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Tax & Accounting

Four Scenarios *that Signal* It's Time to Invest *in Automated* Sales and Use Tax Software

Scenarios that affect sales and use tax.

In this eBook, you'll discover four scenarios that fuel your business's growth and introduce new changes that impact your sales and use tax remittance.

- Growth
- Major Technology Change
- M&A
- Audit

A thriving business doesn't stand still. Product portfolios change, mergers happen, and technology evolves... all of which shape future growth. But one constant remains: your obligation to collect and remit sales and use tax.

Growth: Geographical Expansion

When a business expands geographically, this often means needing to be aware of new state and local taxes that come into play across all products, services, and sales channels.

Understanding whether your business has "nexus"—a connection with a state or jurisdiction that creates a tax obligation—is a critical step to determining your sales and use tax obligations. Keep in mind, it's not just the number of states but the regulations within each state.

Complexity and the effort required to stay compliant increases with each new state or jurisdiction.

Growth: Nexus becomes especially complex with home-rule states

These states allow localities—or individual counties and cities—to administer and set their own sales tax rules and rates. Businesses in these states must calculate, remit, and file taxes at both the state level and at each local tax jurisdiction in which they operate.

Note: *Alaska allows local cities and boroughs to impose sales tax.*

Growth Example: Colorado has 69 home-rule cities, all of which impose their own tax rates and rules.

Expansion into a home-rule state such as Colorado makes sales and use tax calculations overwhelming without the use of automated sales and use tax software.

Imagine managing your sales tax obligations with each of these municipalities, all of which have different rates and rules.

Growth: Sales Channel Expansion

Another way businesses grow is through sales channel expansion.

A typical example is when a brick-and-mortar business adds an online store, or vice versa. Or a business may attract a new manufacturing partner, launch a major re-seller expansion, or sell via a network of affiliates. Regardless of the type of channel expansion, these could have significant sales and use tax implications.

Special Consideration—E-Commerce: A 'Pain in the Nexus?'

E-commerce presents a unique set of sales and use tax considerations.

For many businesses, selling online is a natural extension of their brick-and-mortar storefronts.

All businesses selling online potentially face nexus anywhere they sell, not just where they are physically located. For example, in Massachusetts, Ohio, and Rhode Island, an out-of-state retailer's use of "cookies" on consumers' computers is proof of nexus for sales-tax purposes.

Growth: Product Line Expansion

Understand the sales tax requirements for new products or services you are bringing to market.

Introducing new products is a significant growth driver, but be sure to understand the sales and use tax obligations they create.

- **VoIP**—This commonly used technology helped businesses expand their service offerings but many did not realize that states and other taxing authorities consider this telecommunications and not just software. That designation significantly changed their tax obligations.

- **Dine In**—Many businesses from carry out delis, to bookstores, to luxury shops, are now offering dine in foods and service. This new service creates a great customer experience, but also creates sales tax obligations in states like California.

Technology Change: New ERP

A change in the ERP affects backend configuration of billing, PO creations, and point-of-sale. Because these types of technology projects often are significant in their scope, many businesses find that they need to reassess their processes and risk regarding sales and use tax.

Implementing a system-wide technology, such as an ERP, is the right time to consider sales and use tax software.

M&A: Sales and Use Tax Considerations

Considering Merger or Aquisition?

It’s time to evaluate:

- *New sales and use tax obligations, or changes to current obligations*
- *Process improvement*
- *Audit exposure*

Sales and use tax procedures play an important role when a merger or acquisition is on the horizon. Because differences between the two entities,' sales and use tax procedures may create new complexities and obligations—evaluating these procedures when assessing is essential for pre-M&A addresses valuation and ongoing business risks.

With mergers and acquisitions, certain situations may directly require a new sales and use tax solution, such as when the company being acquired or spun off becomes responsible for taxes.

Many businesses pay sales tax audit penalties, not because they thought they were wrong, but because they didn’t have the tools to properly respond to the audit.

Audit: Many Risks

The specter of a negative audit and its consequences prompted savvy organizations to reconsider their sales and use tax software.

Other companies, though, take the approach to err on the side of overpayment to ward off a negative audit. Overpayment is not only money lost—with no return—it also has opportunity costs. These dollars are better spent invested back into the company; one option being more powerful sales and use tax software.

Leveraging sales tax automation tools ultimately allows your team to focus on higher-value activities that contribute to your business’s continued growth. These tools also help ensure that your business never skips a beat when teams change and new members have responsibility for sales and use tax remittance.

Contact information:
Wolters Kluwer
2700 Lake Cook Road
Riverwoods, IL 60015
United States
800-739-9998

Please visit **SalesTax.com** for more information.

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