



# Streamlined Sales Tax Technologies

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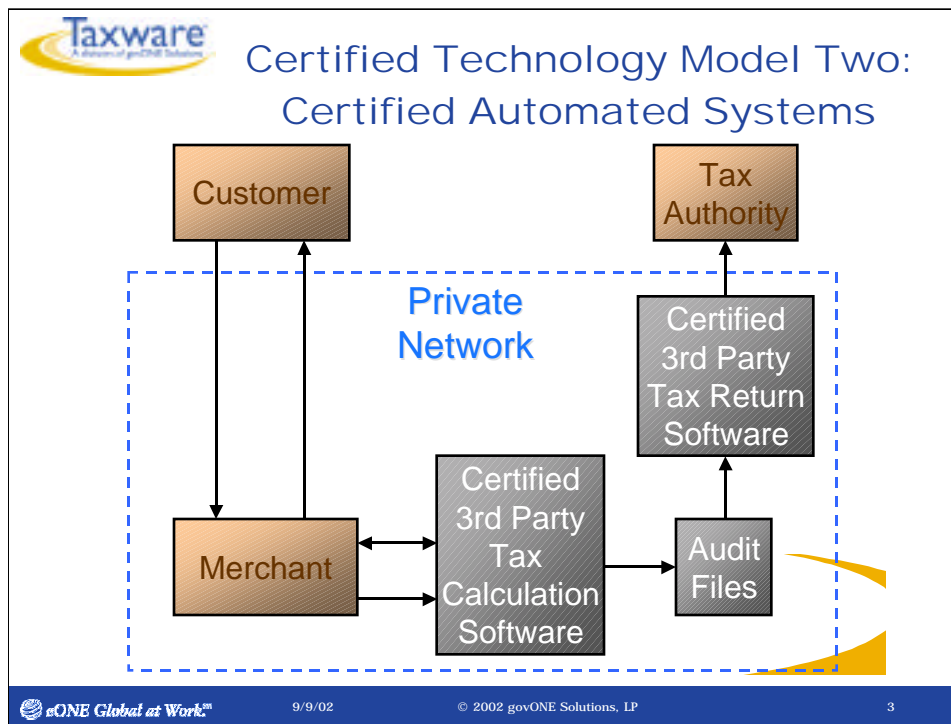
Jon W. Abolins is the Vice President of Taxware's Tax and Government Affairs Department, where he is responsible for all tax decisions in all company programs. In this key function, Mr. Abolins applies his knowledge of tax law to products that address all transaction-based taxes. He is also responsible for sustaining Taxware's relationships with taxing authorities and legislative bodies around the globe, frequently advising legislators and regulators seeking to simplify tax laws and rules through technology. Mr. Abolins is a graduate of the University of Southern California and the Boston University School of Law. He is licensed to practice law in Massachusetts, and is a member of the Organization for Economic Cooperation and Development's Consumption Tax Technical Advisory Group. A frequent speaker on transaction tax automation issues, Mr. Abolins has spoken at events sponsored by the Institute for Professionals in Taxation, the Conference Board, CommerceNet, the American Taxation Association, the World Research Group, the Equipment Leasing Association, and Harvard Law School's International Tax Program. Mr. Abolins frequently speaks at sales and use tax or eCommerce tax automation policy meetings to such entities as the Congress of the United States, the Streamlined Sales Tax Project, the National Governors' Association, the U.S. Conference of Mayors, the National Conference of State Legislatures, the Multistate Tax Commission, the Northwest Regional Sales Tax Pilot Project, and the Louisiana Association of Tax Administrators.



## Proposed Technology Solutions

- **Model One: the Certified Service Provider**
- **Model Two: Certified Automated Systems**
- **Model Three: Certified Proprietary Systems**





Model Two technology can be applied by merchants that do not want to use Certified Service Providers. U.S. Taxing Authorities will certify third party transaction tax software, which can be installed inside of a merchant's private computer network. A large measure of audit relief will be available to these merchants, but they will still be liable for reporting and remitting transaction tax obligations to the applicable Taxing Authorities.

