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It's no secret that states rely heavily on sales taxes for a large portion of their revenues, but over the past decade, many state legislatures have been less inclined to raise the rates for fear of being labeled with a tax proponent. As a remedy, many of these states have turned to increased fees or other direct service charges.

Unfortunately, this doesn't mean that sales taxes have remained anywhere near stable since municipalities, counties and other special districts also rely on sales taxes, often as their primary revenue source. The result: Year after year, there are thousands of sales tax rate changes across the country, making sales tax compliance one of the most volatile areas for small businesses, and opening them up to the potential for significant penalties. And while states may not be raising the state component of their rates as often anymore, they are increasingly cracking down to protect their share. As an example of this, New York has actually seen a tenfold increase in criminal sales tax prosecutions over the past five years, according to the Erie Institute of Law.

At the very small business level, sales tax compliance can be pretty simple. A business with one physical location and all sales out of that physical location, and with no deliveries, falls only within the sales tax jurisdiction of their state/county/city. And most states now have simple online tools for reporting and even paying these tax collections.

However, as this small business starts to grow, its compliance issues can quickly become more challenging. Issues such as opening a new physical location, offering online sales, or providing field options like delivery, service and support can instantly add new jurisdictions or special taxation rules. Add to this use tax

compliance and managing exemption certificates, and the newly expanding business

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While larger businesses often have staff resources dedicated to tax compliance, small and mid-sized businesses, especially those who turn to accountants for monthly services, usually do not. So what can they do to alleviate the compliance headache? Well, there are variations in the types of sales and use tax systems on the market, and they aren't necessarily segregated by price point or size of the business.

Starting with this year's reviews of sales and use tax compliance programs, we've divided the major products on the market into two categories: Automated Compliance Systems and Manual Compliance Systems. The difference is in the workflow needs of the business.

For those with lower volumes or fewer sales taxing jurisdictions to manage, manual systems provide the tools necessary to keep up with and process reports and forms. The entity uses its bookkeeping system to assign rates for clients or areas, but when monthly or quarterly reporting is required, the user exports the sales and tax data into the compliance system, which then aids in preparation, filing and payment functions.

For larger concerns with higher volumes, multiple locations or much broader sales tax jurisdiction exposure, automated compliance systems can free up the considerable staff resources that would be required to manage the processes manually. The systems integrate directly with the sales and accounting system or ERP that the company uses, automatically providing the latest tax rates and special tax rules to transactions as they are processed or as estimates are created. These systems often offer advanced options for due-date management, automated preparation of reporting, collaborative review processes and subsequent payment. A few of the systems also provide options for full-service reporting and payment (managed and guaranteed by the tech vendor).

The first step for businesses looking to streamline their sales and use tax compliance

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valuable review for our readers.

Sales Tax

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