

Manufacturers
ALLIANCE

**Sales & Use Tax Trends
for Manufacturers**

Speakers



Chuck Maniace

VP, Regulatory Analysis
& Design at Sovos



Brian Sengson

Senior Manager in Bennett
Thrasher's State & Local Tax
practice



Kent Mathis

Senior Manager in Bennett
Thrasher's State & Local Tax
practice

Agenda

- 1** **Priorities in an Evolving Tax Environment**
- 2** **Sales & Use Tax Compliance Trends**
- 3** **Measuring and Managing Compliance**

Priorities in an Evolving Tax Environment



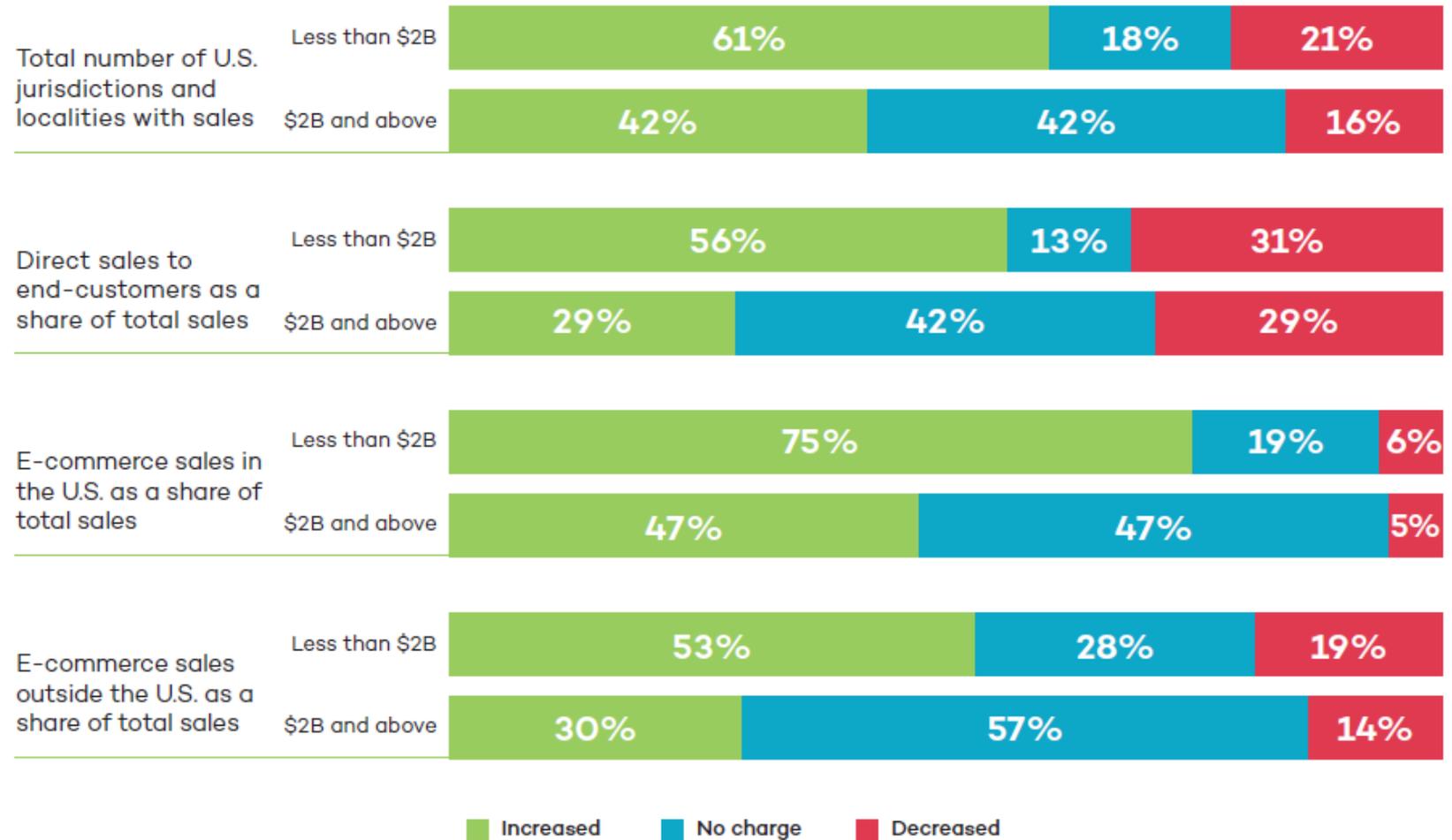
Poll Question 1: What is your top sales tax priority?

1. Adapting to sales tax changes
2. Improving overall sales tax planning & analysis
3. Integrating sales tax technology
4. Improving efficiency

Smaller Manufacturers Have Aggressive Growth Plans

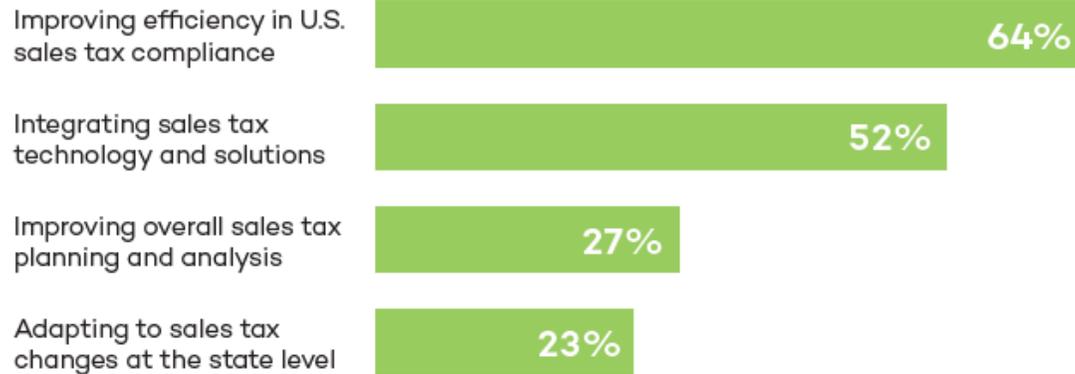
How are manufacturers growing?

