CPA
Practice Advisor

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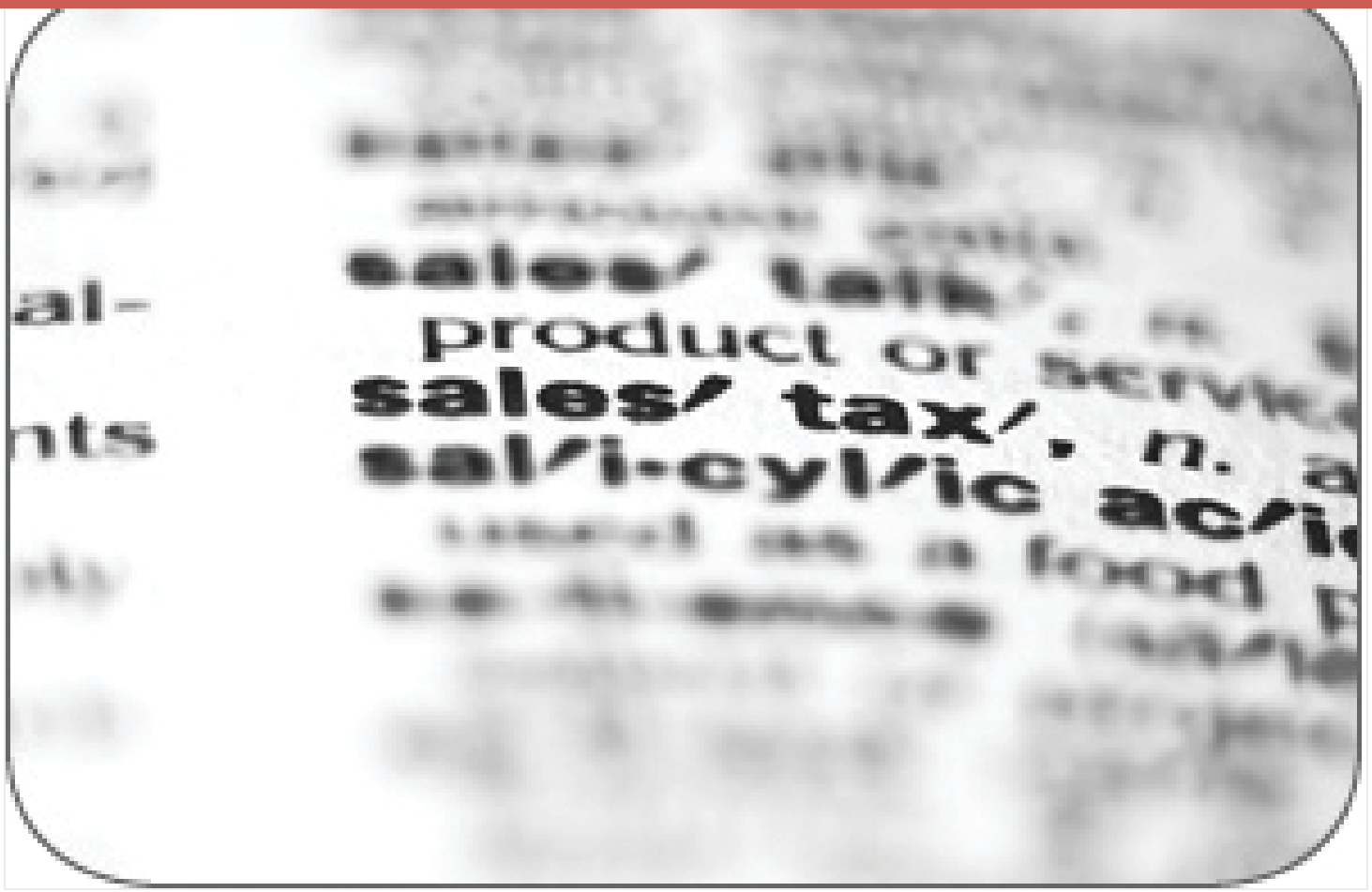

Sales and use tax compliance is an area of widely varying complexity. For many of the smallest entities that conduct taxable transactions, particularly physical retail businesses with only one or two locations, the process of applying the appropriate tax rate and reporting it to their states is often quite simple. And almost all states that have sales taxes have added online reporting and remittance systems, making it even easier for these small businesses to dutifully collect, report and pay.

Even in this simplest of sales tax scenarios, there are other processes that occur, of course, such as determining the taxability of an item, dealing with purchasers who may be exempt from such taxes, the collection of the funds, and proper bookkeeping to segregate them into appropriate liabilities accounts. There are also special

taxation rules, such as tax holidays, tax districts and caps or maximums. And

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combination thereof, multi-hat-wearing managers and business owners can quickly find themselves overwhelmed.

Suddenly, nexus issues come into play, as well as keeping up with frequently changing tax rates and reporting requirements and frequencies across more and more jurisdictions, potentially even hundreds or thousands for even small ecommerce entities. Variables in the taxability of products also grows, as does reporting the sales from separate locations. These challenges are compounded even further for businesses diverging into different types of activities, particularly manufacturers, wholesalers and distributors.

As in any area of compliance, significant penalties can result from failing to file correctly, whether due to fatigue or misunderstanding. And while self-file state websites offer the basics for the simplest filers, they often lack the features necessary for those with more complex concerns. Finding a solution that meets the needs of the small business therefore becomes critical. There are many programs and online tools for sales and use tax compliance management, both for small and mid-sized entities, as well as for much larger businesses. The market is essentially divided into two types of programs and, as we did last year, this year's review of Sales and Use Tax Compliance systems is divided into these two types of programs.

First, there are **Traditional Sales Tax Compliance Systems**, where the system is used at the end of a reporting period to calculate, prepare and sometimes e-file forms and payments to taxing agencies. This is the more familiar model of sales and use tax reporting for businesses with one or a handful of locations. The systems may support only a few states or offer compliance forms for all, they often include tax rate tables that are updated periodically or, in the case of web-based systems, are automatically maintained and updated by the program's vendor.

For entities with more dynamic taxation needs, especially those with multiple

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This is where **Integrated Sales Tax Management Systems** can play a vital role. Such programs have databases that can include every tax rate and all of the taxability rules for every state, city, county and special district in North America, and use secure servers to feed that information into a business' sales, e-commerce and other financial systems. This allows the system to automatically determine and verify tax in real-time as a transaction, estimate or e-shopping cart function is accessed, based on either the location of the retail establishment or their customer's address. Each of the three "integrated" systems reviewed here also offer outsourced compliance options, through which a business can have the vendor handle all reporting requirements to all necessary jurisdictions, including printing, filing and payment.

How does a business know when it's time to start looking for a sales and use tax program? If there are penalties for non-compliance, that's a pretty good clue, but also if managing the processes is becoming tedious and increasingly time-consuming. The first step in selection is determining the needs of the small business in terms of their complexity. Some accounting practices are also finding sales and use tax compliance to be a valued client service. As such, some of the programs in each segment offer consoles for managing multiple entities.

Boxout:

45 States and Washington, DC have sales taxes.

The 5 U.S. states with no sales tax:

Alaska

Delaware

Montana

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