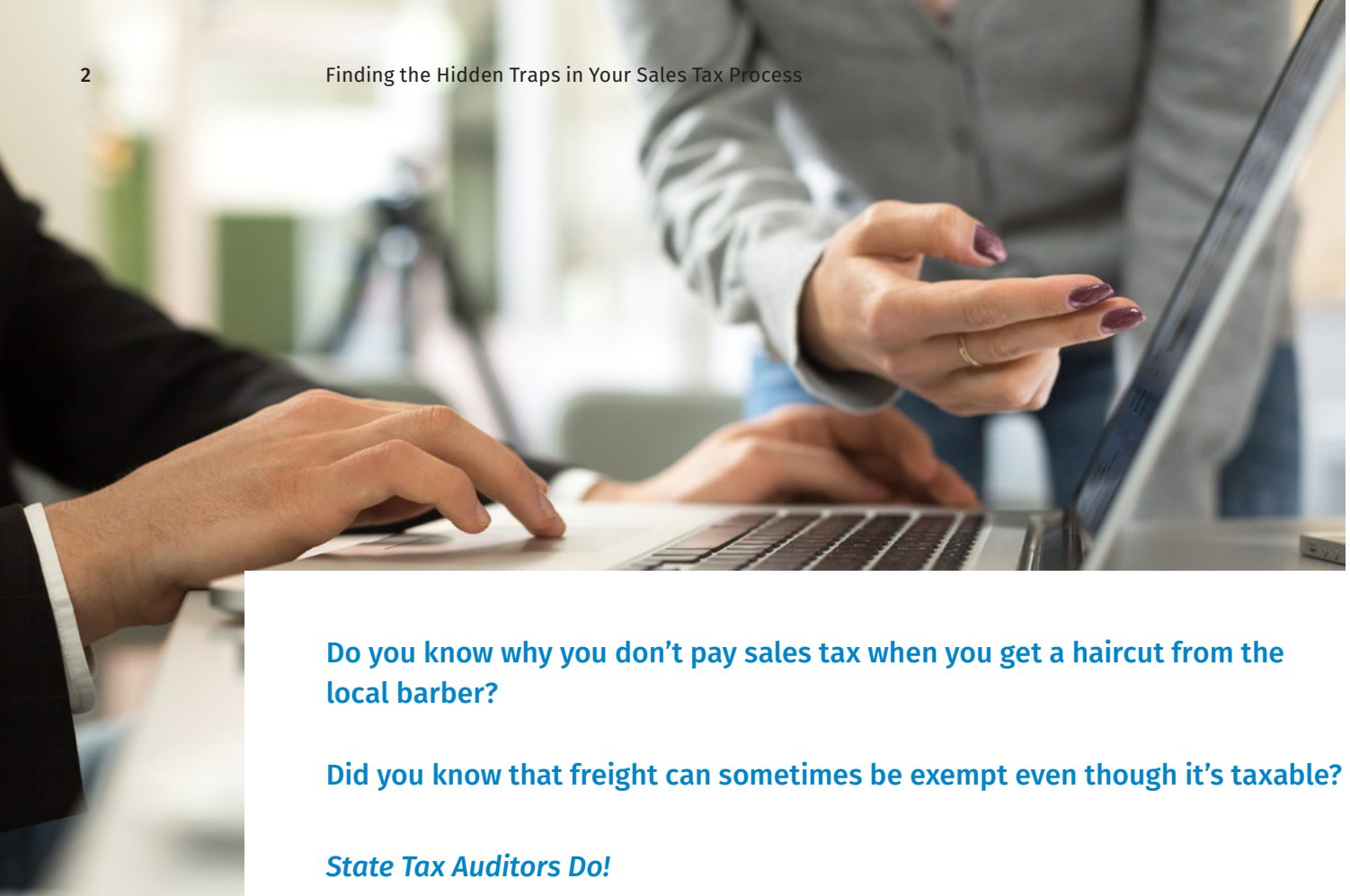




Tax & Accounting

Finding the Hidden Traps in Your Sales Tax Process



Do you know why you don't pay sales tax when you get a haircut from the local barber?

Did you know that freight can sometimes be exempt even though it's taxable?

State Tax Auditors Do!

FACT: Services are generally not taxable. However, some states have adopted a more aggressive approach to sales tax, referred to as "gross receipts taxes," where services are generally considered taxable. This is true not only for personal services but for those services that businesses may provide to each other.

FACT: Some states have adopted what are commonly referred to as "freight-follow" rules. In these states, taxable freight that is separately stated on an invoice can be allocated to the taxable and non-taxable lines of the invoice and inherit the taxable nature of that line item.

These are just a couple of the everyday things that we don't think twice about, but in the world of sales tax, they represent tax quandaries that can catch even the most seasoned tax professionals off guard. With state auditors getting more aggressive than ever, and legislators expanding the rules for levying taxes in response to new ways of selling, it isn't so surprising to find sales tax implications in almost every step of your business operations.

