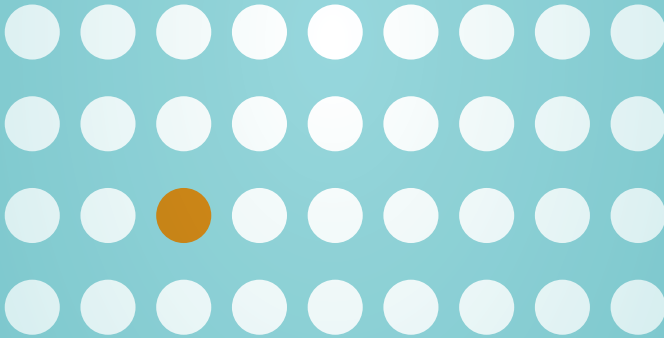


A GENI WHITEHOUSE SALES TAX GUIDE

**HOW TO CHOOSE A
SALES TAX**

Management Solution



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How to choose a sales tax management *solution*

Why do I need a sales tax management solution?

Maybe you don't. Perhaps you have the most efficient sales tax management solution on the planet and her name is Ethel. Ethel works in Accounting. She files your monthly returns on the 20th of every month, mails the check to your revenue authorities like clockwork, and reviews every invoice to make sure you are accurately reflecting the appropriate amount of tax due to your home state. Ethel has a paper file containing exemption certificates for applicable customers and she has gone through two sales tax audits unscathed. All of your customers are located in your state of residence, and life is good.

If this is your business, then give Ethel a raise and do everything you can to make sure she stays in good health.

But what if you don't have an Ethel? Or what if it takes Ethel and ten others like her to keep all of your sales taxes in order? And what happens to poor Ethel when you suddenly begin to sell product on the Internet, when you add a customer in a new state, or



Ethel

when you add a salesperson in another state? Your business can quickly become exposed to new compliance risks that outpace Ethel's ability to keep up.

By automating the time-consuming element of sales tax, you will free Ethel to turn her attentions to other areas.

You might find that Ethel can make a bigger contribution to your organization by working on collections, providing customer service, or setting up that new inventory tracking system.

It is easier than ever to implement a sales tax automation and management solution.

With the introduction of web-based solutions, businesses have more practical options to choose from than ever before. By following a few guidelines, you can easily navigate through the options to find the right solution for your business.

In this guide, we'll help you get started in finding the right automated sales tax solution—one that even Ethel would approve of.

At some point in the evolution of a business, it makes sense to start looking at **ways to automate repeatable processes** and to free up your staff so they can focus on more valuable activities.

1

Look at your business plan

Understanding your vision is the critical first step to making any technology investment, and sales tax is no different. You need to understand where your business is headed so you can plan for a solution that grows with you. You want to invest in a solution that serves your business tomorrow, not just your business as it exists today.

A business plan typically addresses the following areas, among others. Each can impact your sales tax liability and potentially your choice of solution:

Geographic market.

Where are your customers located?

If you plan to sell outside of a single state, you need to be sure that your solution can handle rate updates.

Products and services.

What do you sell?

If you are expanding your product line, taxability becomes increasingly complex. As you grow, a sales tax solution can help you maintain your “taxability matrix.”

Distribution methods.

Will you sell direct or via distributors? And will you be selling goods and services on the Internet?

Having a team of distributors can subject your company to tax liability in each of the states in which they operate. Selling goods over the Internet can further spread the exposure. If you will be creating an e-commerce site, you need to be sure that your sales tax solution can handle multiple points of integration.

Marketing tactics.

How will you get the message out?

Certain types of affiliate marketing can impact your taxability in different states.

What's my ROI?

When you assess your potential gains from adopting sales tax automation and management technology, there are time, cost, and compliance dimensions. Ask yourself these questions:

- How much time does IT and Accounting now spend getting sales tax right?
- What are my costs for existing sales tax systems, consulting, and subscriptions?
- What is my confidence level and exposure in the event of a sales tax audit?

I have an automated accounting system—isn't that enough?

Automated accounting systems do a great job of managing many aspects of your business. But when it comes to sales tax, they leave the bulk of the work to you.