- US e-Commerce sales
- New jurisdictions
- D2C sales

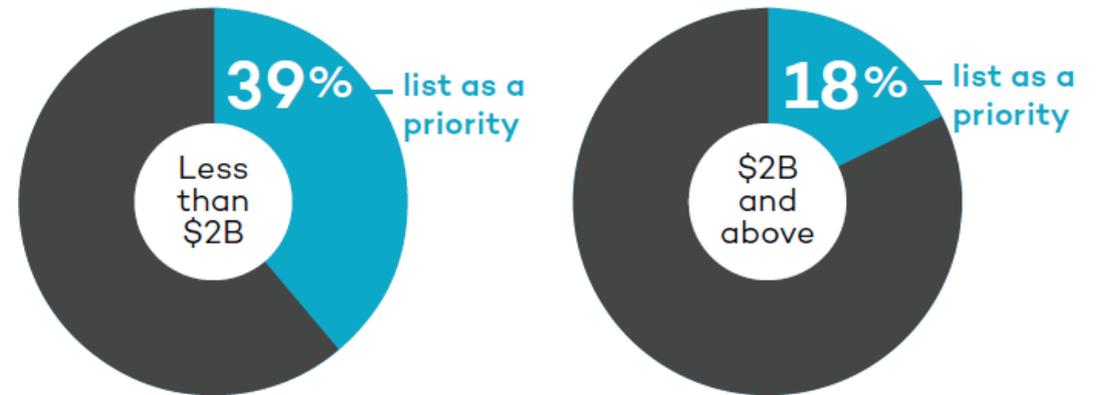


Priorities Driving Sales & Use Tax Strategies

Sales & use tax priorities for your department in the next 12 months



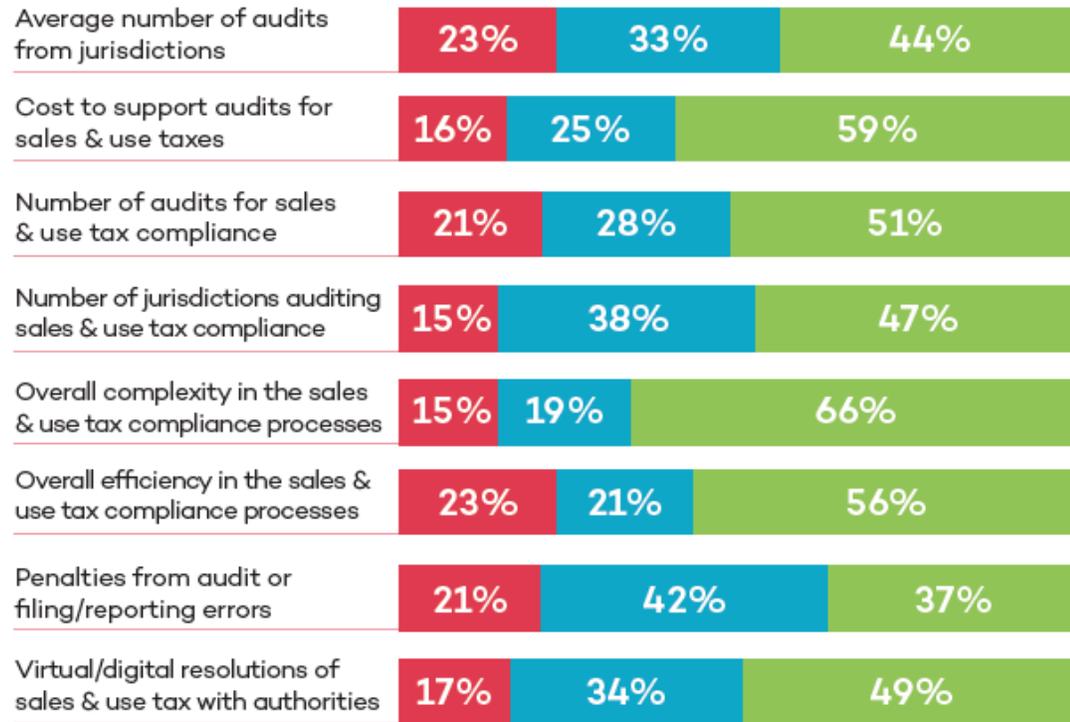
Importance of improving overall sales tax planning and analysis for small vs large manufacturers





Sales & Use Tax Compliance Trends

Audits, Complexity, and Efficiency Driving the Need for Change



■ Decreased ■ No charge ■ Increased

Key Factors driving manufacturers to change sales tax process:

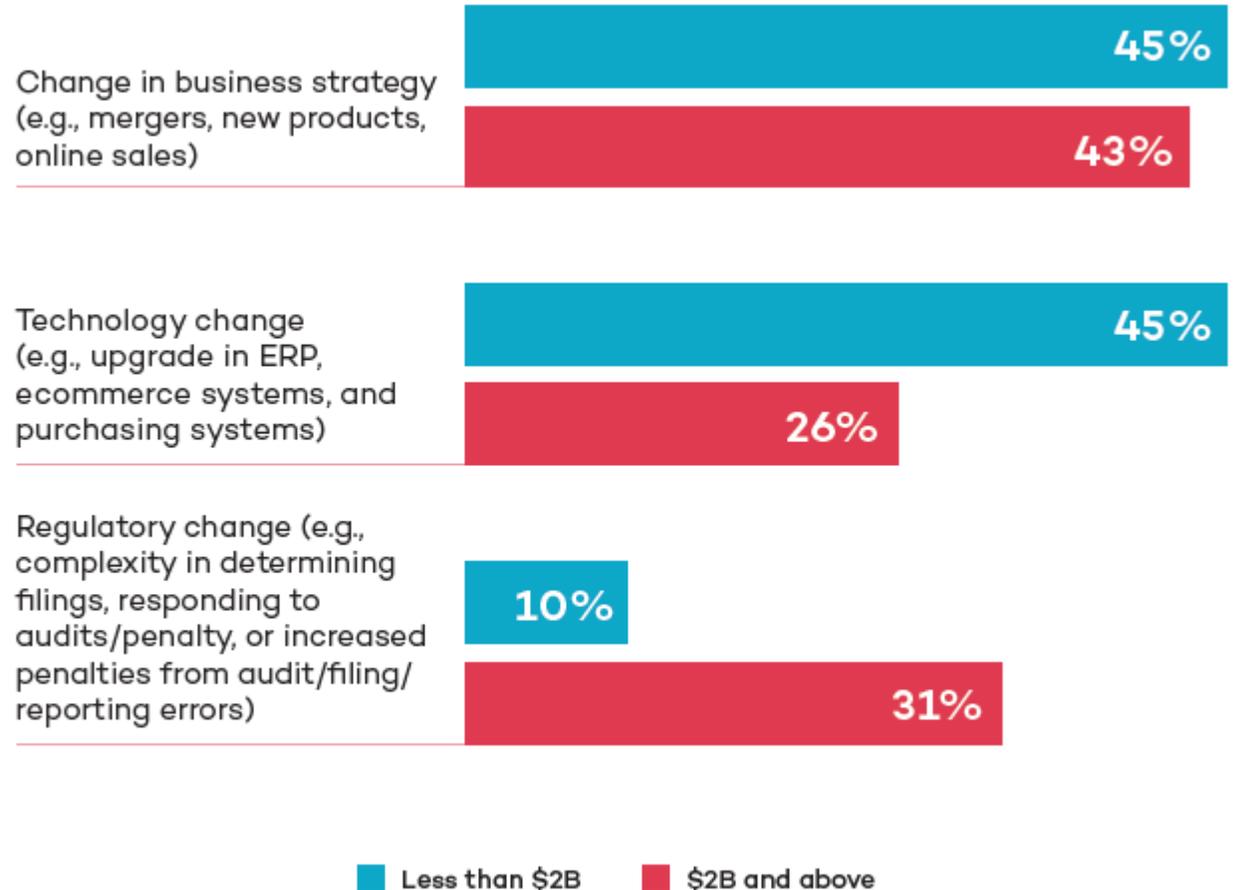
1. Increased complexity
2. Cost to support audits