With many states facing revenue constraints, it is likely that state audit activity will continue to rise. Clearly, businesses need to increase their own focus on their sales tax operations to avoid any point of noncompliance, whether obvious or hidden.

If you're caught unaware at audit time, it's too late to make adjustments. Let's take a closer look at several areas within a typical business operation where a proactive tax manager can avoid unwanted surprises.

Don't Let a Company Growth Spurt Catch You Unprepared

FACT: A number of states are arguing that the definition of nexus is outdated, and are now insisting out-of-state retailers collect and remit sales taxes on certain online transactions. Several such states have instituted “Amazon Laws” — inspired by the e-commerce giant Amazon.com® — that require sellers to pay sales tax on online purchases made by state residents regardless of the seller’s physical presence.



Know where you have nexus.

Even when you know the laws regarding sales and use tax for your home state and how they apply to your business, you also have to consider how your business is connected with other states, or put more simply your “nexus footprint.”

What makes things particularly complex: There are more than 10,000 taxing jurisdictions in the United States that can make up a complete nexus footprint — each with their own rules. And, the type of business activity that constitutes nexus is different for each state or jurisdiction, creating a complex web of requirements.

Did you know that in 2015 alone, Wolters Kluwer tracked more than 4,000 rate changes?

With so many variables compounded by changes throughout the year, it’s a tall order to make sure you are taxing correctly — and in the correct locations.

How you bring your product to market also matters significantly for sales and use tax. Online sales channels definitely bring more complexity to sales tax situations. Imagine expanding overnight from doing business in a few states where you have brick and mortar locations to doing business nationwide. This particular scenario might not apply to your business, but some sort of operational change is sure to come. A tax manager has to be on the lookout for how any type of business change affects the company’s nexus footprint.

In this environment, a sound and vigilant process is the very minimum that any business needs to survive.

B2B? You're Not off the Hook

FACT: Depending on their location, your suppliers may not be required to collect and remit your state's sales tax. If the transaction hasn't been taxed, you can be left liable for the buyer's use tax.

Evaluate your supply chain.

Make no mistake about it, whether you are B2B or B2C, sales tax problems exist. With your business customers, are you collecting and providing exemption certificates to substantiate exempt sales? Compliance is your responsibility and this is an area that auditors will review meticulously. Properly collecting and providing resale, direct pay or other exemption certificates is crucial to staying out of trouble with the state and local tax authority.

Another B2B consideration is sales and use tax complications from your supply chain. Where and how you are purchasing goods makes a difference. Depending on your supplier's location, they may not be required to collect and remit your state's sales tax. However, that means you're liable for a buyer's use tax if the transaction hasn't been taxed. And what if you have remote locations that accept inventory for you? Maybe they aren't part of the main business, but if they're making purchases on behalf of your business that needs to be accounted for.

And then there are the vendors. Whether you are paying sales tax directly to your vendor or you are self-accruing and remitting to the state, supply chain traps can abound. You need to know if you are getting the correct sales tax treatment of purchases from vendors. Just consider how much shipping and handling charges your company pays over the course of a year. Each step in the process needs to be examined for sales tax implications.

Clearly sales tax is not just about consumers.

Steps That Will Help You Tame the Sales Tax Process

Start with an Assessment — Minimize your risk and maximize your investment by using a proven process to identify the gaps in your current processes, systems and content.

Get Your Content from a Trusted Source — Nothing will lead you astray faster than inaccurate, incomplete or misapplied sales tax rate and product taxability data. Not the place to cut corners!

Look for Industry-Specific Solutions — Having vertical-specific content and tools are important to some industries and truly critical for others, like telecom or retail. Suppliers with a deep bench of analysts will be best equipped to steer you through the complexity of your industry's rules and regulations.

Use Automated Tax Calculation Tools — At a certain point it only makes sense to automate, and the sooner the better. Let the system seamlessly calculate, track and verify all your sales tax transactions and you can get back to business.

Hand off Tax Returns and Compliance — Bottom line, you want accurate and timely returns, but why take on all those deadlines yourself? Leave it to the right software or an outsourcing partner and you'll instantly have your own tax department.

Don't Fall for "This Is No Big Deal"

FACT: Even minor errors in sales and use tax can have major consequences. Consider the case of retail giant Wal-Mart, who was involved in a lawsuit regarding refunds given in one tax jurisdiction for purchases made in a different jurisdiction. As opposed to refunding the rates that applied at the time and location of purchase, refunds were given according to the tax rates of the store where products were returned. Under the terms of the Wal-Mart class action settlement, the retailer agreed to pay \$5 million to establish a sales tax settlement fund and provide eligible Class Members with \$3 to \$15 Wal-Mart gift cards, which will vary depending on the number of claims filed.

Take advantage of smart technology.