Most accounting applications include a tax rate table that you populate with the state and local tax rates. Those rates can then be combined to meet the requirements of state and local jurisdictions. But decisions about taxability, including when and how those rates are applied, are left up to the discretion of the order entry clerk or salesperson.



For companies that want to consistently apply rules, rates, and exemptions across all customer transactions, it is wise to turn to a solution that specializes in sales tax. A good sales tax solution manages rate changes, keeps up with changing jurisdictional maps, tracks exemption status changes, and adheres to the various state and local taxability matrices that determine your final tax liability. The right solution integrates with your accounting application and connects straight through to your invoices. It should validate addresses and ensure jurisdictional boundaries are correctly applied to every transaction.

When you have the right automation solution:

- Invoices are quickly generated with the correct amount of tax due
- Returns are filed automatically
- Proper taxing authorities are paid by the due date
- Your data is retained and easily accessible in the event of an audit

2

Review your sales tax audit exposure

It is wise to know where you stand before you begin looking for an automated solution.

Know your product taxability. Review states' rules and exceptions affecting taxability for the products and services you sell. The solution must be able to apply any rule or variance to your calculations in every state where you have nexus.

Identify any nexus issues. Review your activity in each state to ensure that you have filed in all states in which you have nexus. You will want to be sure that you are reporting accurately when you implement your new system.

Take stock of your exemption certificates. Verify that you have exemption certificates on file for customers who qualify for exemption and a system to keep them updated.



Assess your sales tax compliance risk. Take advantage of free online tools to reveal issues unique to your business that pose a compliance risk across a number of different areas. An excellent tool, designed by accountants, is offered at www.SalesTaxQuestionnaire.com by sales tax solution provider SpeedTax.



With this tool, you answer a series of questions and get a quick risk assessment plus a comprehensive report that clearly identifies the top areas where you have exposure. You can then e-mail the report directly to a sales tax advisor for further investigation and corrective action.

What is Nexus?

Nexus is a means of determining whether an entity must collect tax in a state. Under rules of multi-state taxation, no state can require an entity to collect sales tax unless that entity has established "nexus", or a minimum level of connection with that state.

Nexus for sales tax purposes is generally established in one of the following ways:

- Owning property in the state
- Employing state residents
- Having salespeople enter a state to promote or sell goods or services
- Hiring independent representatives in a state
- Having a business location in the state
- Installing or repairing products in a state
- Having displays at tradeshow in a state
- Advertising via catalogues or brochures mailed to a state
- Delivering products in your company vehicles into a state

What is the true cost of a sales tax audit?

It is not just the cost of a single year assessment that you need to consider during a sales tax audit. Additional costs could include the following:

Tax assessments for two prior years\$	<input type="text"/>
Penalties\$	<input type="text"/>
Interest\$	<input type="text"/>
Increased audit exposure for subsequent years\$	<input type="text"/>
Scrutiny of your customer and vendors—leading to potential audit of their records\$	<input type="text"/>
Staff time in gathering records\$	<input type="text"/>
Professional assistance with the audit\$	<input type="text"/>
TOTAL	\$	<input style="border: 2px solid red;" type="text"/>

3

Decide what you want to automate

You have options. You can choose to automate specific functions or the entire process. You may choose traditional desktop solutions that rely on CD restores or system downloads for rate updates. Or you can choose to integrate with Web-based applications (called Software as a Service or SaaS) that offer comprehensive automation, and are specifically designed to handle the fast pace of change that drives sales tax compliance. Ideally, whatever solution you choose should manage all of the components of your sales tax process so that no element remains prone to manual error. These are the components of the process that can be automated:

- 1. Tax rates.** You can subscribe to an update service that provides monthly tax rates you use to manually populate the tax tables in your accounting application.
- 2. Jurisdiction determination.** You can subscribe to an address verification service that makes sure your customers are providing a valid address, then use the verified address to accurately map the address and overlay the boundaries of all applicable taxing jurisdictions to make a correct jurisdiction and rate determination. Jurisdiction boundaries in and of themselves—whether using a buyer's ZIP code or even a ZIP+4 to determine taxing jurisdictions, will not reliably and consistently result in correct calculations.
- 3. Taxability rules engine and exemption tracking.** Taxability of your products and services must be taken into account for correct sales tax calculations. Provisions for handling this aspect of compliance vary depending on your accounting package. Automation solutions give you administrative tools that make setting up taxability rules easy, and automatically apply those rules to every calculation.