Organizational Changes Add Complexity to Sales & Use Tax Compliance

Why is Sales & Use Tax Compliance becoming more complex?

1. Changes in business strategies
2. Technology changes

“We’re trying to centralize our tax functions. It’s not reasonable for each of our four segments to have an expert in 50 states sales tax requirements.” – VP Tax, Transportation Equipment Manufacturer



Sales & Use Tax Compliance Priorities

- Larger manufacturers had a higher priority on reducing manual effort
- Smaller manufacturers had a higher priority on for improving accuracy of filings

Reducing manual effort in the process (e.g., automation)

67%

Understanding how rules in different jurisdictions impact the business (e.g., exemptions)

33%

Less than \$2B – 52%
\$2B and above – 80%

Integrating tax information from different systems and/or locations

32%

Less than \$2B – 21%
\$2B and above – 40%

Streamlining the compliance process to simplify auditing

26%

Improving accuracy of filings

25%

Less than \$2B – 36%
\$2B and above – 15%

Tracking and interpreting rules for complex SKUs

23%

Reducing dedicated tax resources for compliance

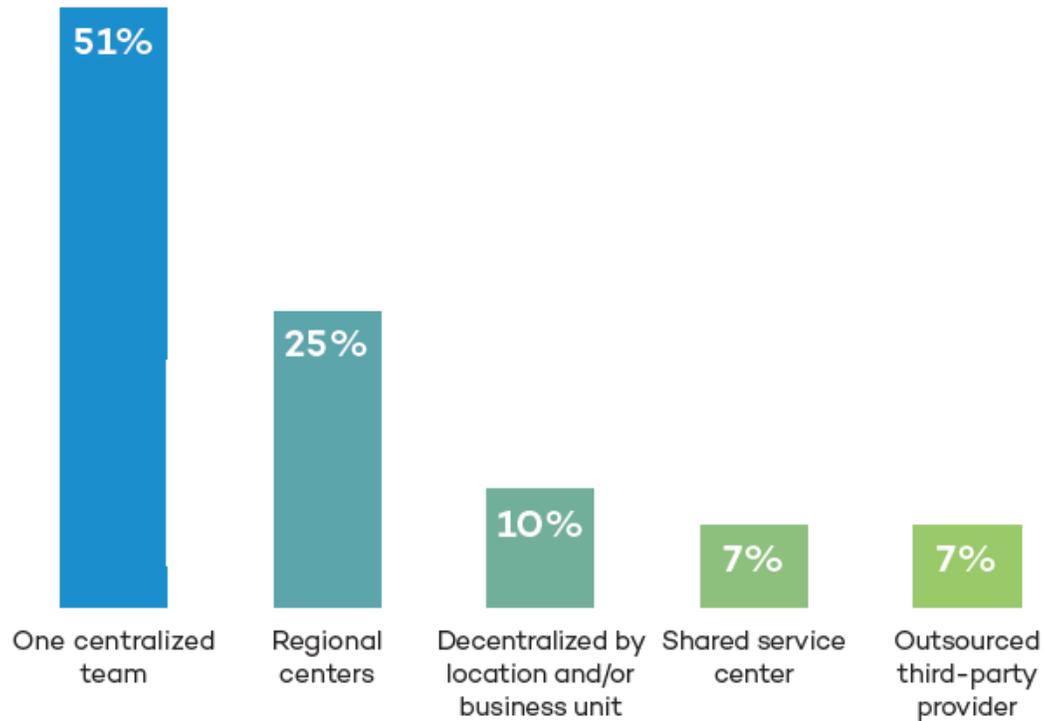
16%

Improving timeliness of filings

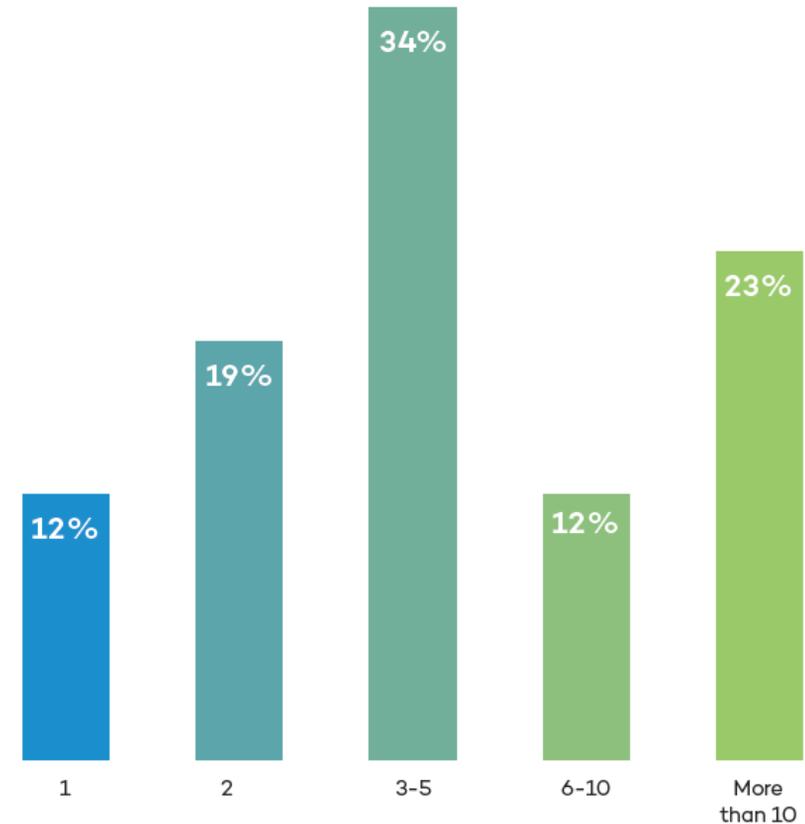
10%

Tax Department Organization and Headcount

How tax departments are organized for sales & use tax compliance

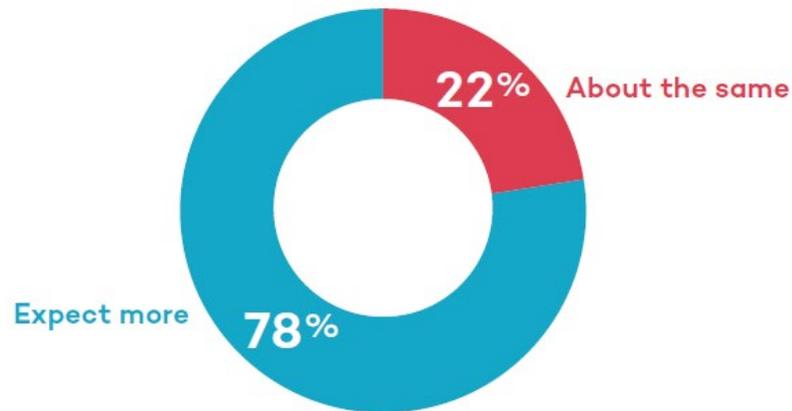


Number of FTEs dedicated to managing sales & use tax compliance



Audit Trends

Expected audit scrutiny from state jurisdictions in the next 12-36 months