Sales and use tax is tricky business. As a business stakeholder, you need to understand how the law will treat your business activities so that you can meet your fiduciary responsibility to collect and remit state, and possibly local, sales and use tax. Your tax team needs to understand all the rules, know if they're relevant to your business and how to apply them. It's not a simple task, even for a small business. And as your business grows, the sales tax responsibility inevitably becomes more complex.

A tax manager can't afford to let complicated tax laws, inefficient processes or cumbersome tools lead to big mistakes. Instead, the smart tax professional knows the value of solutions that work together to streamline processes and facilitate worry-free compliance. Consider just this one thing: determining which jurisdiction applies to a transaction. Can you really do it accurately without the use of sophisticated geospatial technology?

Insisting on the most accurate and up-to-date sales tax data and the most efficient tax calculations tools allows you to reach new levels of efficiency, accuracy and confidence in your sales tax operations, and positions you to handle any new challenges that arise.



*Did you know that over the last few years Wolters Kluwer has tracked more than **80,000** changes in the taxability or tax rate applied to goods and services?*

The Problem May Not Be What You Think It Is

FACT: Expertise is critical, as misinterpretations of state and local tax law can be damaging. Papa John's Pizza is facing a class-action suit over claims that a misinterpreted Illinois sales and use tax law led to the improper taxation of delivery charges. Several states hold that taxes on separately-stated delivery fees, as with pizza and many other goods, are illegal.

If you think you won't feel any impact if these situations aren't addressed correctly, perhaps you'd better think again! There's a real cost to non-compliance, and if you're paying out audit fees and penalties, your reputation with customers, partners and vendors is likely to take a turn for the worse, as well.

On the other hand, it's also quite possible your company is overpaying taxes and a closer examination of your sales tax process pipeline will reveal that as well.

So what does this all boil down to? Tax expertise. The tax expertise of the corporate professional, of tax advisors and of the solutions providers.

Just because most of today's larger corporations, and a growing number of smaller ones, have gone through some sort of automation process for their sales and use tax function, it's no panacea. Companies that cite improved accuracy and improved efficiency as the primary reason for automating reveal a growing trend: businesses believe that they have a software problem when in fact, they have a tax problem.

Plan, Prepare and Prevent

State and local governments are in desperate budget straights, and they are aggressively looking at their tax bases to make up short falls. With sales and use tax making up more than 30% of total revenue collected by state and local government, it's a no brainer that states are going to pick this low-hanging fruit. In fact, a report by the National Association of State Budget Officers projects a 4% revenue increase from sales tax in 2015.[†]

Just because you are unaware of a particular sales tax obligation of your business doesn't mean that the regulators will look the other way. Don't get yourself on the wrong side of a tax audit that could be costly and embarrassing!

Instead, revisit your sales tax strategy and give attention to these three actions — plan, prepare and prevent. Recommit to fulfilling your fiduciary responsibility by seeing that your tax operation is the best it can be — no hidden traps, access to the tax expertise you need, and the right tools to do the job. Your business will be better off, and there won't be any unwanted surprises.

[†] National Association of State Budget Officers, "The Fiscal Survey of States 2014", 2014.

States & Local Auditing on the Rise

State and local taxing authorities have ramped up their auditing and enforcement efforts, leaving no shortage of headlines in their wake.

[Mismatch in Sales Tax Reporting Can Lead to State Tax Audit](#)

Like many states, North Carolina is doing seemingly everything it can to maximize its resources, including making a dedicated effort at increasing the number of audits they conduct, placing special emphasis on sales tax collections.

[Governor Looking to Hiring More Auditors to Bust Tax Cheats](#)

In recent years, Illinois auditors have reportedly found \$8 in unpaid taxes for every \$1 they earn as state employees. In response, state officials have endeavored to bring on 75 additional auditors, an increase of nearly 15% to their workforce.

[Beware: Sales and Use Tax Audits on the Rise, by Cash-poor States](#)

Nationwide, sales and use tax audits have been on the rise, led by states facing the most significant financial straits. Avoid penalties by revisiting some of the most common audit adjustments.

[Sales Tax Dodging on the Rise in Mississippi](#)

Tax evasion by businesses and corporations is having a crippling effect in Mississippi, who, after investigation, has found that as many as seven of ten foreign corporations and nine of every ten locally-owned entities owed unpaid taxes in fiscal year 2014.

Wolters Kluwer Is Here to Help

There's no doubt that sales tax management is complex. The good news is that our solutions put you in control. When you turn to Wolters Kluwer for your sales and use tax solutions, you'll be using the most relevant feature set on the market, backed by the most respected subject-matter authority on tax. Our unparalleled content and expertise enables any organization to meet all of their sales and use tax obligations with confidence and efficiency.

Hassle-free solutions that work across your business model and sales channel are closer than you think: The start of a more effective sales and uses tax operation is a phone call or click away!

Would You Like to Know More?

We'd like to hear from you! To make a specific inquiry or for more information on our sales and use tax solutions, please complete the [Contact Us Form](#) and a representative will get in touch with you.

Or, contact us via phone at 800-739-9998.

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