



Explore the benefits
of taxability impact
reporting services.



Explore the benefits of taxability impact reporting services to ease the burden of sales and use tax for clients.

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Explore the benefits of taxability impact reporting services

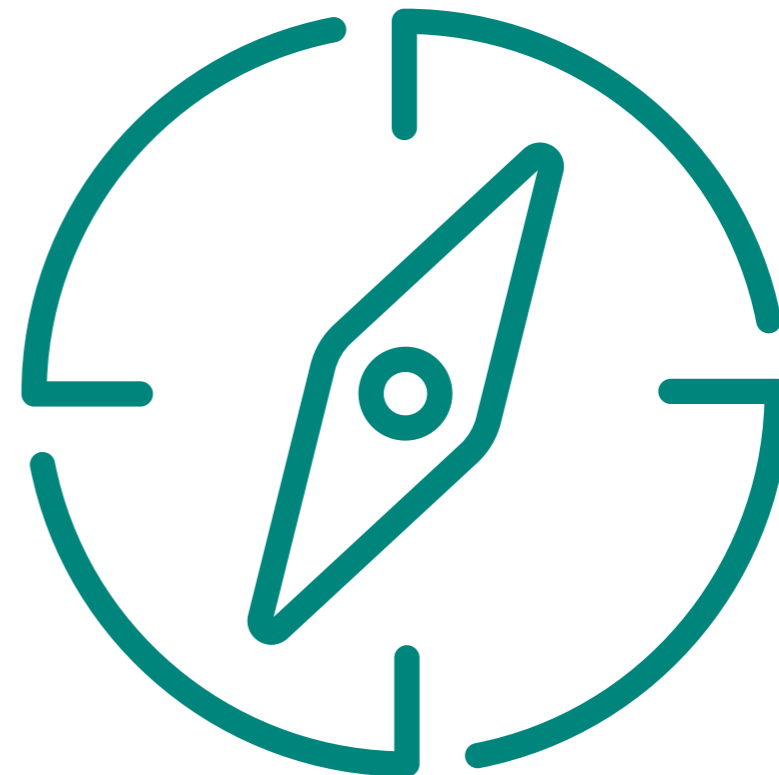
As companies continue to sell goods and services across state lines via the internet, the questions surrounding nexus and taxability of products continue.

Not only do businesses need to understand what creates nexus (the minimum level of business activity or connection with a state that results in a business being subject to taxation), but they also have to identify what products and services are taxable. With ever-changing regulations and rates across thousands of jurisdictions, this equates to an exceptionally daunting task that can quickly overwhelm business owners and leave them at high risk for non-compliance.

Based on the complexity of nexus and state-by-state taxation mandates, what clients require (and often request from their accounting advisor) is a structured “taxability report” that identifies taxable products by state. The report serves as a blueprint for business owners, identifying jurisdictions where collection and payment of taxes is required. This service presents another opportunity for firms to support their clients’ business success, create a new revenue source, and expand their advisor role.

“Once businesses figure out if they even have nexus, then they have to figure out if what they sell in each state is taxable. This gets very complicated because every state has its own rules, and within each state there are local jurisdictions that have their own set of rules.”

ANDREW H. JOHNSON, CPA
Peisner Johnson & Company, LLP



Current trends driving service

With an ever-widening tax gap, states are looking for new ways to bring in more revenue.