An Exemption Certificate Management System (ECMS) can be purchased to track and maintain exemptions digitally. Some systems incorporate these and other variables unique to your business into a rules-based engine, and apply them to each transaction real-time.
- 4. Report preparation and filing.** You can outsource these tasks to either a specialized organization or a service provider for varying levels of support. Some automation solutions go so far as to serve up interactive PDFs of the

actual forms for your changes and approvals and have reminders and prompts built in to ensure on-time filing.

- 5. Remittance.** You can pay directly or use a service provider as an intermediary for payments to multiple states, usually in conjunction with a provider's filing service.

What a good system delivers

The right sales tax solution can deliver a number of benefits to your organization, including:

Peace of mind. With the right solution in place, you can stop worrying about being unprepared for sales tax audits. You can rest assured that rules are being consistently applied and updated, and the tax rate changes are being recorded on a timely basis.

Freedom to focus. Resources can be diverted from the repetitive low-value activities required to comply with sales tax rules to higher value activities that help to move your organization forward.

Simplified payments. An automated filing and reporting solution will help avoid exposure to late filing and late payment penalties while ensuring that funds get to the right place.

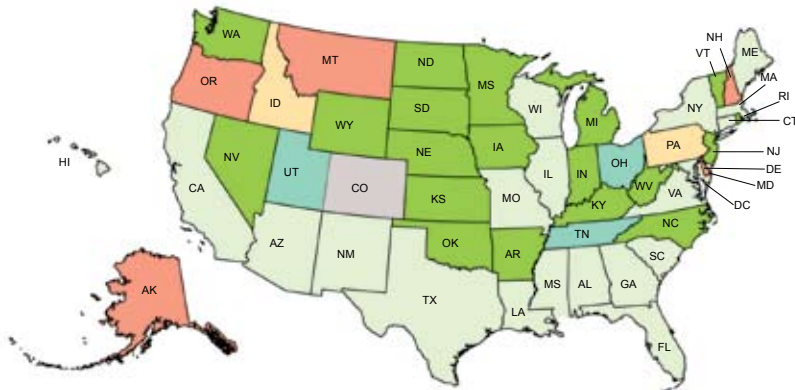
Improved cash flow. Having the right system in place can speed up the order entry process while improving the accuracy of your invoices and potentially speeding up your collection results. No one wants to see a discrepancy over sales tax charges causing a delay in the payment of an outstanding invoice.

Customer loyalty. The moment you begin selling a product or service, you are liable for sales tax. And because sales tax is a passed-through tax—charged at the point of transfer and paid by the purchaser of the good or service—accuracy is important. Overcharging a customer can be a source of ill-will, while undercharging can result in a liability for the seller.

Less guesswork. A centralized rules engine can help take the guesswork out of determining how much sales tax to charge.

The benefits of adopting provisions of the SSUTA

In a nutshell, Streamlined Sales and Use Tax Agreement (SSUTA) is an attempt by member states to simplify the process of taxing sales transactions that cross state boundaries. So far, 22 states have joined together to agree on a number of different rules that apply to multi-state transactions. These rules define standards for sourcing (determining which jurisdictions collect tax on multi-jurisdiction transactions), rate changes, and registration for member states.



- Full Member
- Associate Member – Flex to Full
- Advisory – Non Conforming
- Non-Sales Tax
- Project – Non Advisory
- Non-Participating

There are other SSUTA measures that may impact your company, so be sure to sit down with your tax advisor and consider the benefits of voluntarily adopting these provisions. You might direct them to www.SalesTaxRadar.com for a white paper with more detailed information, or to the organization's web site at www.StreamlinedSalesTax.org.

