

White Paper: Extractor Outsourcing

Why should I outsource my Sales Tax?

This white paper is an overview of how small business owners can improve their business performance, lower their costs, reduce their exposure to fines and penalties by meeting important regulatory requirements.



Summary

There are plenty of moving parts when it comes to operating a small business, especially when it comes to sales tax filing requirements. This white paper analyzes the benefits to small business owners that come from outsourcing tax efforts to a professional sales tax provider.

Most companies today choose to handle sales tax compliance in-house, usually for cost and control purposes. There are several drawbacks to this approach, including lost productivity, rule tracking difficulties, and calculation and filing errors. All of these shortcomings lead to increased exposure, hefty fines and penalties, and lost time spent on avoidable interactions with government bureaucracies.

Outsourced professional sales tax providers give businesses of any size the convenience and sophistication which was, until recently, only enjoyed by large enterprises. These providers deliver secure and accurate sales tax compliance services at a cost reasonable to even the smallest of businesses.

Ultimately, outsourcing gives time back to management which was previously used to trace the tedious rules of tax compliance.

Sales Tax – A Function That Requires Professional Support

Success lies in the details. The details of establishing and running a small business lie in day-to-day back office tasks. Many of these tasks, like paying the utility bills, are small and only take a few minutes. Some are more complex and require detailed knowledge in areas of expertise beyond the scope of the average business manager.

Most business owners believe that sales tax compliance is a simple process akin to paying the electric bill – all it takes is a couple of minutes to complete a simple form, mail it with a check and that's that. They typically do not realize the error in assuming the ease of tax reporting until the first notice of assessments begin arriving from the state sales tax agencies, with back taxes owing, as well as hefty fines and penalties.

Where Can Sales Tax Compliance Go Wrong?

There are many ways that sales tax compliance can go wrong, especially for the small business owner.

1. Relying On Your Automated System to Seamlessly Handle Sales Tax Calculations

Like all systems, sales tax calculation systems are only as good as the information with which they are programmed. Many shopping cart programs and accounting programs come with what they define to be 'sales tax modules'. Business owners reasonably believe that if they are purchasing an accounting program from a large reliable software vendor, they can rely on all functions performed by that program, including sales tax calculations.

What they don't realize is that sales tax functions must be maintained in a variety of ways (these will be covered in more detail). Typical accounting programs do not have the subject matter logic and sophistication to accurately deal with sales tax calculations. This non-obvious flaw leads many small business owners to falsely believe that they are complying with the rules, only to find out their taxes were calculated incorrectly and they are on the hook for the difference.

Why should I outsource my Sales Tax?

2. Rates must be updated regularly.

Typical automated systems require users to update sales tax rates. For any given location there could be anything between 3-6 different tax rates. Differing rates can include the state, county, city, local, and special district taxes. Any one of these are subject to change frequently, thus affecting the taxes that must be collected. If the merchant fails to follow the prevailing rates and update the rates tables, they will find themselves collecting and reporting incorrect taxes.

3. Applying Taxability Rules.

Different products are taxed differently. Many products have different tax rates (e.g. food, candy, drinks, software); even similar products may have different tax rules. For example, candies containing flour are taxed differently than those without. Standard sales tax modules require the user to determine which products are taxed at which rate and to track the rules of how and when they change. These rules are difficult enough for the professionals to track, let alone a small business owner that wants to focus on growing and maintaining their business.

4. From Whom Should I Collect Sales Tax?

While this is not a big issue for small business owners, most business owners have come across the customer who presented themselves as being exempt from paying sales taxes. There are many reasons for such exemptions, such as when a retailer purchases products for purpose of resale or the buyer is an exempt organization (education or charitable institutes). Tax authorities view these kind of transactions as red flags and apply strict standards to allow the non-collection of taxes accordingly. The typical accounting and shopping cart programs typically do not have the capability to track this kind of information or to apply it to the transaction in such a manner that will be accepted by the tax authority.

5. Sales Tax Holiday

Many merchants are aware of sales tax holidays. Common questions regarding tax holidays are, when does it occur, to which products, and how do I apply it? Sales tax holidays are decided by individual states. Often times, the state will decide on which products to implement a tax holiday a mere 1-2 weeks before the event. Many states are increasing sales tax audit teams and expanding their jurisdictions while small and local businesses are finding themselves in deep water if they have not reviewed and updated the tax rules in their automated systems.