There are significant differences between Certified Technology Models One and Two, including:

- A reduced measure of audit relief for Model Two (merchants will still be responsible for reporting and remitting tax liabilities)
- Model Two will provide greater processing speed
- Model Two does not require the transmission of data outside of a merchant's computer system's firewall
- Taxing Authorities are willing to pay Certified Service Providers to perform their services, while merchants will need to license Certified Automated Systems (although some U.S. Taxing Authorities are exploring methods of compensating users of Model Two Systems)



## Audit Points: Model Two

### Certified Technology Provider

- Applied data & tax calculations

### Consumer

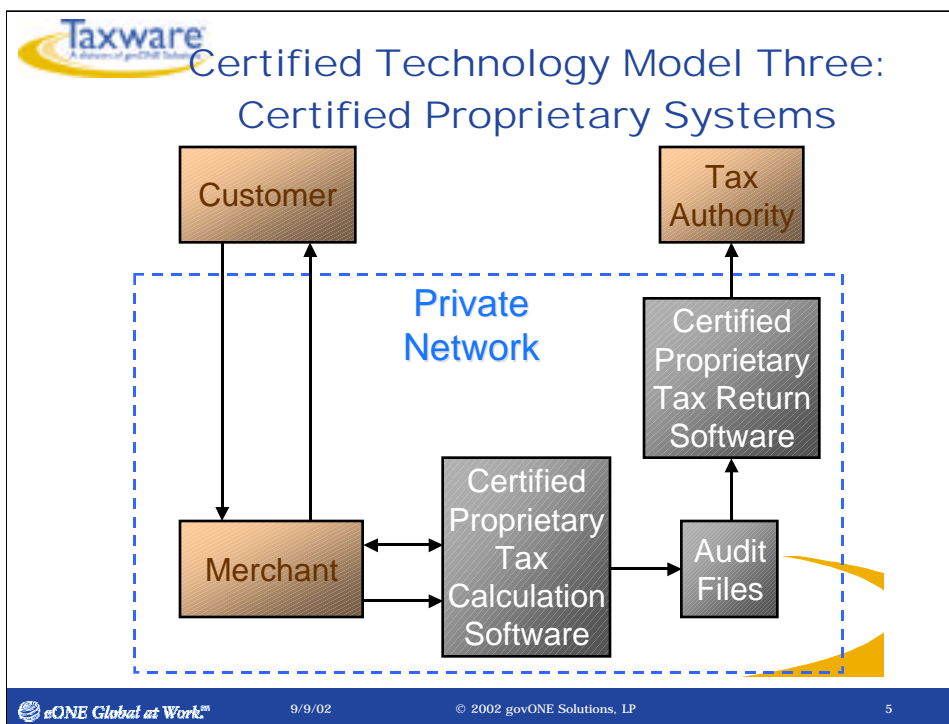
- Claimed entity- or use-based exemptions

### Merchant

- Integrations
- Tax liability & statistical reporting
- Funds transfers
- Fraud or malfeasance
- System performance

Merchants applying Model Two technology will continue to enjoy relief from audits of tax data and calculations, but they will be responsible for integrating the tax technology, reporting and remitting tax liabilities, and any fraud or malfeasance. Merchants will also be responsible for ensuring that the Model Two technology applies adequate computer software and hardware.

Under Model Two, consumers remain responsible for tax liabilities caused by erroneous or fraudulent claims of entity- or use-based exemptions.



Many large merchants have spent millions of dollars modifying their internal computer systems to perform transaction tax compliance. U.S. Taxing Authorities are willing to review these expansive proprietary tax systems, and will provide audit relief for any area of tax compliance proven by a merchant to be effective. The feasibility of this model has yet to be determined.



## Audit Points: Model Three

### Merchant

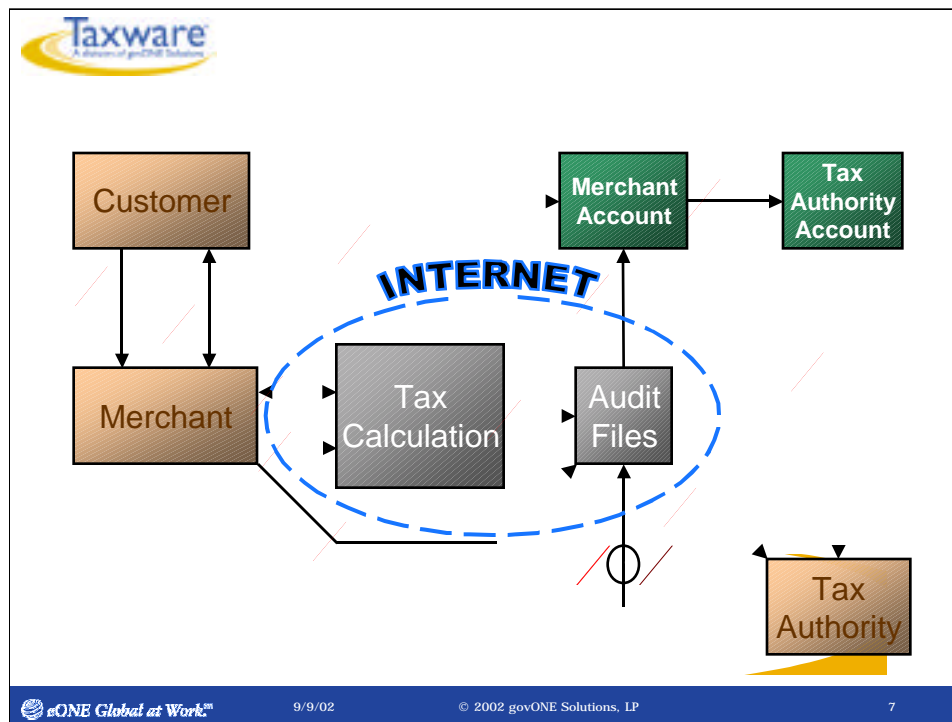
- Applied data & tax calculations
- Integrations
- Tax liability & statistical reporting
- Funds transfers
- Fraud or malfeasance