No manufacturers expect fewer states sales & use tax audits

“Right now, we have about 15 to 20 open sales tax audits, and that’s about normal for us. We have seen a significant uptick in the number of audits, with new jurisdictions coming in and others being more aggressive. We even saw Oklahoma doing some data mining of our corporate tax return to try an establish a new tax in Oklahoma.” – Director, U.S. Indirect Tax, Global Construction Company

Poll Question 2: What is the greatest risk to your business' sales & use tax compliance

1. Operational inefficiencies
2. Audit penalties from inaccurate filings
3. Audit penalties from not filing or filing late

Audit Penalties Declared Top Risk

The greatest risks within current tax compliance process



The two main sales & use tax compliance risks:

1. Operational inefficiencies
2. Audit penalties

Where are Tax Compliance Resources Spent?

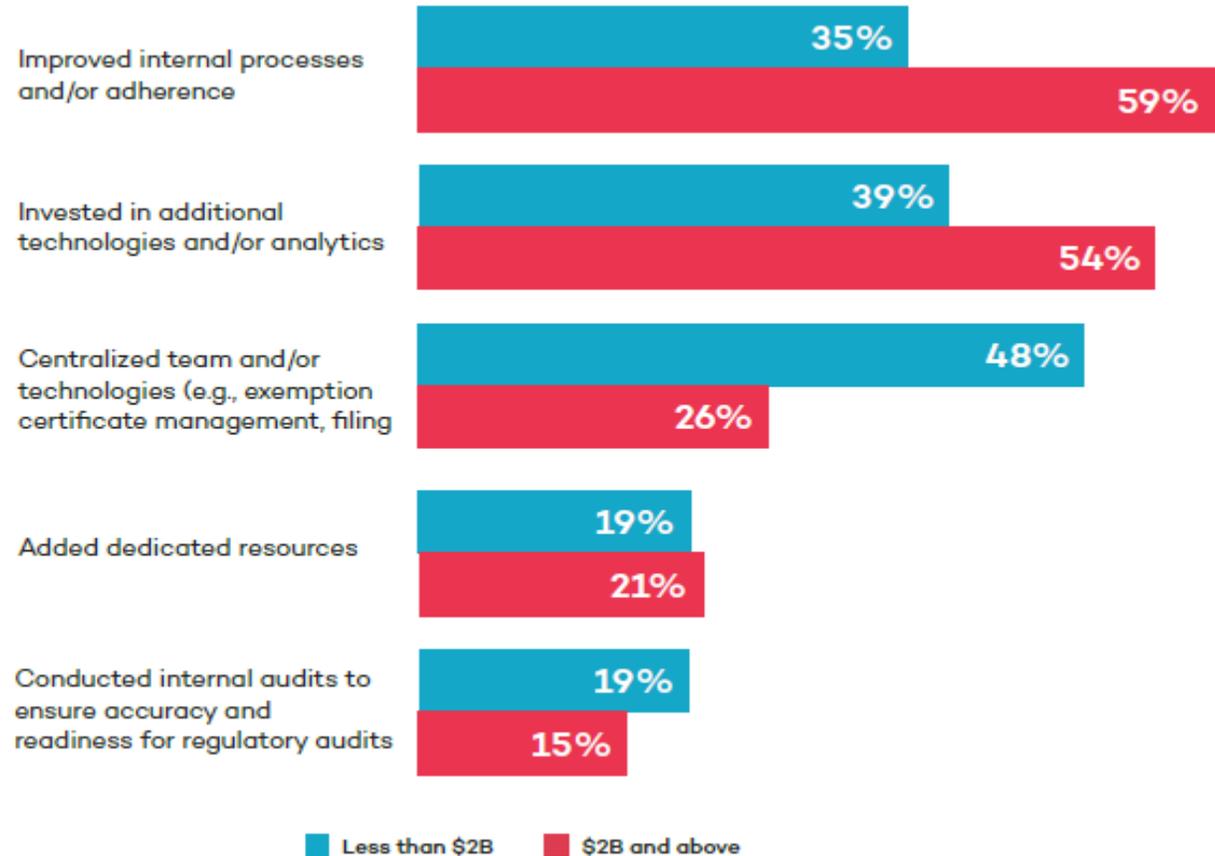
Sales & use tax compliance takes **time and resources**

- Larger manufacturers spent significantly more time preparing for audits
- Smaller manufacturers spent more resources on day to day compliance



Optimal Strategies for Sales & Use Tax Compliance So Far

- Larger manufacturers prioritize internal processes and expanding use of technology
- Smaller manufacturers prioritize a centralized team and/or technologies



Optimal Strategies for Sales & Use Tax Compliance Going Forward

Investing in additional technologies and/or analytics

51%

Centralizing teams and/or technologies (e.g., exemption certificate management, filing solutions)