If there is sufficient benefit and you elect to comply, you may qualify for funding of the purchase of a certified solution in SSUTA member states. Should you choose to volunteer, or foresee volunteering to participate in the SSUTA program, your search for the right sales tax solution should focus on providers that are designated as Certified Service Providers under the program.

What does it mean to be SST-Certified?

SST Certified Service Providers (CSPs) undergo a lengthy certification process involving site-visits by SST state representatives to ensure the provider has the functionality, security and scalability in place to successfully support SST adopters. Once the provider has been vetted, it must also be approved separately by each of the 22 states after demonstrating accurate calculations and remittance processes for each incumbent state.

If your company chooses to voluntarily comply with provisions of the Streamlined Sales and Use Tax Agreement, the CSP sales tax solution provides these added benefits:

- **Reduced liability.** Member states offer reduced audit liability for errors resulting from the use of a certified system.
- **Simplified registration.** Member states have all agreed to accept a single registration form.
- **Limited amnesty.** New member states typically offer sales tax amnesty within the first year of their adoption of SSUTA provisions.
- **Payment assistance.** Member states have agreed to offer payment assistance for certified solutions implemented to comply with these rules.

At time of printing, CSPs include SpeedTax (speedtax.com), ADP Taxware (www.adptaxware.com), Avalara (www.avalara.com) and Exactor (www.exactor.com).

5 Consider Software as a Service

Software as a Service (SaaS) is a term applied to software that uses the Internet to “serve” its solution to remote users. SaaS solutions have been in wide use since 2001, but have become increasingly valuable in centrally 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.

A SaaS solution is ideally suited to handling the constant rate and jurisdiction changes that are the norm in sales tax compliance. It can manage a repository of rules and exemption information and consistently apply them to your transactions. It can also seamlessly validate invoice shipping addresses to ensure that taxes are being computed for the correct jurisdiction.

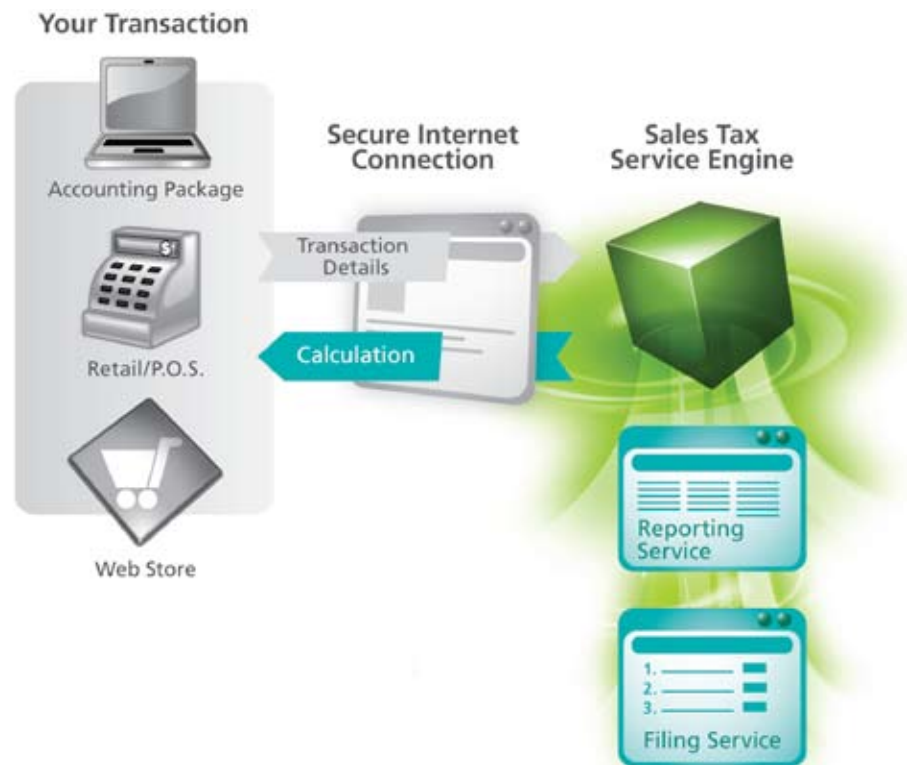
All of the elements of sales tax that make compliance painful are the very problems that Software as a Service (SaaS) solutions are designed to solve:

- Constant tax rate changes
- Changing jurisdictional boundaries
- 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

For these reasons, a SaaS sales tax solution is an appealing choice for many companies.

