Tax & Accounting

Improve Your Sales and Use Tax Compliance to Grow Your Business
Sales and use tax (SUT) compliance is not just a tax issue; it’s a business issue — the effects of which can impact growth, profit and/or investment capital if not well accounted for. In conjunction with Wolters Kluwer — a leading provider of tax and accounting content and automation solutions — the Aberdeen Group conducted a recent study of over 260 corporate tax professionals. This report illustrates the challenges and risks organizations face when managing their SUT processes and highlights how leaders in SUT compliance address these business issues. The report further covers what organizations need to do to improve their own SUT compliance and avoid costly fines which can be up to two percent of a business’ total revenue.

Section 1 summarizes the dangers of lack of compliance and the importance of consulting your organization’s tax professionals when expanding your product or service offerings.

Section 2 highlights the challenges facing sales and use tax professionals.

Section 3 focuses on how top organizations have addressed those difficulties to free up resources, reduce audit risks and reinvest in the business.

Section 4 provides best practices to improve SUT compliance.
Sales tax professionals identified a number of risk areas facing businesses today (Figure 1).

The No. 1 risk facing these organizations, by a wide margin is interstate tax liabilities. In SUT, mandates can vary greatly from state to state and even from municipality to municipality. More than 10,000 taxing jurisdictions charge SUT in the United States. Regulations are compounded significantly when organizations conduct business in multiple states or sell products over the internet, making it difficult to determine jurisdiction.

**Figure 1: Biggest SUT Risks to Businesses, According to SUT Professionals**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interstate tax liabilities</td>
<td>71%</td>
</tr>
<tr>
<td>Inaccurate data</td>
<td>57%</td>
</tr>
<tr>
<td>Disruption from audits</td>
<td>37%</td>
</tr>
<tr>
<td>Audit penalties</td>
<td>17%</td>
</tr>
<tr>
<td>Class action lawsuits</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, 2016
Percentage of Respondents, n=262
How much is 2% of your organization’s revenue?

Noncompliance can result in audits which pose significant risks, including fines, workflow disruption and damaged reputations. Despite the deep financial impact of failing to properly calculate SUT, including potential fines or class-action lawsuits, SUT compliance is rarely a top-of-mind practice as businesses seek to grow.

The Financial Impact of Audits: Nearly 97% of respondents say their organization has faced at least one audit in the last five years. Many of these lead to fines of up to two percent of revenue.

While there may be a random element to getting audited, nearly every state and local jurisdiction is looking for additional revenue. Sales and use tax audits are a way to offset shortfalls from other revenue streams with very little political fallout, especially as states look to capture sales tax from out-of-state online retailers.

This can have a huge financial impact on any business — regardless of size or industry. Some organizations with annual revenue between $250 million and $500 million paid two percent of their overall revenue in fines over the past three years. For a $250 million company, this equals $5 million.

Such fines could significantly hinder an organization’s growth. Not only could these penalties be better spent on investing in the business, the strain of defending the audit draws employees away from other business-critical activities. While tax departments need to be prepared, this challenge illustrates how SUT compliance is a business issue that impacts the whole organization.

Furthermore, once your organization has been audited, it is likely to be audited again, particularly if fines were assessed. In fact, 34% of those who have been audited in the past five years have been audited more than five times!
Of course, ensuring compliance is much easier said than done. Tax management requires professional expertise, as well as technical capabilities to support that expertise. Today, tax professionals struggle with a variety of challenges when it comes to compliance. Respondents were asked to indicate their two biggest concerns in their quest for compliance (Figure 2).

The top concern tax professionals face is the integration of SUT functionality and their ERP, the foundation for organizational data. When the functionality needed for SUT compliance is not integrated easily, the organization may make mistakes, have inaccurate data and require manual work. This puts an additional burden on both the tax and IT staff. Fixing this challenge requires relevant technology, along with upfront cooperation between IT and tax professionals, as discussed in Section 3.

**Figure 2: Two Biggest Concerns in the Quest for SUT Compliance, According to Tax Professionals**

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and use tax and ERP integration</td>
<td>46%</td>
</tr>
<tr>
<td>Exemption management</td>
<td>39%</td>
</tr>
<tr>
<td>Determining nexus</td>
<td>39%</td>
</tr>
<tr>
<td>Online sales tax legislation</td>
<td>32%</td>
</tr>
<tr>
<td>Calculation and determination</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, 2016
Percentage of Respondents, n=261
Manual and research-intensive SUT compliance workflows result in additional challenges. Whether managing exemptions, calculating rates, determining applicable tax or establishing nexus, these workflows can be time consuming, confusing, costly and risky. For example, many organizations have difficulty determining nexus status — whether the organization has a presence in a particular state and is subject to SUT, particularly when conducting online sales. To do this requires research and the ability to understand when and how these regulations change. It also changes as the business expands physically or in many cases virtually. Many states are changing their laws to require out-of-state online merchants to collect sales tax. (Figure 3).