6. Inaccurate Completion of Sales Tax Return.

Sales tax returns look simple. They have a few lines of information to enter, calculate the taxes, and voila – the return is complete. What many merchants don't realize is that the lines are for different kinds of taxes and entering taxes in the 'sales' tax entry instead of the 'use' tax entry could result in misfiling of the return. In many states, the business owner also needs to complete the local taxes, breaking down the taxes to different locales and categories. In some states this is made much more complex because the tax is reported according to the place of delivery, not the address of the merchant. Using an old form, with an out-of-date tax rate could result in the under-reporting of taxes. Forgetting to sign the form will result in the return being rejected, in other words – fines and penalties will be calculated for a late filing (even if you filed on time). When a return is rejected the sales tax authority will automatically apply fines and penalties. A simple miscalculation of a few cents can result in hefty fines. These are just some of the issues that lead to returns being rejected.

7. Missing a Filing Deadline.

Sales tax returns must be filed promptly, on time, and with all the information intact. The frequency can vary, typically ranging between monthly and quarterly filings. More often than not, the small business owners are focused on their business and realize too late that they missed the filing deadline. Sales tax authorities are not forgiving. The smallest of infractions late means late fines for your business.

8. Under-Collected Sales Tax.

Sales taxes are transaction based. The customer is the ultimate payer of the sales taxes, with the merchant merely acting as a conduit, forwarding the taxes they collected to the tax agencies. What they fail to realize is that once the transaction is completed, they cannot go back to the customer to collect any tax underpayment. So, if it eventually turns out that they under-collected the taxes, the merchant must cover the shortfall out of their own pocket, in addition to the hefty fines and penalties automatically assessed by the states.

Why should I outsource my Sales Tax?

Sales Tax Outsourcing – A Method To Avoid These Pitfalls

Sales tax outsourcing is a recommended method for removing the burden from the business owner and overcoming the above described pitfalls. Many business owners perceive that sales tax providers are costly and intrusive. However, a closer look will dispel these concerns.

Business owners who outsource their sales tax compliance gain time that they can apply to more productive tasks. Business owners did not build their businesses to waste time on complying with tax rules or completing and filing tax returns. By outsourcing these burdensome, mundane tasks, the business owner is not only freeing up time to focus on the business, but also removing a frustrating chore from their to-do list.

Outsourcing allows the business owner to benefit from the talent of professionals who are experts in the nuances of sales taxes, use taxes, reporting and remitting to the appropriate agencies. They receive the benefit of these services which, until recently, were enjoyed by large Fortune 500 Companies only.

Professional sales tax providers take the tedious and time consuming tasks of tax compliance away from your already busy schedule. These processes are typically automated so that it only requires monitoring from the business owner. A good sales tax provider will make sure the business owner dedicates only a few short minutes each month to sales tax related matters.

The Decision – A Cost Benefit Analysis

Any decision on outsourcing should factor a thorough cost analysis. It is very difficult for the small business owner to put a value on their time. It is therefore difficult to truly assess the cost savings in time alone.

In addition to the time saved, there are tangible expenses associated with in-house sales tax compliance. Compare the costs listed below, combined with the difficulties and pitfalls outlined throughout this white-paper, to the overall cost of an outsourced sales tax solution.

- How much do the checks I use to pay the state cost?
- How much does it cost to mail the return?
- How much do I pay a Accountant?
- Help with my filing efforts?
- How much time is spent on the phone with the tax agencies?
- How much did I pay in fines and penalties?
- How much does the bank charge me for each check that is cashed by the state against my account?

Modern technologies have enabled sales tax providers to automate and scale the technology so that it is highly affordable, as well as reliable and accurate. Many business owners, even small businesses, will be pleasantly surprised to find out just how affordable a full service sales tax provider is . . .

And the peace of mind – priceless!



With over ten (10) years of experience automating sales tax compliance, Exactor is the premier provider of Sales Tax Compliance Services. Exactor's fully automated SaaS System has been revolutionizing transaction-related tax compliance by providing an enterprise level solution for secure, reliable and accurate sales tax compliance efforts, including calculating taxes in all commercial environments, record keeping, tax processing and the generating and filing of tax returns. Exactor's dynamic Software Suite offers a simple and seamless integration of the Exactor Sales Tax Calculation Module into any business and transaction platform where real time calculation is required. The Exactor engine will then automate the process of generating and filing the returns, so that the user can focus on their sales and running the business, trusting Exactor to manage their transaction taxes. The Exactor suite offers a high level of automation, rapid delivery, and highly scalable results, ensuring an on time, on budget, enterprise-class tax solution to fit the needs of any business.

To learn more visit us at www.exactor.com Exactor® is a registered trademark owned by Exactor, Inc.

You do Sales. We do Taxes.