How a SaaS sales tax solution works.

With SaaS, a centrally-managed sales tax service engine is accessed automatically to ensure accurate calculations are made within your accounting application, e-commerce or point-of-sale system. The service can also support reporting and filing functionality that you access online.



10 things to look for in a SaaS sales tax solution

With a SaaS sales tax solution, your 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 SaaS solution should have the following attributes:

1 Download and Go. In contrast to expensive software integrations, a SaaS integration is a simple “download and go” solution. The “integration” is a small application that you download over the Internet which instructs your specific accounting application to access the Web service for sales tax determinations. Correct sales tax calculations then feed into your invoicing, customer maintenance and other processes, eliminating the risk of error associated with manual lookups. Integrations are pre-built by the provider for specific accounting applications, and each provider’s selection varies. If your accounting application is not on the list, ask if it is on a list of upcoming integrations. Also consider using their Software Developer’s Kit (SDK) to create your own.

2 Online tools. SaaS solutions offer online management tools, but vary significantly from one to the other in how functional and intuitive the online application is. Look for a friendly, functional user experience with minimal screen loads to accomplish tasks.

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.

4 Accuracy. The solution should use sophisticated technology to determine the correct tax rate. Ideally, it should apply mapping technology overlaying jurisdictional geographic data to the US Postal Service database of valid US addresses for dependable accuracy.

5 Certification. If the solution and its provider are certified (as a CAS and a CSP respectively) under the SSUTA provisions, your cost of complying in an SST state can qualify for state subsidies and limited audit relief (see “What does it mean to be SST certified?” on page 11). However, whether or not you stand to benefit from the provisions of SSUTA, SST certification provides proof you won’t find elsewhere that a certified vendor has been vetted by an external agency.



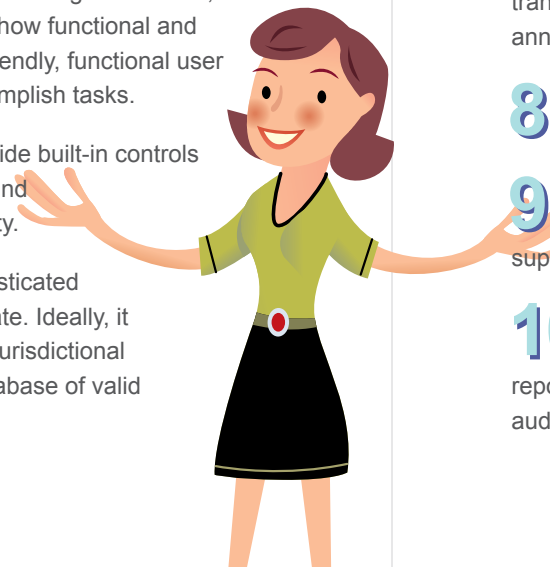
6 Centralized rules-based engine. During each transaction, your accounting system should be able to tap into a centralized, configurable rules engine that can manage nexus, sourcing rules, exemptions, exceptions, shipping locations, SST volunteer status, and all other settings that are unique to your business. It should be designed to manage an environment of constant change and individual exceptions without delays, outsourcing or cumbersome procedures. SaaS sales tax solutions that rigidly manage rules tables individually for each company may limit the benefits that are otherwise available in a product with an underlying rules-based engine.

7 Subscription-based pricing. Most services charge an initial fee and then you pay only for what you use based on the number of transactions. Some services are month-to-month and don’t require an annual contract.

8 Expertise. The solution should be supported by a team of qualified staff who can assist you in properly configuring it for your business.

9 SAS70 audit. Since any SaaS provider will be handling your customer data, ask if they have a SAS70 audit letter. This letter is additional support for the integrity of your data in the hands of a third party.