SUT compliance challenges stretch far and wide across an organization. Whether it is in the work that tax professionals do daily or the impact — both tangible and in opportunity — to the bottom line, companies must minimize the effect of process gaps in sales and use tax compliance on the organization.

Figure 3: States That Have Economic Nexus

Due to the dynamic nature of state tax legislation, this list is subject to change. Contact Wolters Kluwer to learn more.
Section 2: How Tax Professionals View the SUT Compliance Issue

SUT professionals strive to improve the quality and efficiency of their day-to-day work in an effort to reduce the audit burden and minimize penalties. SUT professionals have, in many cases, a unique view of the organization — what it sells, where it sells and the channel of sales — and these are the precise elements that must be monitored and updated with changing rates and legislation to maintain sales and use tax compliance. These employees understand that SUT compliance is more than just a finance issue; it’s a business issue, and they can work with the rest of the organization to achieve its goals.

Tax professionals play many roles that contribute to an organization’s success. As problem solvers, they identify and address SUT issues before they have had a chance to impact the business. Their work also contributes to revenue growth — helping to bring new products to market and supporting growth efforts. Finally, as risk mitigators, they are constantly on the lookout for potential compliance risks, particularly when assisting with business expansion efforts, such as ensuring new product SKUs are in compliance or when expanding virtually or geographically. Respondents were asked to select the top two ways they perceive the importance of their role within an organization (Figure 4).

Figure 4: Tax Professionals’ Greatest Value to an Organization

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage of Respondents, n=256</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problem solver</td>
<td>55%</td>
</tr>
<tr>
<td>Revenue contributor</td>
<td>50%</td>
</tr>
<tr>
<td>Risk mitigator</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, 2016
Tax professionals recognize that calculation and automation software has a significant impact on their performance (Figure 5). Thirty-five percent say they will not work at a business that doesn’t have SUT compliance software. Without the right software, your organization may not be able to attract and retain key talent, which means that it will not be able to ensure compliance, causing a waterfall effect on the rest of the organization.

**Figure 5: The Importance of Software in Tax Professionals’ Workplace Selection**

- **It has/will greatly improve my performance**
  - 81%

- **I will not work somewhere that doesn’t provide me with sales and use tax compliance software**
  - 35%

Source: Aberdeen Group, 2016
Percentage of Respondents, n=262
To ensure compliance, avoid penalties and enable growth, industry leaders are aggressive in ensuring that they will never face penalties again. Remember, 97% of surveyed organizations have experienced audits in the past five years. Of those companies, 17% paid penalties, some of which totaled up to $5 million. Respondents were asked to identify the top actions they took in response to a fine (Figure 6). Leaders were more likely to change the workflows related to SUT compliance, including assessing and implementing new software to support these initiatives.

**Defining the leaders**
Leaders represent a statistically significant group of respondents who fell in the top 35% aggregate for performance scores. Leaders from this survey generally:

- Experienced a **10% improvement** in cost of handling audits over the last two years
- Realized an **8% improvement** in time spent addressing sales tax errors over the last three years
- Saw only **1%** of their audits result in fines over the last two years

**Figure 6: Top Actions Taken in Response to a Fine**

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage of Respondents, n=54</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change business processes</td>
<td>71%</td>
</tr>
<tr>
<td>Assess currently implemented software environment</td>
<td>43%</td>
</tr>
<tr>
<td>Increased headcount/added new role</td>
<td>29%</td>
</tr>
<tr>
<td>Re-examine business model</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, 2016
With any organizational change, the need to define goals for an initiative is paramount. Leaders focused on improving the efficiency and effectiveness (Figure 7) of data collection and reporting while also ensuring accurate tax calculations.

To do this, Leaders have implemented capabilities that improve their SUT-related workflows and data collection. Leaders chose software that focuses on crucial capabilities that improve accuracy, compliance, efficiency and reporting (Figure 8).

Figure 7: Goals of Better SUT Workflows

- Improved data accuracy: 47%
- Improved accuracy of calculations: 46%
- Efficiency across the entire compliance workflow: 40%
- Reducing the burden of audits: 33%

Source: Aberdeen Group, 2016
Percentage of Respondents, n=262

Figure 8: Capabilities That Leaders Implemented to Improve SUT Workflow

- Streamlined sales order tax calculations based on tax rates: 76%
- Centralized management of tax information: 68%
- Database for logging/archiving tax transaction history and maintaining audit trail: 64%
- Assessment and tracking of audit risk exposure: 57%
- Automated verification of tax accuracy: 55%
- Ability to quickly tailor business systems to support business change: 51%

Source: Aberdeen Group, 2016
Percentage of Respondents, n=263
These capabilities fall into the following high-level categories:

- **Workflow automation** — Automated features for evaluation, exemption management, calculation, filing, remittance and recovery to ensure that accurate data is collected and utilized, as well as the ability to automatically determine nexus.