42%

Improving internal processes and/or adherence

40%

Conducting internal audits to ensure accuracy and readiness for regulatory audits

25%

Adding dedicated resources

25%

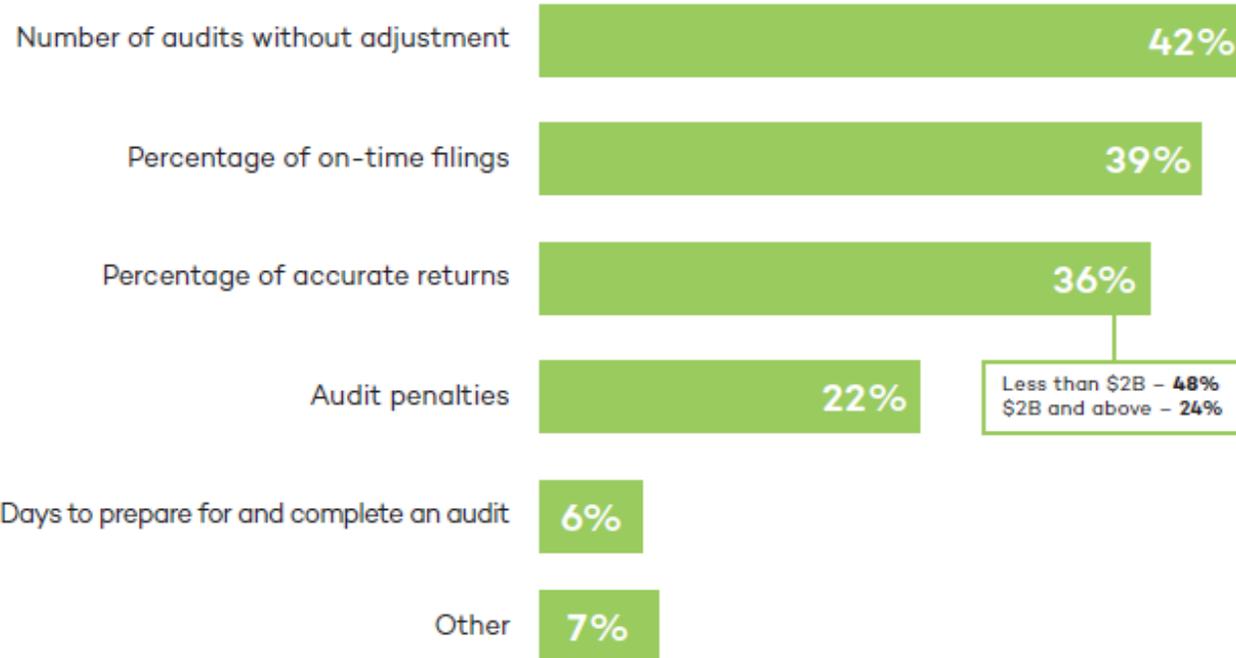
“When we implemented a sales tax software solution it significantly cut down a portion of the manual work such as invoice review and taxability rates. By automating it up front we can get about a 95% accuracy rate on taxability.” – Director, U.S. Indirect Tax, Global Construction Company

Measuring and Managing Compliance



Key Performance Indicators (KPIs) for Compliance Success

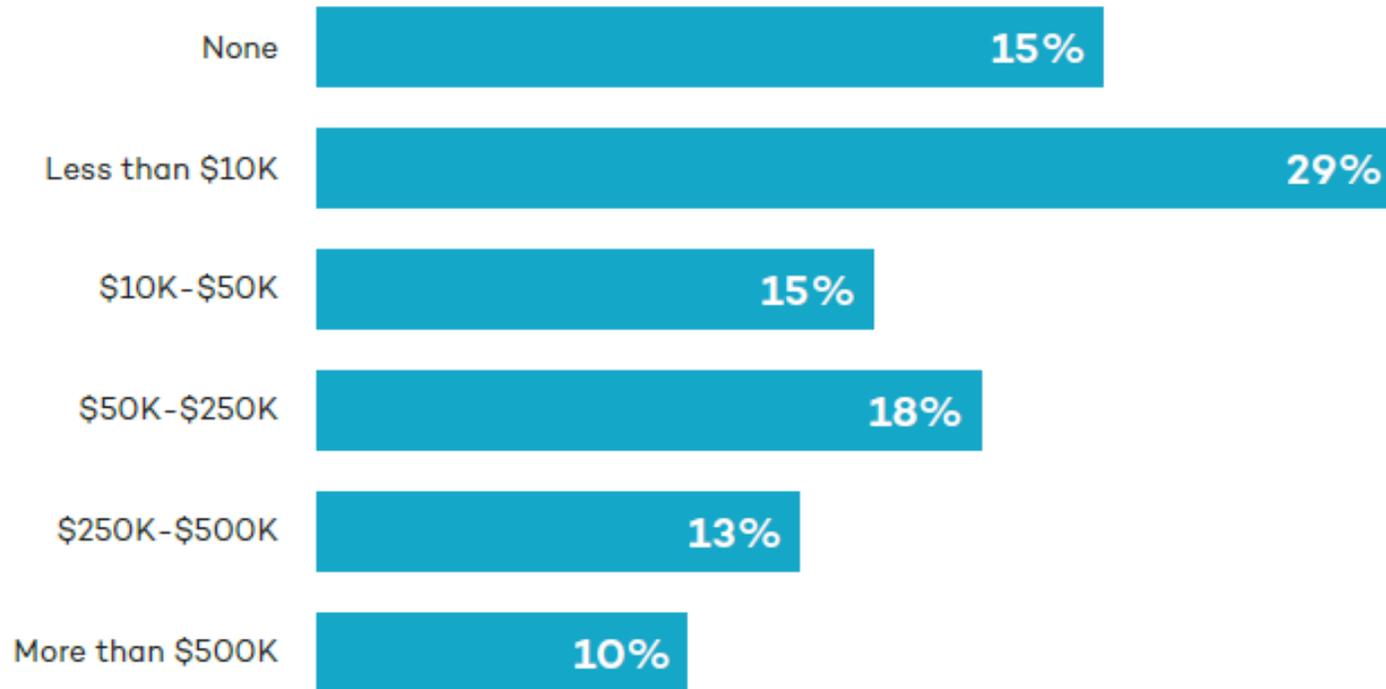
In looking at the data by revenue, it's worth noting that large companies never took less than 3 days to prepare for an audit and 58% actually took more than 10 days. For small companies, audit preparation times were more evenly distributed, with a third taking 1-5 days, a third taking 5-10 days, and a third taking more than 10 days.