10 Audit support. Understand if there is audit assistance available in the event of an audit. The solution should produce management reports, detailed transaction reports, and maintain a comprehensive audit trail.



6 Review the product demo

When you review a potential sales tax solution, look at the program design and consider the following:



Ease of use. The system should be easy for staff members to use. Look for a streamlined interface and intelligent design. Examine and compare specifically how you would go about changing one of your products' taxability settings, how you would set nexus with start and stop dates in accordance with an upcoming tradeshow, and all the ways you can view and export your data to ensure it meets your preferences.

Data restrictions. Are there limits in the size of dollar fields or the number of returns that can be processed? What currencies are supported? How is rounding treated?

Flexibility of the rules engine. Your system should account for the intricacies of state requirements and should allow for special modifications that are needed for your business without added fees or delays.

Speed of inputs. Are the screens laid out in a logical fashion so that information can be easily entered? Sales tax has many dimensions and complexities so make sure navigation and flow are clear and simple.

Management tools. Determine if you can quickly and easily review the status of tax returns. Can you easily access returns already filed? Ask about built-in prompts, reminders, and important controls such as user-based access privileges.

7 Choose a software vendor

When you are choosing a solution that will be handling regulatory filings, you need to be comfortable that the vendor is financially stable and has a respected track record. Ideally, you want a company that is led by an executive team with experience in government filings and payment management. In addition, you need to look for the following in your vendor of choice:

Subject matter expertise. Find out who on the team is providing the lead from a compliance perspective. And ask how the vendor keeps up with tax updates and rule changes.

Development skill. Who is driving the programming effort and what is his/her background? SaaS solutions are designed for rapid updates, so any changes to the system will automatically be deployed for all users. You therefore need to be comfortable with a vendor's quality control and programming expertise.

Motivation. Ask the vendor what compelled them to offer a sales tax solution? Is this their main focus or one of many product areas? Vendors who treat sales tax as a sideline might be less willing to incorporate client feature recommendations.

Technical support team. Find out about the vendor's support hours and how many staff members are available for support. Also check to see if there are online resources for training and support.

Customer service track record. Ask about management's experience in handling customer service issues. Is customer service a priority? Check references.

Terms. Probe for how the provider does business. Is there a required contract term? For pay-as-you-go subscription services, are you penalized if you exceed your planned number of transactions? As you would with cell phone plans, look for pricing simplicity and non-punitive contract terms.

Locate a qualified consultant

Any system is only as good as the skill of the implementer. Seek a qualified local consultant to help with your implementation. Be sure to gather the following information:

References. Review the consultant's experience with similar implementations. Has he implemented outsourced payroll or other compliance-based tools for other clients?

Service and support policy. Determine who will be providing support for your sales tax solution. Will you work with your consultant or the sales tax vendor on support issues?



Timing and duration of implementation. Ask your consultant if this project warrants the creation of a project plan so that everyone involved can keep up with deadlines.

Documentation provided. What information will the consultant provide at the conclusion of the engagement? Ideally you should receive a document listing key assumptions as well as other setup decisions that were made during the implementation.

Seal the deal

Now it's time to make a decision. That means it's also time to get out your reading glasses and review the contract. Look for these items to be addressed:

Remittance payments. Ask how the vendor will remit payments to state authorities and find out when you will receive notification of any amounts due. Find out what happens in the unlikely event there are insufficient funds in your account at the time a payment is due.

Filing deadlines. Review liability for timely filing and payment of sales tax returns. What is their policy in the event of a mistake? Does the vendor have a tax calendar that considers all holidays across all states in which you will be filing?

Subscription or purchase payment terms. If you decide to go with a SaaS provider, make sure you understand the commitment you are making. Find out if there is a benefit to signing an annual agreement or if your plan operates by the month.

Integration requirements. Look for any extra costs for connectors or integration tools. Make sure your vendor has reliable connections to your accounting software.

Audit support. Be sure to understand how the liability for errors will be shared between you and the service provider.

SSUTA subsidies. If you are signing with a Certified Service Provider (CSP) and/or using a Certified Automated System (CAS), be sure to find out how state subsidies will be applied to your account.