### Consumer

- Claimed entity- or use-based exemptions

Merchants that achieve certification of some or all of their proprietary transaction tax systems will not be subject to liability arising from errors in the operation of the certified processes. They remain responsible for integrating the tax technology, reporting and remitting tax liabilities, and any fraud or malfeasance.

As in Model One and Two, merchants with Model Three certification are protected from liability for erroneous or fraudulent claims of entity- or use-based exemptions by consumers.



Model One technology operates as follows:

- 1.** Customer shops and selects products and services, and then places sales order with merchant. Customer or Order Entry Clerk enters all required information.
- 2.** Tax calculation software determines the applicable tax liability for the products and services sold, and sends tax information to merchant's billing application or eCommerce billing solution.
- 3.** Customer or Order Entry Clerk finalizes the transaction after tax liability is displayed.
- 4.** Final tax liability is calculated.
- 5.** Tax information related to customer's transaction is stored in Audit Files.
- 6.** Tax paid by customer to retailer is deposited into retailer's account using existing practices.
- 7.** Audit Files are used to determine how much is tax due from retailer.
- 8.** Information learned in step 7 is used to transfer funds from retailer's account to Taxing Authority account. Transfer is performed through ACH Credit or Debit, or EFT Credit or Debit.
- 9.** Tax Authority receives statement from their bank reflecting all deposits into Taxing Authority account.
- 10.** Periodic tax return transmitted.
- 11.** Taxing Authority or retailer can use Internet browser tool to review information in the Audit Files. Information can be downloaded or printed through use of the tool.



## Audit Points: Model One

### Certified Service Provider

- Integrations
- Applied data & tax calculations
- Tax liability & statistical reporting
- Funds transfers
- System performance

### Consumer

- Claimed entity- or use-based exemptions

### Merchant

- Fraud or malfeasance
- Accounts payable transactions (purchases)

U.S. merchants using a Certified Service Provider will enjoy safe harbors from audits. The CSPs will be responsible for the accurate calculation of taxes as well as the integration of the tax processing system to billing applications or eCommerce billing solutions. CSPs will also be responsible for safely storing transaction data, and remitting tax payments to the appropriate Taxing Authorities. Merchants using CSPs will only be responsible for sales transactions involving fraud or malfeasance. Merchants will continue to be liable for accurate calculation of taxes due on their purchases.

Significantly, merchants selling goods or services tax-free due to their customer's taxable status (i.e., diplomatic missions) will no longer be liable for failure to accept an exemption certificate in good faith. In such circumstances, Taxing Authorities will pursue the purchaser rather than the merchant.



## Model One in Practice: the Streamlined Sales Tax Pilot System

- Authorized by four states in the U.S., led by North Carolina
- Three participating retailers
- Pilot period runs from October 1, 2000 through at least September 30, 2002
- Results from pilot system operations to be used to assess technological and economic feasibility

In mid-2000, four member-states of the Streamlined Sales Tax Project ([www.streamlinedsalestax.org](http://www.streamlinedsalestax.org)) issued a request for proposals for the creation of a pilot system that would test Model One technology. TAXWARE and two other companies were awarded contracts pursuant to the RFP. To date, three retailers have agreed to participate in the project.

System testing began in late 2000, and the first live transactions were processed in August, 2001. The project is scheduled to run through September 30, 2002, but will likely be extended. The four pilot states will review the results from the pilot period, in order to ascertain the feasibility of the concept for potentially wider use.