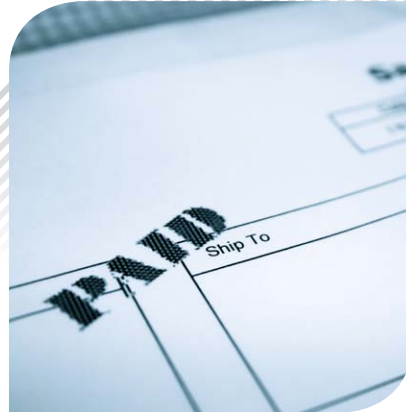


Automating your Sales Tax Compliance

Automated sales tax software can provide many benefits. Companies need to identify their wants and needs, and determine what system (if any) best fits their business and tax compliance needs.



Many taxpayers are asking about the benefits of sales tax software and the automated solutions these applications may provide. While the concept of an automated sales tax software package appears useful, justifying the expense can seem daunting. The solution is to build a business case that will support the need for such automation and explain both why a company should automate and why the system chosen is the best for the company's business.

Such a business case starts with a general overview of enterprise resource planning (ERP) systems and the benefits gained by automating a company's transactional taxes. It continues with questions that help identify the appropriate software for the company's needs and an outline of some key areas typically included in the work plan for transactional software implementations. Finally, it identifies steps companies may take to help support their decision to implement the appropriate tax automation solution.

Overview

Most ERP systems fall into one of three tiers:

- SAP PeopleSoft, JD Edwards, Oracle, Lawson
- Microsoft Business Solutions – MS Dynamics GP, AX, MAS, Amdocs, INFOR, Epicor, SAP Business One, NetSuite
- QuickBooks, Sage Peachtree, E-Commerce applications, and other legacy-based home-grown systems.

Similarly, automated sales and use tax applications are available at many different levels, depending on the size and type of business. Factors, such as the size of a company (i.e., the number of legal entities), the complexity of tax-related transactions (sales/purchases), U.S.-based and/or VAT-based tax calculations, and other technical matters, help an informed company determine which application/ solution best fits its business and tax compliance needs.

Analysis

Businesses should generally begin with an internal review of their wants and needs:

- Where is the company required to be registered to report taxes?
- Which transactions should not be deemed taxable?
- Who is responsible for maintaining the appropriate documentation if the customer claims to be an exempt entity or presents a blanket exemption certificate?

Other questions should include: How many legal entities are involved? How many source data systems? How often are returns due to be filed? How long has a company been doing business in a particular state without filing? If the liability is significant, would it be a good decision to get assistance requesting a voluntary disclosure agreement from the state(s) in which there is a material risk of exposure? It is generally a good idea to begin an internal review of operations with a nexus study, to identify which states need to be included in the solution. Following that should be an analysis that identifies where tax will need to be collected, self-assessed, and reported, categorizing purchases, sales, imports and exports. Finally, each transactional category needs a tax determination researched according to product, service, manner of use, jurisdiction, or any combination thereof.

Phases

DESIGN PHASE: Project management is an integral part of implementation services; this makes the first phase the most important. It is in this phase that tax expertise proves to be vital. Tax-specific design consulting services should be done, preparing deliverables that will set out recommendations for automating each of the company's transactional tax processes. This should include a proposed budget, timeline and list of resources. A communication plan should be identified that will allow each party to be held accountable for meeting agreed-on deadlines or communicating unforeseen changes in scope to the team so that the project can continue without interruption. Throughout this phase, there should be ongoing status update meetings, to keep core members on the same page. This would be the time when a Steering Committee is assigned to play key roles, such as defining the scope of the engagement (e.g., legal entities, jurisdictions, taxes, tax exceptions) and developing the initial work plan to be used as a living document in order to assign appropriate tasks and measure milestones. Additionally, an initial Master Design Document should be drafted, to be used as the project roadmap throughout implementation.

IMPLEMENTATION PHASE: During this phase, certain services, decided by the client, need to be done. The following actions can be performed in-house by IT specialists or by external consultants:

- Installing the software and related ERP interfaces on one dedicated server
- Installing and configuring the returns application
- Testing connectivity
- Configuring taxability determinations and conducting appropriate mapping exercises
- Populating tax research tools with useful information that can be used as an updateable source for exports
- Recommending modifications or customizations to financial systems that are needed for the tax software to connect with financial system software
- Assisting on functional support for assigning tax types, tax codes, condition records, jurisdiction codes, and for user exit modifications for transactions

Throughout this phase, the Master Design Document will be in continuous development.

Note: Timing of the implementation is a key concern. Implementation periods may vary greatly, depending on the application selected and the ERP system being used. It is not unusual for an implementation to take anywhere from a couple of months to more than a year. Other important matters that should be considered are the availability and use of existing IT resources, the availability of existing ERP system interfaces, and the overall technical ability of a company's tax personnel.

ACCEPTANCE TESTING PHASE: This phase includes assistance with the processing of test-case scenarios that will be developed and implemented to include selected state and tax-specific transactional information about sales and purchases made by the company. Testing is meant to validate the software's tax calculation results and validate the configuration settings for tax exceptions. Testing will also include processing reports and a reconciliation of the reports back to source data, with the creation of an export file to be imported into the returns application. Throughout this phase, xml log files should be created, analyzed and interpreted for source documentation. A live demonstration should be provided of the tax application functionality and a cutover plan for go-live (along with documentation for post-implementation procedures).

POST-IMPLEMENTATION SUPPORT AND TRAINING PHASE:

As part of automation solution services, post-implementation support and customized user training should be provided. The primary objective of this post-implementation support is to provide assistance during the initial filing cycle. As an example, this might include a one-day, on-site training session for sales order entry, accounts receivable, procurement, accounts payable and tax department employees, to prepare personnel for future support of the data entry process (including product mapping for new product set-up and data population).

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Assistance

In general, it is recommended that companies have a diagnostic review done before purchasing a tax software package. This service will assist companies in determining what type of software package would best meet their business needs. Issues such a review can uncover include:

- Certain ERP systems and associated modules may have an integration package already established
- Depending on the need for customized tax determinations, a non-hosted solution may work better than a hosted solution
- Anticipated market growth may allow a business to implement a lower-cost package now that can be readily converted to a larger system in later years
- Global activity would need to be housed on a more robust system than would local retail sales.

The goal of the diagnostic review is to identify the best automation solution for the business, and in turn document the alternative solutions with the associated costs/benefits of each option.

