

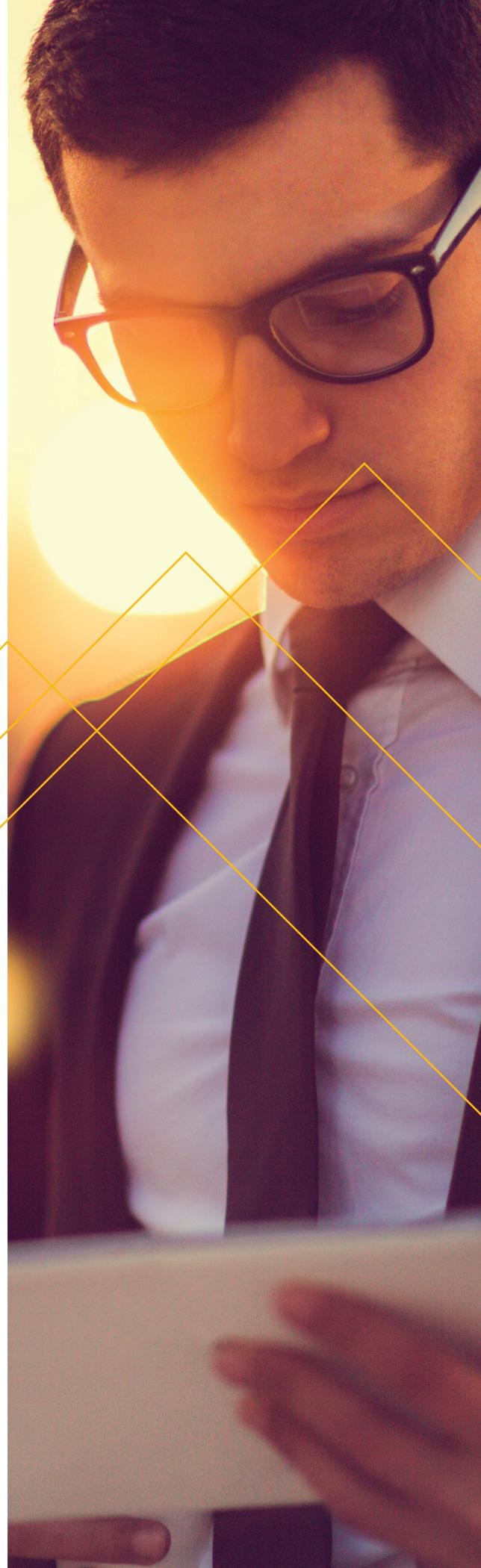


Q&A

Use Tax Compliance Is Evolving. Have You Kept Up?

A Use Tax Q&A With Mike Cantrell
and Will Ault

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Sales and use tax compliance is getting more complicated, especially as change continues at a rapid pace. With fewer and fewer resources devoted to use tax compliance, many companies are having a hard time keeping up. Mike Cantrell and Will Ault, both state and local tax managing directors at Crowe, hear prospects and clients echo this challenge all the time.

At the core, purchase transactions have increased in volume and complexity. For example, companies are implementing new technology to manage entire processes for areas like distribution centers and mailrooms. But how does a company integrate wise use tax decisions into its business planning and purchasing process?

Mix into the equation the facts that companies are trying to do more with less and that many state tax jurisdictions have growing deficits, which has increased their scrutiny of tax decisions. These challenges can affect the entire business and lead to errors – overpayments, underpayments, and penalties. Given all of this, many companies are looking to better manage their use taxes, and determine how best to address compliance in a consistent, cost-effective matter.

Cantrell and Ault set out to address these concerns with a more efficient approach and with help from their talented colleagues in the Crowe applied technology group, they did just that. Integrating use tax technical expertise with technology, a new solution for effectively managing use taxes now exists.

Crowe Use Tax Simplifier:

- Automates and streamlines the use tax compliance process
- Identifies new purchase transactions so that new tax decisions can be made “on the fly”
- Is supported by a team of dedicated sales and use tax specialists

Recently, we talked to Cantrell and Ault about the complexity of use tax compliance, the Crowe Use Tax Simplifier, and how Crowe has already helped clients.

