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Ignorance of the law is no excuse. It was probably in high school when you first heard that phrase, or maybe in one of those cop shows on TV as they hauled the offending party off to jail. The moral was this: It doesn't matter if you didn't know the law or if you forgot it; you're still bound by the law.

A Business Lesson In Sales Tax

In business, the penalty for ignorance of the law is more likely to be measured in dollars than jail time. But those dollars can still add up fast. That's what a large parts distributor in Birmingham, Alabama, found out when they forgot to tack on the additional 1 percent in city sales tax that went into effect January 1. Fred, the Controller, would later admit he remembered reading in the newspaper when the City Council approved the new Mayor's proposed sales tax increase. He also remembered thinking to himself that he better change that in the accounting system when he got back in the office after the holidays.

Of course, by the time he welcomed back his accounting team after New Year's, the focus was on getting invoices out for all the parts that were being delivered, and that was a big job. Over the course of the first few days, the company invoiced in excess of \$200,000 for sales out of its Birmingham warehouse. As it was set up, the company's accounting system did a great job of charging tax based on the sales tax schedule assigned to the "ship to" location for each customer. That schedule is made up of all the municipalities who get a cut of the taxes paid on each sale. The problem is that when a tax rate changes, somebody has to go into the system and change the setting.

It was around January 4 when Fred realized the error of his ways. By then,

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no worries. They never updated their sales tax schedules either, but for them it didn't matter. The difference? They were a subscriber to an on-demand online tax verification service. That meant that every time they processed an invoice, their accounting system would automatically grab the most current sales tax rate for that municipality and insert it into the invoice. There was no need to keep up with tax changes or tax notices, and there was no worry about accurate tax compliance; that was all part of the service. Don't you know how that service paid for itself during those crucial days at the beginning of the year? But the story doesn't end there.

Sales Tax Filings! Oh Joy!

The two distribution companies were also different when it came to month end. Fred and his team were busy with the multitude of sales tax returns that had to be filed. Their customer base was broad, and each time they delivered to customers in a new Alabama municipality, that was one more return his team had to complete. So when the twentieth of the month rolled around, it was time to put aside the regular work and focus on getting out those tax reports. For the electronics distributor, the twentieth of the month was just another day. As part of their automated sales tax calculations, their service also prepared and remitted all their sales tax returns in Alabama and the other three states in which they did business: Kentucky, Georgia and Arkansas. As you might expect, there were no tears shed when the accounting team found out they no longer had to worry about ever filing sales returns again.

Sales Tax Audits! Oh &

The idea of utilizing technology to handle the chore of sales tax has now been extended to provide assistance in the face of the dreaded sales tax audit. You may have already heard about SST, the Streamlined Sales Tax that has now been adopted by 22 states. The current list of SST licensed Certified Service Providers

(CSP) is short: Avalara, ADP Taxware and Exactor, with more to come. CSPs offer

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technology for insurance calculation, and may qualify for amnesty. You can't beat that. For those of us in states that have not adopted SST, we still benefit by saving time on sales tax returns.

Some of the other companies in the sales tax calculation and tax return remittance market include major players like Vertex, Commerce Clearing House (CCH), BNA and Thomson Reuters. New players, such as SpeedTax, are arising, as well. Each offering is a different mix of products and services and each integrates with a different group of accounting/ERP software.

An added plus with these services is the ability to handle "use tax." More and more companies buy computers, supplies and other products over the Internet, and that can be costly to municipalities that fear the loss of the sales tax revenue. The answer the municipalities found was use tax, a bureaucratic way of insisting that if you didn't pay tax when you bought the goods, you still have to send the equivalent to your local city, town or state. Many businesses do a poor job of tracking use tax. These tax calculation services can help with this, as well.

All of these companies and their services, however, share one directive — to make sales tax calculation and reporting for businesses less time consuming, less costly and more accurate. You owe it to yourself, your company and/or your clients, to take advantage of these great tools.

Technology

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