Migration options. Review the agreement for details on how information will be handled in the event you discontinue service. What information will they provide you and how will your records be removed from their system?



Management oversight. Find out if their system provides a secure portal that will make it easy for your external accountant to review your taxability settings, compliance with deadlines, payment history, and period end tax liability.

Summary

For the majority of businesses in the US, the question isn't *IF* you need a sales tax solution—it's **what kind of solution do you need.**

Some companies can get by with the “Ethels” of the world, efficient bookkeepers who stay on top of sales tax requirements with precision and perfection. Others have such few occasions to charge sales tax that they can just rely on their invoicing system to track their liability.

The rest of us need to get expert assistance—or lose sleep worrying about a sales tax audit. Fortunately, changes in technology and changes in the law are making it easier than ever to stay on top of your sales tax issues. No offense, Ethel—but a Software as a Service sales tax solution can do your job for a fraction of the cost of your salary, and about 1,000 times more efficiently.

The perfect job for Ethel

Have Ethel put those analytical skills to good use in helping you define your requirements, evaluate your options, and review alternative solutions. Here is a prescribed action plan Ethel can take to help you find the right solution:

- 1. Quantify your risk.** Take the sales tax questionnaire at www.salestaxquestionnaire.com and review the results with your accountant.
- 2. Document your needs.** Put it all on paper so you have a good basis for evaluation.
- 3. Determine your budget.** Have a clear idea of your budget on an annual and monthly basis, keeping in mind the potential costs of a failure to comply.
- 4. Identify available options.** List the potential solutions that might meet your needs.
- 5. Compare options to your budget.** Consider the short- and long-term costs of your solution, including employee time to administer, as well as costs of review by your external accountant.
- 6. Review the vendor's qualifications.** Use the guide on page 23 to identify questions you will want answered.
- 7. Seek counsel from experts.** Work with local software providers to share the results of your research.

Ethel's list of questions to ask a prospective sales tax management solution provider

Compliance

- How do you keep up with tax rate changes?
- How do you handle payments to state authorities?
- How do you manage and track tax return due dates?

Technology

- How do you deliver tax rate updates for your solution?
- How are changes to taxability, exemption and nexus handled?
- Do you prepare and file tax returns? If so, is there an extra fee?
- Do you maintain records of returns and supporting data? Is it secure?

Usability

- Are fields well laid out and easy to understand?
- Are there any limits on dollar amounts or field sizes?
- How many clicks does it take to complete a given step?
- Can managers quickly review our status at any point in time?
- What reports are available?

Expertise

- Do you have accountant advisors?
- Who is the lead subject matter expert on your team?
- Who is the lead developer for your product?
- Who will provide technical support?
- What hours will they be available?

Credibility

- What certifications do you hold?
- What are the executives' backgrounds and prior experience?

Implementation

- Do you have certified implementers to assist with the local installation and configuration?
- Who will provide support—you or your implementer?

Payment Terms

- How do I pay you any amounts due with returns?

Liability

- Who will be responsible for an assessment in the event of an audit?
- Do you offer audit support?
- How will you provide records needed in the event of an audit?

Data storage

- What happens with my data if I terminate our relationship?

ABOUT THE AUTHOR

Geni Whitehouse, CPA.CITP, CSPM, is a former partner in an Atlanta CPA firm, a former vice president of Sage Software and a Director of Product Marketing for Navision Software (prior to its acquisition by Microsoft). She has been involved in technology innovation since the late 80's and was a member of the XBRL steering committee. She is a frequent speaker about accounting technology, and currently is Chief Communications Officer and founder of *Even a Nerd Can Be Heard* (evenanerd.com), an organization devoted to making boring subjects interesting.



While funding for this paper was provided by industry solution provider SpeedTax, in recognition of the need for an updated guide to selecting a sales tax solution, the author has developed this paper based on her own insights from the CPA community, her role as software company executive, and on supplemental research and surveys.

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.

Learn more about SpeedTax at www.speedtax.com, and if you have four minutes, click on the "How it Works" video. SpeedTax can be contacted at 1-888-349-2441, or info@SpeedTax.com.