

Digesting SALT

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By [Alexandra DeFelice](#)



When state auditors called Brian Terrell wanting to see his firm's books, he thought he had nothing to hide.

"There's absolutely no reason I should have stood out. We were small, maybe \$400,000 in revenue, I thought I was doing everything correct," **Terrell** says of his Dallas-based business.

Because **Terrell & Terrell, CPAs**, was so small, the auditor evaluated all the firm's invoices for the past four years and found a \$4,000 variance in state and local tax (commonly called SALT) it had failed to collect.

"That was embarrassing because the first thing they encourage you to do is call your customers," **Terrell** says. "Imagine buying a car and getting a call saying, 'We forgot to charge you tax, would you mind paying it?' I wrote the best letter, asking if there's any way they could help me and a lot of the customers wrote the checks."

Terrell's experience is not unique. Most companies learn about SALT in a reactive way and come running to their accountants when they encounter problems. A bigger problem is that a lot of those accountants don't know much about SALT, either, or don't want to take on the liability.

"I started searching for someone to help me similar to the way a tax preparer would in an IRS audit, but it didn't exist," Terrell says. "I was sharing an office with five other CPAs doing tax work day in and day out, and they wouldn't even touch it. They knew anyone calling [for advice] was in a mess."

That was 12 years ago and **Terrell** has since gone on to become a Sage Accpac reseller who recently took on a project as part of his other company, **CodePartners**, to integrate a Web-based sales and use tax software called **SpeedTax** into Accpac so that the compliance work could take place behind the scenes for his customers, with transaction-based pricing ranging from 10 to 45 cents.

With some experts predicting an average of two changes in sales tax rates each day, companies either need to bring in a SALT specialist or install software such as SpeedTax that provides real-time calculations, integrates into their accounting system and provides detailed reports in case

an auditor comes knocking, allowing them to be proactive instead of reactive, **Terrell** says.

SpeedTax, **Avalara**, **Sabrix** and other sales tax software vendors have established referral programs for accountants to send their clients to them for help. About 250 to 300 firms are part of Avalara's Accountants Network, which essentially serves as a referral service, according to **Marshal Kushniruk**, executive vice president of strategic accounts and customer experience for **Avalara**.

"The value proposition for accounting firms is they don't want to do the tedious calculations, but they can fulfill returns for clients or have us do it," **Kushniruk** says.

Perceiving problems

The challenge the vendors are facing is that many companies that have problems don't even know they have a responsibility to collect state and local tax and many accountants don't know how to determine which of their clients fall into that category.

Avalara provides a Perfect Prospect Profile to characterize which companies may be targets. Red flags go up for those entering a new market, doing business in more than one state, having offices in more than one state, conducting business on the Web, and recently undergoing an audit (a statistic offered by **SpeedTax** states that more than 45 percent of companies that purchase technology to ensure "accuracy and a defensible audit trail" do so after an audit).

SpeedTax created a free online CPA Questionnaire that allows accountants to determine their clients' sales tax audit risk. (See related story, "Compliance Checkup.")

Last October, **CCH** expanded its offerings to include a suite of products called CorpSystem for corporate tax professionals to not only calculate rates but determine their end-of-month liability, prepare returns and manage their exemption certificates (which are sometimes required to prove they were not required to collect taxes).

The Tax & Accounting business of Thomson Reuters has a sales tax compliance product line called OneSource Sales & Use Tax, which it markets to larger companies with multinational operations, and also offers various guides for users to understand the ins and outs of SALT.

In May, **the Tax & Accounting business of Thomson Reuters** launched a consulting services arm that competes with the Big Four and second-tier accounting firms to provide such things as taxability analysis studies, nexus determination to see if they even are obligated to collect taxes in the first place based on their legal

Compliance Checkup

Sales tax compliance is a tricky business and a bulk of firms may never hear their clients utter the phrase until they are audited.

Software vendor **SpeedTax** has put together a free CPA Questionnaire online that accountants can send to their clients to answer and return to them via email.

