ELECTRONIC FILING (E-FILE)

2012 Review of Sales and Use Tax Compliance Systems

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I've written about the volatility and challenges of sales and use tax compliance for more than 10 years and, despite movements like the Streamlined Sales Tax Initiative and increased efforts from states to recoup lost tax revenues for their battered budgets, I'll probably be writing about sales taxes for another 10 years or more.

The paradox of sales and use taxes is that it actually starts out quite simple, but can grow into a complex situation almost overnight. For small businesses, particularly those that are geographically stationary, such as brick and mortar stores, the process is fairly straight forward: One tax rate gets collected and sent to the state, often via the state's online submission website, and perhaps with a few exemptions. However, as the business grows, expands to online sales, partners with other companies, adds delivery operations or opens up additional locations, the challenges add up quickly.

Just as with the Internal Revenue Code, over the years the base concept of sales taxation has been constantly amended by state and local authorities. Tax rates increase, temporary taxation periods are added along with occasional tax holidays, and to add to the confusion are maximum taxation caps, varying exemption qualifications, exemption certificates and other issues. Even more so, each state, county, city and special districts may have taxation authority, which can result in hundreds or thousands of changes per year that a business has to keep track of. All of that is compounded when dealing with the ongoing redefinition of nexus and changes in what items are subject to sales tax in some states, but not in others.

The expansion of online commerce has also resulted in many smaller companies experiencing these challenges. By the traditional measure of revenue a local specialty shop might be described as small, but can potentially have sales throughout the United States. Without knowing in advance where their sales will be coming from (and where their products will be shipping to), how can a small web-based business be prepared for the possible reporting requirements of those jurisdictions?

With all of these variables and unknowns, it's easy to see why so many businesses, large and small, frequently face fines, back tax remittances and even liens for non-compliance. The best way for them to avoid these perils is to be proactive and seek the advice of a professional who knows the issues of sales tax and can determine their collection and reporting responsibilities. For those businesses that have grown from having very simple taxation needs into more complex scenarios, , it may also be wise to invest in a more comprehensive sales tax rate and compliance system. There are two general types of sales tax management systems, and this review categorizes them as such: Sales Tax Preparation systems, and Integrated Sales Tax Rate Engines.

For smaller businesses with fewer sales tax challenges, **Sales Tax Preparation systems** can help them or their accounting specialist with the processes of completing sales tax returns and associated forms for filing with the appropriate state agencies. These programs also include tax rates for the jurisdictions they

support, which can be used as a look-up system or, sometimes imported into an accounting package. All of the programs in this category in this review offer direct e-filing of returns and electronic remittance to the states and sub-jurisdictions they support.

For businesses with more complex or frequently changing sales tax collection requirements across large numbers of jurisdictions, especially those with higher volumes of transactions, **Integrated Sales Tax Rate Engines** are more focused on getting the right sales tax rates into a transaction in real-time. These are generally web-based tools that connect a business' sales, accounting and/or e-commerce systems to a live database of sales tax rates, rules and special variables, usually for every taxing jurisdiction in the country, with a few even covering Canada and VAT/GST abroad. These are very powerful programs that take into account all aspects of taxability, and they can do it in under a second, while a transaction is being processed, and insert the applicable taxes into the transaction as a line-item.

These integrated systems also offer automated preparation, taking the data from the transactions and preparing review-ready, print-ready forms for all jurisdictions, and can include alerts to notify users of pending deadlines. The programs in this category do not offer direct e-filing to the states, but the vendors offer optional compliance services through which they will handle all aspects of printing, filing and remittance.

The type of program best-suited to a particular business depends on their transaction volumes, the number of jurisdictions they have reporting obligations to, the complexity of the products they sell, and the value to them of having instant rate lookup and application to a transaction.

Boxout:

The states with the lowest combined state/local average sales tax:

MT: 0%

OR: 0%

NH: 0%

DE: 0%

AK: 1.74%

The states with the highest combined state/local average sales taxes:

TN: 9.43%

AZ: 9.12%

LA: 8.84%

WA: 8.79%

OK: 8.66%

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