Top 3 KPIs for tracking compliance and overall efficiency:

1. # of audits without adjustment
2. % of on-time filings
3. % of accurate returns

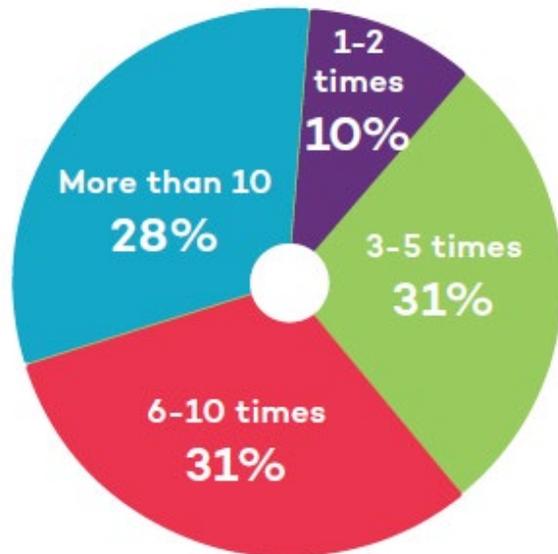
Audit Assessments



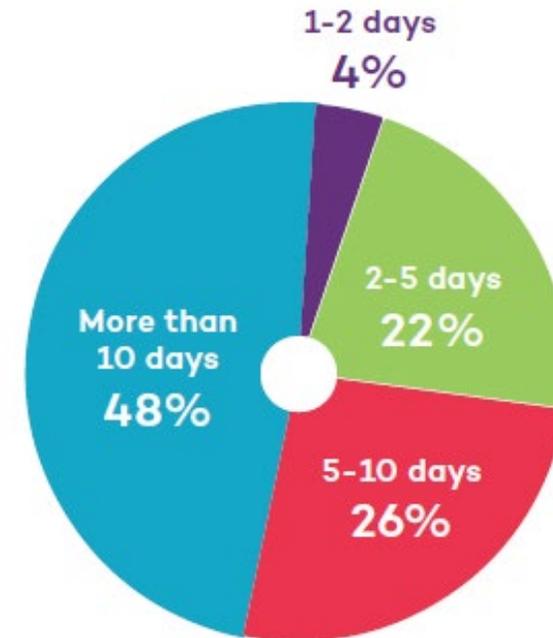
- Reported assessments ranged from nothing to over \$1 million
- Large assessments (\$250K + happen with significant frequency)

Audit Frequency and Duration?

Number of times company has been audited for sales & use tax in the last 12 months

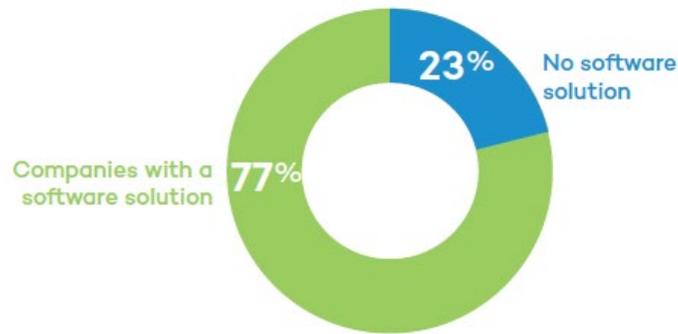


Total number of workdays for departments to prepare and complete sales & use tax audits during the last 12 months



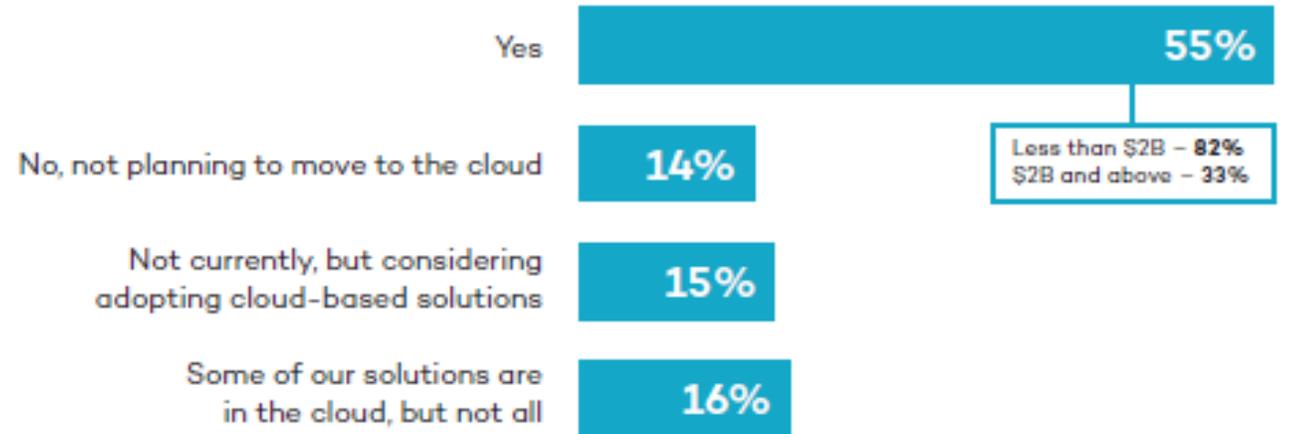
Tax Software Utilization within the Manufacturing Industry

Software solutions in place



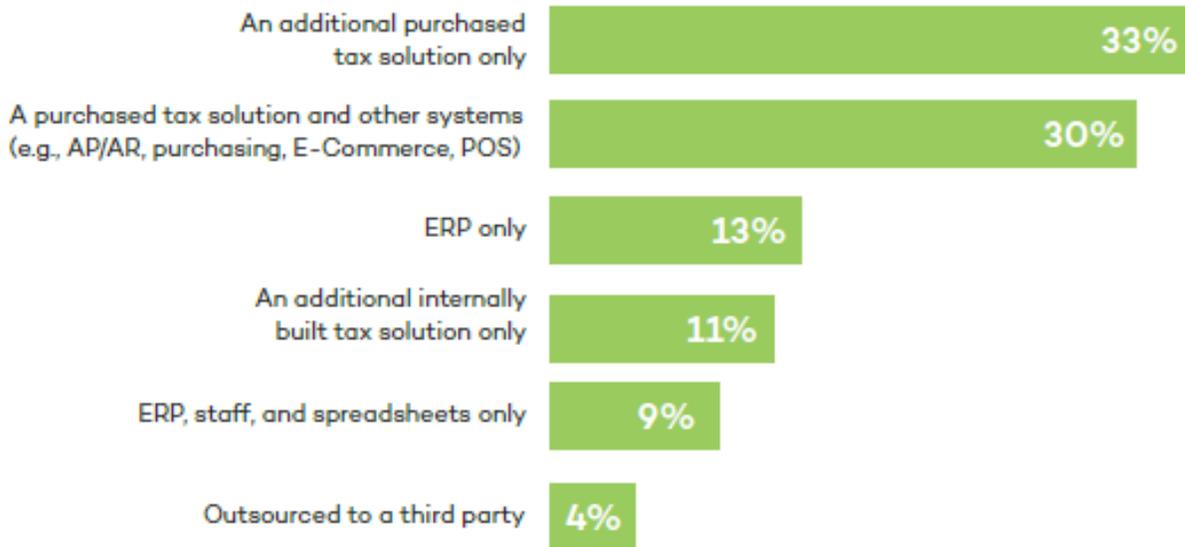
“When we converted to our new sales tax software we took our compliance process from about 18 days down to about three.” – Director, U.S. Indirect Tax, Global Construction Company