It was designed to educate clients while collecting key information about potential risks that accountants could use as a "springboard for corrective action," according to the company.

The multiple-choice survey takes about 15 minutes to complete, but it can be saved and reopened in case clients don't know the answers to certain questions (Not sure is a choice, however). After completion, a compliance snapshot appears detailing risk from low to high in the form of dashboards broken into seven categories-audit defense, nexus, taxability, returns and filing, exemptions and current practices. The client can then add comments before emailing it to

presence in certain states and voluntary disclosure agreements to reduce penalties for unremitted tax.

They also can evaluate merger and acquisition targets so companies can be alerted to possible exposures and potentially negotiate purchase prices as a result, according to **Rachel Stephens**, manager of Consulting & WorkFlow Services for **the Tax & Accounting business of Thomson Reuters**, adding that services cost roughly \$250 per hour.

Outside assistance

Vendors aren't the only ones looking to help firms help their clients.

Several consulting firms exist throughout the country that will work with clients directly, in conjunction with their accountant or behind the scenes.

Wendy Ezell started her Grapevine, Texas-based practice after serving as a SALT specialist for both **Arthur Andersen** and **Grant Thornton**. When she handles federal tax returns for clients, she interviews them about their overall business to determine if they may have sales tax issues.

"I often find they are making attempts to [collect taxes], but aren't doing it properly. I attempt to get them healthy and into remittance," says **Ezell**, whose clients range from small mom and pops to companies with \$75 million in revenue. "A good CPA would have to take notes and listen for clues."

One of the most obvious clues is when a company ventures into another state, **Ezell** says, noting that what's taxable in one state may not be taxable in another. For example, a client may boast that he sold \$10,000 into Montana for the first time.

"They think they're being friendly, but they're really giving me what information I need and they didn't realize why they had to tell me," she says.

Accountants who are looking to identify which of their clients may encounter nexus issues should run a report with revenue by state, and start managing the top 10 states, doing voluntary disclosure to get them in compliance before the state tries to, Ezell advises.

It's always better if clients tell their accountants they are planning to do something beforehand. For example, Pennsylvania penalizes companies that don't sell a certain amount into the state, which can end up costing them more than they collected in revenue there, **Ezell** says.

Another example boils down to local jurisdictions that may offer incentives for businesses considering opening new facilities in the area.

"It's rare you can get incentives after you signed a lease and broke ground," says **Diane Yetter**,

his accountant.

Sample questions include:

- * What sort of sales tax calculation software or service do you use?
- * Do you have a system in place for filing, storing and managing exemption certificates?
- * What percentage of your customers are exempt?
- * How many sales and use tax returns will you file this year?
- * Do you itemize your products versus service on invoices or contracts?
- * How many SKUs are represented in your product line?

The full survey is available at www.speedtax.com/questionnaire/index.php

president of **Yetter Consulting Services**, a sales tax consulting firm based in Chicago.

Yetter started her career as a sales tax auditor for the state of Kansas in 1985 and served as a sales tax manager at Arthur Anderson in 1989 and also helps clients with systems analysis and software implementation. She works closely with about 15 CPA firms throughout the country, sometimes billing them and sometimes billing the client, depending on the firm's desires and the complexity of the situation.

Yetter believes her firm has been successful because she doesn't do income tax work or general business consulting, so other accountants don't fear they may lose business to her.

"Companies are relying on their CPAs to make sure they're legitimate. If the CPA doesn't know when the company is doing something that's putting the company at risk, the CPA is putting themselves at risk," **Yetter** says. "CPAs have an ego of feeling they can be everything to the client. By not bringing in the specialist, you are at greater risk of losing your client. If the state assesses them \$1 million and it's going to put the company out of business, you can bet the company is going to sue the CPA."

Getting aggressive

States are growing more aggressive about going after people who don't pay as the economy worsens and they need to fill their coffers, **Ezell** says. (Estimates show about 50 percent of state revenue comes from sales and use tax and billions of dollars go uncollected every year.)