- **Improved visibility** — Centralized management of tax information, along with the ability to review, edit, print, audit and e-file returns. Too many businesses today rely on IT to make updates to homegrown/cobbled together databases and systems. This limits the visibility and control SUT professionals need to stay current with changing rates and taxability across all jurisdictions.

- **Regulatory change support** — Software to stay current with trusted rate and taxability data, ideally updated monthly or more often.

Even further, 83% of Leaders (Figure 9) have a complete SUT solution that combines all of this functionality. By investing in one comprehensive package, tax professionals benefit from a solution that supports their needs from end-to-end, in an easier to implement, more cost-effective package.

With these improvements, organizations are better able to meet their sales and use tax obligations and are better prepared to defend against inevitable audits.

Of course, to justify technology purchases, they must produce improvements that lead to less costly compliance. This comes from better use of tax staff to manage SUT, avoiding penalties, freeing up IT resources and the ability to take advantage of opportunities that would have been missed due to the need to focus on SUT compliance. Organizations with SUT solutions saw a two percent improvement in the time they took addressing tax errors over the past three years. On the other hand, those without a solution saw a one percent decrease.

Managing sales tax exemptions, researching rates, determining taxability and reporting are critical elements of SUT compliance but they can/should be handled via automation tools populated with accurate and current rates/taxability content from the over 10,000 U.S. jurisdictions. Doing so means that the SUT team can focus on other higher-value activities. And, when it comes time to grow the business, those with SUT solutions have an advantage. Remember that some organizations have seen penalties reach up to two percent of revenue. That could be up to to $10 million. These dollars would be much better spent elsewhere — geographic or product expansion, capital investment or simply added to the bottom line.

**Figure 9: 83% of Leaders Chose a Complete SUT Solution**

<table>
<thead>
<tr>
<th>Complete SUT solution</th>
<th>83%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax remittance tool</td>
<td>74%</td>
</tr>
<tr>
<td>Tax exemption/exemption management solution</td>
<td>69%</td>
</tr>
<tr>
<td>Tax rate calculation solution</td>
<td>67%</td>
</tr>
<tr>
<td>Tax preparation and filing solution</td>
<td>67%</td>
</tr>
<tr>
<td>Tax recovery solution</td>
<td>59%</td>
</tr>
<tr>
<td>Audit control solution</td>
<td>59%</td>
</tr>
<tr>
<td>Registration/taxability evaluation tool</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, 2016

Percentage of Respondents, n=263
Section 4: Recommendations

The bottom line is that SUT compliance is both a tax problem and a business problem. So, if you haven’t already done something to address these challenges, you’re missing out on the tangible benefits that arming your staff with the right tools and content can provide, including better workflow, fewer errors, reduced audit risk and the resultant fines. Here are some best practices for embarking on a journey toward SUT compliance:

- **Identify your business goals** — Is your IT staff heavily involved with SUT maintenance? Are you optimizing growth? Are you including your SUT team in these key business decisions? Are you freeing up your tax department to make strategic business decisions instead of spending too much time on data collection? What are your metrics to measure success?

- **Define selection criteria** — Based on your business goals, decide on factors that are most important to stakeholders across the organization. Does your solution need to integrate easily with a specific ERP? Will it meet your cost needs? Selecting the wrong solution can negate the potential benefits you should be experiencing.

- **Work with the rest of the organization** — SUT compliance is not solely a tax issue. Key stakeholders across the organization, such as IT, need to be involved in selection, implementation, interaction and support. Be open to the fact that some processes, staffing and/or technology may need to change in order to maximize benefits.

- **Choose the right SUT solution provider** — The vendor should be reputable and able to provide a tax calculation system that combines industry-leading tax rate and taxability content with highly accurate jurisdiction boundary information. Wolters Kluwer offers a number of SUT solutions, including CCH® SureTax® and CCH® Sales Tax Office, which leverage industry-leading sales tax rate and taxability information, an in-house implementation team and renowned support model. Wolters Kluwer has also been selected by the IRS to provide sales tax rates for 12 consecutive years!

- **Training and support** — As with any technology, it is important to ensure that users actually take advantage of its benefits. Treat a technology change as a business change.

These strategies are the core of an effective, efficient and accurate SUT compliance initiative.

About the Improve Your Sales and Use Tax Compliance to Grow Your Business 2016 Survey

This survey was conducted online in 2016 with over 260 tax professionals specializing in sales and use tax.

**Revenue ranges and percent of respondents:**
- >$5M–$99M = 4%
- $100M–$249M = 41%
- $250M–$499M = 29%
- $500M–$1B = 26%
- $1B+ = 1%

**U.S.-based respondents ranged across industries such as:**
- Software
- Financial Services
- Retail
- Telecommunications
- Construction
- Food & Beverage
- Healthcare

This survey was conducted for Wolters Kluwer by Aberdeen Group.
Contact information:
Wolters Kluwer
2700 Lake Cook Road
Riverwoods, IL 60015
United States
800-739-9998

Please visit SalesTax.com for more information.