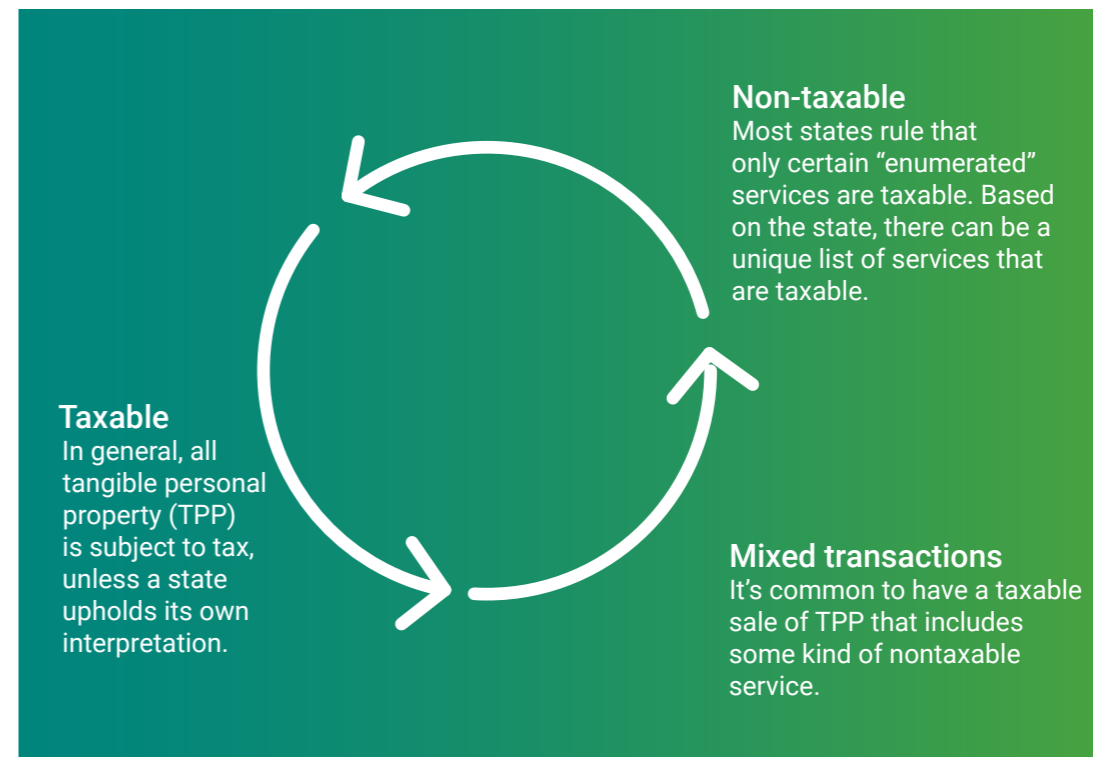
But accomplishing this is tricky – from a political standpoint, it’s difficult for states to simply raise rates. Expanding the base to tax more services or reducing offered exemptions is also often met with fierce opposition. So, what are states to do? The answer: find revenue elsewhere. And that is exactly what state officials are doing by aggressively going after companies who show nexus-generating activity within their state. States are also expanding interpretation of existing tax law and/or are narrowing interpretation of exemptions to bolster incoming revenue.

Auditors also appear to be more aggressive than ever due to pressures to deliver more tax assessments. As such, auditors may tend to push the envelope on what is considered taxable. And, finally, with ongoing advancements in technology and the ease of conducting business across state lines, more businesses are open to nexus.

All of these trends combined continue to fuel change and spark new interpretations of tax statutes. All the more reason businesses require guidance from their expert advisor and supporting taxability impact reporting services.

Don’t underestimate the level of confusion among businesses in relation to taxability.

What’s taxable? What’s non-taxable? What constitutes a mixed transaction? While there are general rules to determine each category, when you add state-by-state interpretations, court and letter rulings, ever-changing regulations, things become much more hazy.



Understanding core obstacles for firms

While providing clients with a comprehensive report of taxable products is an exceptionally helpful and needed service, it can be an enormous challenge from a cost and time perspective.

Without the proper automation solution in place, manual creation of a taxability report demands excessive work hours. Consider that a firm has to:



Define and understand the company's products and services.



Determine in which states the business has nexus.



Research tax law, regulations and court cases in each state where the company has nexus-creating activity to determine the taxability products and services.

To put this into perspective, consider a client who has nexus in 20 states. With the level of research required, work can average between 5–10 hours per state — equating to about \$60,000 in proposed fees. Not many clients would sign up for such a service at that price.



“When most clients learn the cost, they don’t want to do it ... especially when they find out that taxability rules can change at any time in any state. This means the report can become outdated quickly and would need a reevaluation, which can cost thousands more.”

Automated taxability impact reporting services for the win

Taxability impact reporting services can be cost effective for clients and a lucrative offering for firms – but only if automated.

Firms that use a powerful sales and use tax automation solution can provide high-value taxability services to clients at a reasonable cost because the system eliminates the need for state-by-state taxability research.