They are lurking at truck stops to watch how many times trucks cross the state borders, checking Yellow Pages to see where companies are advertising and looking at Web sites with pull-down menus to see in which states they are willing to take on work.

Sabrix research found that the total cost of compliance for small businesses is \$130,000 a year, including \$10,000 on penalties and interest.

Sabrix, whose pricing is tiered and starts around \$1,000 per month for 40,000 transactions annually, doesn't do audit work, but does provide legal citations of how it calculated rates and provides Web-based portals to archive key data. The company also offers the firms that are part of its referral network access to a Sales and Use Tax Webinar forum to help explain a variety of issues including regional trends and shifting nexus definitions.

"We're trying to help them see the risks for clients and help them keep their income work so [their clients] will not go to a bigger firm," says **Carla Yrjanson, Sabrix's** vice president of tax research. "The risk of not coming forward is you're entering a fraud situation and they'll go back and asses until the beginning of time and add interest and penalties. If you come forward and negotiate to get in compliance, you have some control, can reduce penalties and reduce or eliminate interest."

Charles Collins, vice president of government affairs for **ADP/Taxware**, doesn't necessarily agree that the states have been any more aggressive than they were five years ago, but he does see more states-about 17-implementing sales tax holidays in which certain products such as clothing or school supplies are exempt from taxes for a weekend.

ADP/Taxware receives referrals from both Big Four and individual accountants with new clients, changes in personnel in their tax departments or expanding to more markets, increasing potential exposure.

Firms sometimes ask for a proposal, which the vendor provides for free, and help the vendor answer initial questions so clients don't have to, or ADP conducts an in-depth scope analysis, for a cost. The point is, many accountants need help in order to give help.

"When we reach out to firms, the first step is to understand their level of awareness and increase the risk management and refund opportunity so they can evaluate their clients and figure out which ones are at risk," says **Doug McCubbin** managing director of the **AlliantGroup**, which provides tax advisory services to firms and their clients. "Most are comfortable in their own states but miss other opportunities for credit and incentives. Unless you spend a lot of money on technology to stay on top of it, there's room for lots of errors."

When clients do ask about technology, accountants should first ask about the company's functional requirements and which of those functions they have in their existing software before considering purchasing a new system, he says.

Some firms simply call **AlliantGroup** and ask questions which **AlliantGroup** charges an hourly fee to answer, but 99 percent of the time AlliantGroup talks directly to the client because a majority of projects will require revisiting down the road, **McCubbin** says. And it's not only the small firms that need help.

Eide Bailly has more than a dozen offices and formed a SALT group about two years ago with seven employees. But since so many companies are crossing state lines these days, this year the company aligned with **AlliantGroup** to serve as national specialists and to help **Eide Bailly** with projects related to reverse sales tax audits-aka refund reviews-for clients who may have collected more tax than they needed to. **AlliantGroup** charges the firm and the firm charges the client without marking up the price, but adds fees for any time spent on the project.

"We get more client work, gain experience and we're aware of everything that's happening," says **Travis W. Burgess**, CPA, senior tax manager at **Eide Bailly**.

The firm has plans to develop the specialty services in house down the road as a result of this relationship, he says.

"People feel like they're failing if they can't do everything. The one-stop shop has always been promoted as a great term, but maybe it's not the best way," Burgess says, echoing Yetter's sentiments. "We let the client be aware there are issues and let them know we have outside sources and connections that will benefit them even though we don't have the resources."

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Sales and Use Tax Vendors

ADP/Taxware

www.taxware.com

Avalara

www.avalara.com

CCH CorpSystem

<http://tax.cchgroup.com/CorpSystem/default>

Edoc

(Exemption certificates)

www.edocsolutions.com

Imaging Science & Services (Exemption certificates)

www.issimage.com

Sabrix

www.sabrix.com

SpeedTax

www.speedtax.com

Thomson

www.salesanduse.thomson.com

Vertex

www.vertexinc.com

Other SALT Resources:

AlliantGroup

www.alliantgroup.com

Jefferson Wells

www.jefferson-wells.com

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