Is the tax software solution(s) cloud-based?

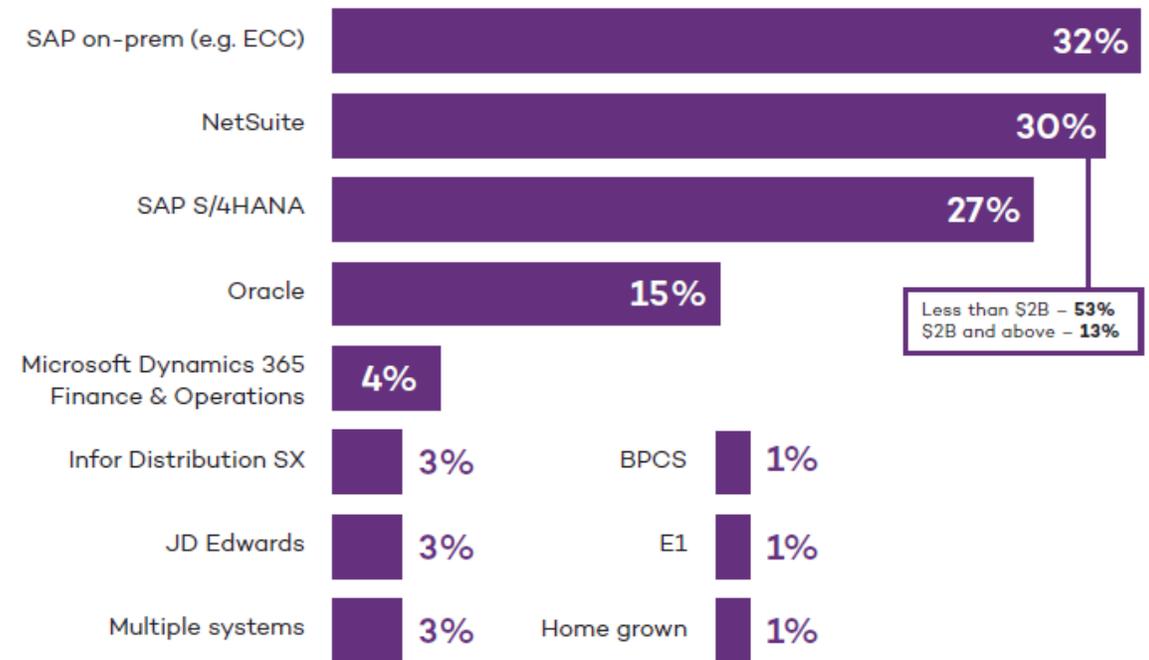


The Technology Mix for Sales & Use Tax Software

The technology mix in place for your sales & use tax solution (in addition to ERP solutions)



What ERP is your business currently running on?



Poll Question 3: Are you paying the correct tax to your vendors?

1. Yes
2. No, I'm overpaying vendor-charged tax
3. No, I'm underpaying my taxes
4. I don't know, I am not checking

Are Your Vendors Getting it Right?

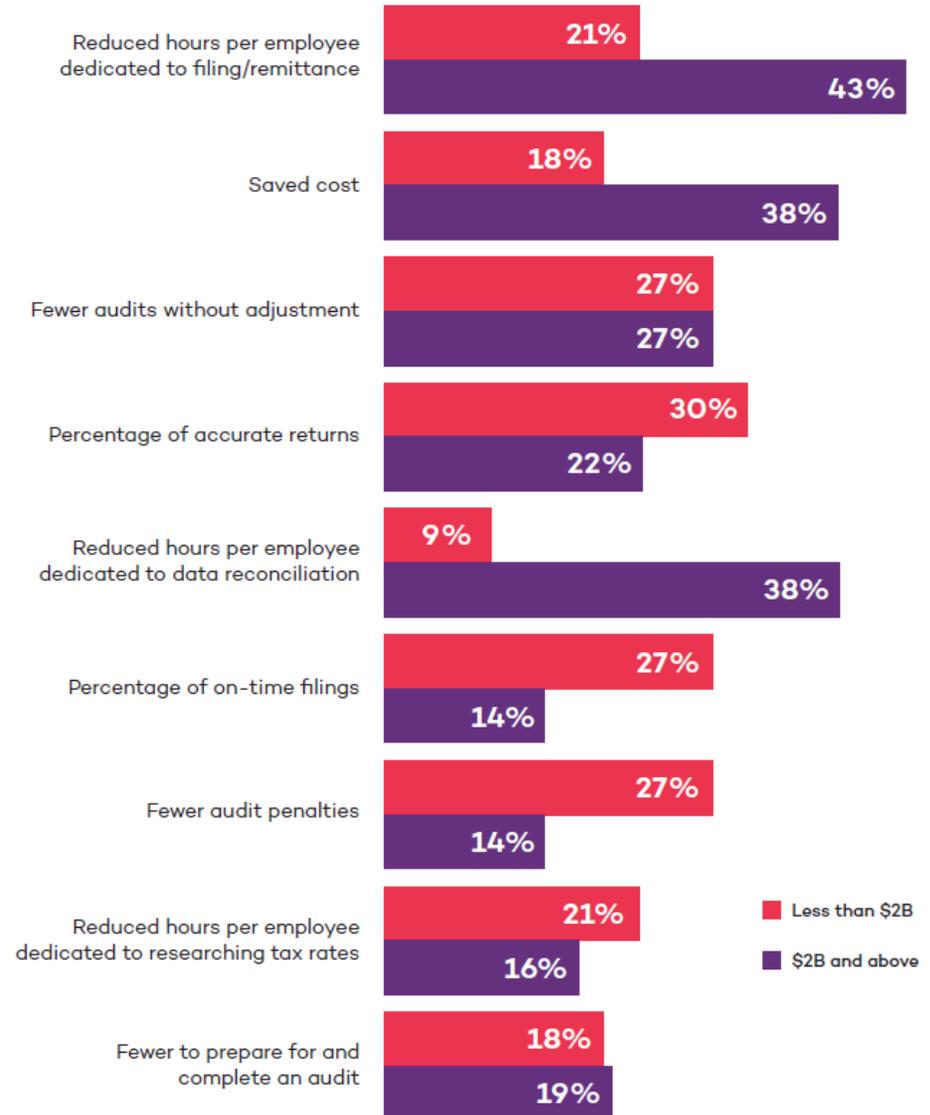
- Over the last three years, every state with a sales tax has adopted an economic nexus standard.
- Thousands of companies are “attempting” to meet this new compliance burden
- Manufacturers often buy expensive items, do you have a process in place to validate sellers are calculating tax correctly, or at a minimum correctly honoring your exemption certificates?