Top systems provide current tax rates across thousands of jurisdictions and reflect state-by-state rate and regulation changes as they occur. Relying on an advanced solution for current data, firms need only run a monthly report and then consult with clients on changes that affect them. This eliminates the need for hours and hours of ongoing manual research to determine taxation by state.

Using a powerful and robust sales and use tax automation solution allows firms to offer taxability impact reporting services on two levels:



Taxability impact report setup – Consists of working with the client to determine what products the client is selling and then assigning the appropriate taxability codes within the solution.



Taxability impact report monthly reports – Once setup in the solution is complete, the firm produces a monthly report that details what products in what states are taxable. With frequent changes in taxation across jurisdictions, this monthly report will prove invaluable to clients and open the door to ongoing consultative client services for the firm.

“As soon as clients find out where they have nexus, next they want to know if what they sell is taxable in the states where nexus exists. This is the part that scares accounting professionals because they don’t want to stir up questions they can’t answer. However, with the right tax automation system, accountants can answer these questions by pulling up-to-date, accurate data from the solution and delivering it to clients within a structured report.”



The big revenue opportunity

The potential revenue for firms that choose to offer taxability reporting services is highly inviting.

In fact, when you also consider offering companion services, including an annual nexus review, nexus study, state income and sales returns, state registrations, and sales tax rates setup and reporting, it paints a very lucrative picture.

Consider the following example of the revenue opportunity for a firm offering the full list of services. This example shows first year revenue and recurring revenue thereafter.

Service provided	Service description	First year number of clients	Subsequent years number of clients	Number of states	Revenue per service	Revenue first year	Recurring revenue after first year
Annual review (and onboarding)	Perform annual review for current clients. When onboarding new clients, assess nexus footprint, sales tax rates and product taxability.	15	15	n/a	\$350	\$5,250	\$5,250
Nexus study	For clients whose annual review suggests nexus-creating activity in multiple states, a full nexus study is conducted.	6	2	25	\$1,500	\$9,000	\$3,000
State income tax returns	Assume 50% of nexus studies indicate that some clients should be filing in additional states. In subsequent years, assume a certain number of additional clients fall into this additional category.	2	1	5	\$500	\$5,000	\$7,500
State tax returns	Assume that half of the nexus studies indicate that # of clients should be filing in number of states each. In subsequent years, assume number of additional clients fall into that category.	2	1	5	\$75	\$9,000	\$13,500
Registrations	Assume that some clients require registration in some states for the first year and subsequent years.	2	1	5	\$175	\$1,750	\$875
Sales tax rates setup	Each client with sales tax nexus will need a monthly report of updated rates for their locations.	2	1	5	\$1,000	\$2,000	\$3,000
Sales tax rates reports	Once setup is done, each client with sales tax nexus will need a monthly report of updated rates for their locations.	2	1	5	\$1,500	\$3,000	\$4,500
Taxability impact report setup	Setup client by identifying products and services sold and which are taxable or exempt. Apply product taxability codes to each product/service.	2	1	5	\$3,500	\$7,000	\$10,500
Taxability impact monthly reports	Provide monthly taxability impact report to clients, which will reflect any taxation changes across states.	2	1		\$1,800	\$3,600	\$5,400
						\$45,600	\$53,525

* The recurring revenue will increase each year as clients are added.



Conclusion

The internet has opened up a new world of selling opportunity for today's enterprises. At the same time, it has also created a great deal of confusion in terms of nexus and product taxability. As companies continue to grow via the web and move across state lines, business owners will look to their accounting advisors for consultation to ensure compliance in the area of sales and use tax. This presents an opportunity to expand firm offerings with such services as taxability impact report setup and monthly reporting. These services not only bring more revenue into the firm, but further strengthen the client-accountant bond by alleviating clients of the exceptionally taxing nature of state taxes

About the contributor

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About Vertex

Vertex helps automate sales and use tax compliance for small to medium-sized businesses. By enabling calculations and returns in a single, cloud-based solution, offering flexible service levels and featuring attractive pay-as-you go pricing with no upfront fees, Vertex meets the sales and use tax automation needs of growing businesses.

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