Q: Why is use tax compliance so complex?

Ault: For starters you typically have purchases bought and used in multiple jurisdictions. Each jurisdiction may tax that same purchase differently. Add in a potential lack of information. Often, you have situations where it is difficult to tell from the invoice what product or service is being purchased, and the invoice may be the only available information.

When companies set up their bill payment process, sales and use tax is often in the province of accounts payable. Their current processes may not be set up to deal with technical tax determinations, so as a result many initial sales tax determinations are done by the professionals who are not tax specialists.

Cantrell: For any given purchase that a business makes, there are a number of different variables that can go into making and/or verifying a proper tax decision.

Ault: The nature of products and services a company is purchasing is also changing due to technology. So many services that once were delivered in person or in a paper report now include digital content shown over the internet with a software component. It is difficult for companies to keep up with not only the nature of what they are purchasing but also with the states' ever-changing rules on the taxability of digital products, software, information, data processing, and telecommunications.



Q: With so many variables to keep track of, what do most companies miss when they go through the use tax compliance process that leads to errors?

Ault: In particular, the errors are often related to technology. Companies are spending much more on technology than they did 20 years ago. Technology purchases can be taxed as information, software licenses, data processing, digital products, or software as a service. Companies often haven't had the time to focus on that area of change and the sales and use tax implications. To illustrate, their mailroom is really now a software application or their distribution center is being run by remote providers that involve technology, software, and websites that are expensive. They haven't considered the use tax implications. That's where I see people getting ugly surprises these days.

Cantrell: That's a great point. Handling sales and use tax on technology purchases is often a significant trouble area. The states are making efforts to catch up, but for the most part, laws, regulations, and policy lag well behind the pace of technology and the pace of convergence of technology with a wide variety of services. Consequently, a lot of buyers simply don't know how to apply the law as it stands now with respect to what they are buying. Another common hurdle is construction and real property services. Real vs. tangible property determinations, transaction form considerations, who is responsible for tax – and when – are also often difficult issues to deal with.

Q: How does the Crowe solution help? And as the variables change, how does Crowe Use Tax Simplifier evolve?

Ault: The Crowe Use Tax Simplifier is intentionally not a “one size fits all” solution. We apply technical and industry sales tax expertise to user-specific purchase data, which is transferred to and processed by the application via a very straightforward, standardized batch reporting process.

It operates on a simple concept – the client’s proprietary purchase data becomes the basis for tax decisions, tax controls, and the tax attributes. This data ultimately determines what tax is due on a given set of purchases. So it is uniquely data-driven by our clients. You can’t simply apply a set of pre-defined “cookie cutter” tax categories and make taxability determinations. Exceptions abound. Every business is different, vendors are different, and facts, documentation, and data are different.

When client loads data into the Crowe Use Tax Simplifier that has never been encountered before, the application automatically spots a new vendor, a new location, a new cost center, or whatever data elements are being used to make a decision. The solution automatically alerts the user to this, so they can capture the new data elements and make a decision right away. It essentially grows as new data comes into the system by identifying and allowing for changes in purchase data as the purchases are being processed and reviewed for sales/use tax – on a real-time basis.



Q: Do you have an example of how you helped a client using this application?

Ault: We configured the Crowe Use Tax Simplifier for a financial services company. The system would identify maybe a dozen items each month that needed human review. However, in some months it might be twice or three times that volume in a population of hundreds of transactions per month. This saved our client an enormous amount of time.

What would have originally been a manual task taking many hours was reduced to maybe an hour or two every month. The key is to get the volume-driven exercise of purchase review down to a focused and efficient use of one's time.

This client success was also a success for Crowe. About 18 months in, we were surprised to get a notification from a state department of taxation and finance that they wanted to audit the tax decisions made by our system. Two state tax auditors came in and examined our system and reports. In the end, our solution's effectiveness was validated when the state did not change any of the tax decisions that our application produced.

With all the internal and external challenges, the reality is that use tax compliance is not getting any easier. If you haven't already, it may be time to look toward a more consistent, flexible, and cost-effective approach to use tax.





Learn more

A solution such as Crowe Use Tax Simplifier may be the answer you need.
Contact us today for more information:

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