

### Sales and Use Tax Exemption Certificate Review - Case Study

#### Background

The company is one of the largest consumer electronics companies in the world. Shortly before the exemption certificate review, the company had implemented exemption certificate scanning software, and it wanted to take this opportunity to clean up its data and eliminate old, outdated certificates. The company had over 65,000 certificates to review in 41 states and the District of Columbia. Several recent audits had resulted in large assessments based on missing or invalid exemption certificates.

#### Data Collection

The initial collection of data presented a unique challenge in that certificates loaded into the exemption scanning software represented customers from three separate systems. Active customers were segregated from inactive customers for purposes of the review.

#### Planning

Planning for the review involved identifying the relative order of importance of states. States which were scheduled to audit in the immediate future were targeted first, followed by certificates in states which have expiration dates. Subsequently, larger states with a greater number of certificates were reviewed, followed by the remaining states.

In preparation for the review, TaxAutomation developed a management tool which allowed for the systematic assignment by consultant of a certain number of certificates to review in a designated state. A legend of codes was developed to identify the common errors discovered (e.g., invalid registration numbers, missing signatures, no date on the certificate, no reason provided for the exemption, documents that were not even certificates). These codes were later used to systematically generate letters to customers in that state which would identify the error and attach the proper form to be returned.

#### The Review

Prior to beginning the review for each state, TaxAutomation consultants confirmed the rules with a representative of each state. Standard registration numberings were identified so that invalid numbers or numbers other than state registration numbers could be recognized.

Each state provided unique issues. Ten states have expiration dates, ranging from one year to ten years. Many states have very specific registration number requirements. For example, one state's registration number might be 9 characters in length and start with a 1 or 2. Other states have a variety of different length numbers which may be valid. Still other states, which had recently changed their numbering system, would no longer recognize as valid certificates that had the old registration number as of a specific date.

Some states require that the exemption be supported by a specific, state-promulgated form. Other states allow for any type of documentation as long as the statutorily-required information appeared on the form. Those statutory requirements vary by state. Many states allow for the use of multijurisdictional certificates, but not all of them. Yet other states have different forms for different types of entities (governmental entities, tax exempt entities such as schools, hospitals, charities, etc.)

### Sales and Use Tax Exemption Certificate Review - Case Study continued

#### Results

At the end of the review of each state, that state's spreadsheet was uploaded back to the database. With the use of TaxAutomation's management tool, reports could be generated for use as status report showing the number of certificates reviewed and the number remaining to be reviewed. Additional reports were available identifying specific errors by state. For example, one custom report might show how many certificates in the state of California had an error with the registration number.

Once the database was updated, it was merged with letters which were customized by state in preparation for mailing correspondence to customers requesting updated exemption documentation and identifying the reason why new documentation was necessary.

#### Why TaxAutomation?

TaxAutomation offers a unique combination of skills that not only offers the tax expertise and knowledge of each state's exemption certificate requirements, but also the technical ability to retrieve data quickly and efficiently and produce meaningful reports that can be used to make adjustments in a company's daily processing. In this case, the company was able to identify recurring errors that were slipping past financial services personnel, and tailor training programs to avoid similar recurring problems.

TaxAutomation also has the skills to combine a review of exemption certificates with an implementation of tax software – either exemption certificate scanning software or a larger tax calculation package. On the tax side, a review of certificates could be combined with audit defense services. Among the backgrounds of TaxAutomation staff are previous state auditors and state and local tax consultants from national accounting firms.

Finally, TaxAutomation is able to provide a cost-effective service by experienced professionals. TaxAutomation does not have the cost structure of a large accounting firm and does not employ consultants directly out of college with no practical experience.

**Contact :** Ed Eberle

Business: (561) 995-6820 ext. 210

Email: [eeberle@taxautomation.com](mailto:eeberle@taxautomation.com)