and its provider should be certified (as a CAS and a CSP respectively) under the SSUTA provisions, so your clients' cost of complying in an SST state can qualify for state subsidies. Limited audit relief is also provided to companies who engage a CSP to handle their sales tax processing. In order to be eligible for subsidies and audit relief, your client must be using a certified provider and voluntarily filing in a state in which he has no outstanding audits or existing requirements to file.

NOTE: Whether or not your clients stand to benefit from the provisions of SSUTA, the certification procedure under the act provides proof that a certified vendor has been vetted by an external agency. This certification process provides assurance that the provider has mechanisms in place for secure and streamlined filing and has met the rigorous standards imposed by the board.

- 6. Sophisticated centralized rules engine.** Your client should be able to tap into a centralized repository containing all of the possible rules that apply across industries, while having access to a configurable rules engine that can manage nexus, sourcing rules, exemptions, exceptions, shipping locations, SST volunteer status, and all other settings that are unique to your client's business.

7. Designed for exceptions. The design of the application is critical. SaaS sales tax solutions should be designed to manage an environment of constant change and individual exceptions. SaaS sales tax solutions that rigidly manage rules tables individually for each company or client are limiting the benefits that are otherwise available in a flexibly designed SaaS product.
8. Expertise. The solution should be supported by a team of qualified staff who can assist your client in properly configuring it for their business.
9. Management Tools. The solution should provide a quick view of transactions across multiple periods and clients so that you can stay informed about the status of all of your clients.

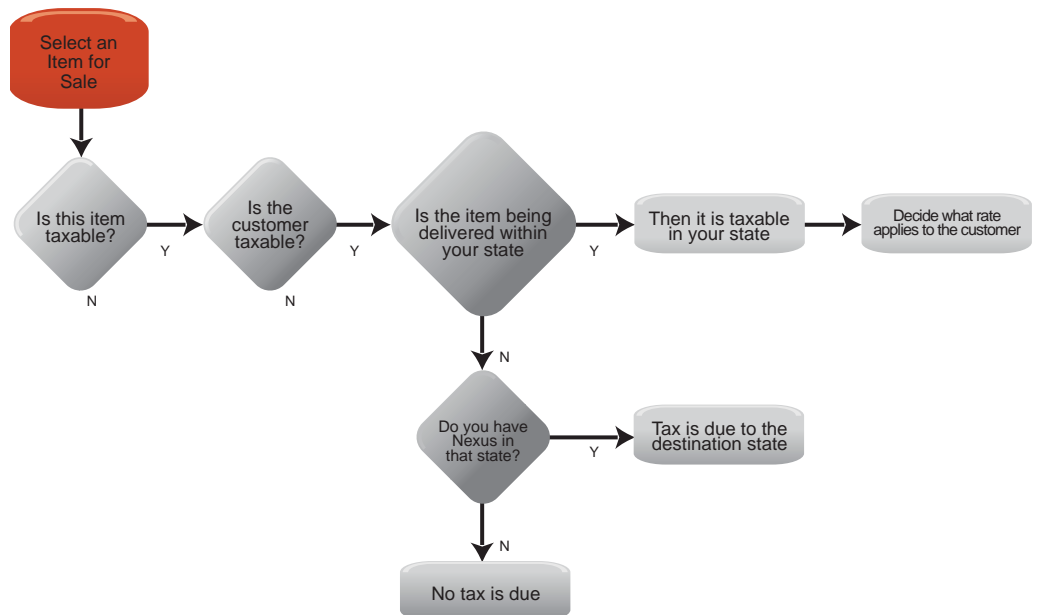


Figure Three: Some Sales Tax Decisions That Can be Automated

On the Radar, But Off of Your Mind.

Now you know why it makes sense to take another look at sales tax compliance issues for your clients. You’ve got your “old laws,” the ones that we’re mostly operating under now, and your new-fangled SSUTA (Streamlined Sales and Use Tax Agreement) rules. You understand the shifts that have occurred in the rules of business that are the foundations on which the old laws were built. And you are fully cognizant of the opportunities that might present themselves under the new, voluntary rules. You’re all ready to pull out those spreadsheets and start analyzing the difference between the two methods of determining tax.

Instituting protective sales tax practices for your clients can be done efficiently. If you take a proactive, action-oriented approach. Here's an action plan with suggestions and shortcuts to keep it simple.

1. Start asking your clients more questions. Chances are, your clients would benefit from precautionary steps to reduce risk of penalty and audit, but their limited knowledge of sales tax and its potential risk prevents them from even raising their concerns with you. That's why it's up to you to ask them the right questions.

The best way to jump-start this conversation is to tap into the discovery power, and time-proven value, of a questionnaire. You may have one already in place. If you don't, there is one online that I always recommend, published by SaaS provider SpeedTax but created by a panel of sales tax-specialized CPAs, which does the job of educating the client while collecting key points about zones of risk that you can use as a springboard for corrective action.

After the client answers a handful of questions under seven categories of compliance risk – audit defense, nexus, taxability, returns and filing, exemptions, and current practices – an immediate snapshot assessment is made, and a full report of his answers along with any of his free-form comments, is forwarded to you.

You can find it at <http://www.salestaxquestionnaire.com>

2. Educate your clients about this important area. Once the client has done some basic examination into their sales tax needs and practices, it's time to explore the options to improve their practices.

There are some areas where you might provide a periodic review:

- **Their sales tax policies.** Their nexus determinations may need to be reviewed, as might be the taxability coding for their products and services. They may also stand to benefit from the state subsidies and indemnification that comes with volunteering under the rules of the Streamlined Sales Tax initiative.
- **Their procedures.** Mid-year is a great time to review their procedures for collecting, validating and maintaining exemption certificates, procedures for filing and remittance, and staff roles and responsibilities.
- **Their tools.** Everything in Figure 3 represents a piece of the sales tax puzzle that can be automated. With the accessible price point and practicality of web-enabled sales tax automation and management solutions, you can remove human error from the mix and guide your clients to less labor- and error-intensive ways to calculate, report on, file, and remit sales taxes. Along the way, you – and they - will also benefit from online management tools that give you oversight of their collections data, liabilities and filing deadlines.

3. Learn more about the certified solutions available. As mentioned, you can't beat the practical and compliance benefits of Software-as-a-Service, as opposed to traditional software. Once you have the online tools, you won't have it any other way. You will also want the ease of implementation, the pay-as-you-go pricing, and the high standards of SST certification – none of which is available with traditional software. If you are looking to provide value-added services in this area, Speedtax has a product designed for CPAs who want to manage multiple clients.

Now that you have sales tax on your radar, you are in a position to provide the high level of service your clients expect. You have a new awareness of the risks and you are armed with knowledge of the right tools to help your clients comply. So whether you get directly involved in sales tax compliance or just point your clients to technology providers, the problem, which I had just added to your list of Top 20 things to worry about, has been immediately checked off.



Geni Whitehouse, CPA.CITP, CSPM, 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, was a member of the XBRL steering committee, and quickly changed jobs the day she was assigned to work full time on a large sales tax audit for one former employer.

Currently, she is the Chief Communications Officer and founder of [Even a Nerd Can Be Heard](#), an organization devoted to making boring subjects interesting.

Statement: 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, her role as software company executive, and supplemented by research and surveys, in addition to her frequent participation in CPA conferences around the country. Readers are encouraged to pursue the right solution for their clients in accordance with their particular needs. Any discoveries, comments, or learning along the way are welcomed. Contact Geni Whitehouse at geni@evenanerd.com.

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