Excess tax paid to vendors is lost money

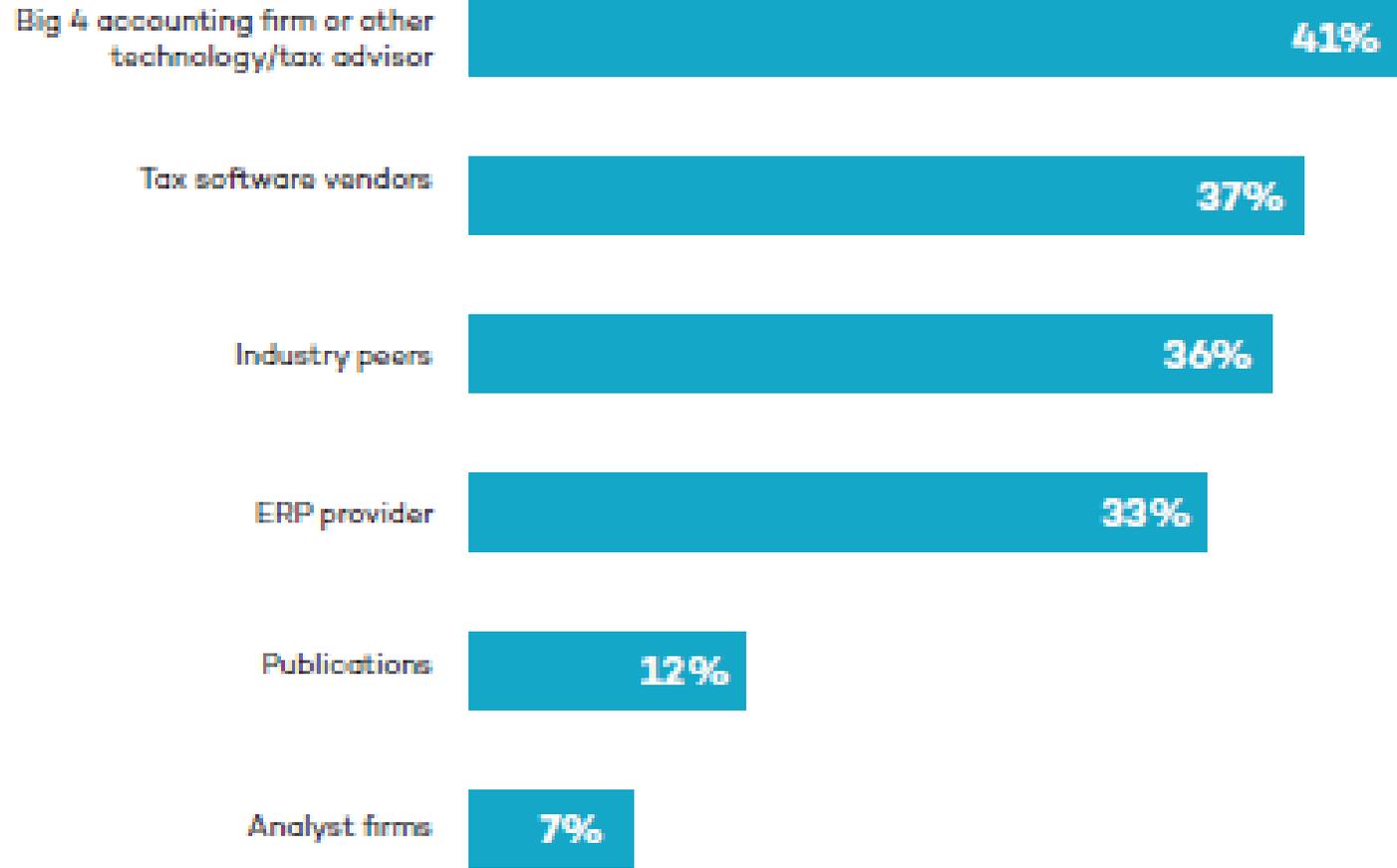
Benefits of Tax Software

Tax Automation can improve success against whatever KPI is important to you:

- Larger Manufacturers indicated they saved time and money (efficiency)
- Smaller Manufacturers benefited from smaller penalties and timely/accurate compliance



Sources of Information to Select a Major Process or Technology Change



What Have we Learned?



Priorities Change as Companies Grow

Small Manufacturers

- Growth through e-comm, new geographies and new channels
- Getting compliance right is the top priority

Large Manufacturers

- Increasing top line sales not as critical but D2C channels are in the plan
 - Process and audit efficiency are paramount
-
- All manufacturers fear unexpected audit exposure
 - Most manufacturers use tax automation today but forecast that expanded utilization is in their future

Clear Best Practices Emerge

- Smaller manufacturers can learn from their larger brethren
 - While getting it right is important now, doing it well will eventually become a priority
- The effective utilization of tax technology can move the needle on your KPI's
- When adopting technology solutions, consider both your immediate and future business needs
- Cloud-based solutions have emerged as the industry standard

Looking Ahead: Recommendation Moving Forward

- Review Internal Processes - what may have worked in the past may no longer work in the future
- Identify a trusted source for up-to-date sales and use tax information
- Adopt a single, fully integrated cloud-based solution for all your sales and use tax compliance requirements
- Collaborate between tax and business units to make compliance more efficient
- Streamline documentation process to simplify audit preparation

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Questions?