

Evaluated Receipts Settlement (ERS) and Tax Compliance

***A Report of the Steering Committee
Task Force on EDI Audit and Legal Issues
for Tax Administration***

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FOREWORD

The Task Force on EDI Audit and Legal Issues for Tax Administration (Task Force) was formed to coordinate efforts between the business community and tax administrators in analyzing and addressing the issues posed for tax administration by electronic data interchange and related business processes. The Task Force is comprised of representatives of the Committee On State Taxation (COST), Institute for Professionals in Taxation (IPT), Tax Executives Institute (TEI), Multistate Tax Commission (MTC), and Federation of Tax Administrators (FTA), and commissioners from several state tax administration agencies. This report is the fourth in a series of reports to be published by the Task Force on issues relating to electronic commerce, emerging business processes and tax administration.

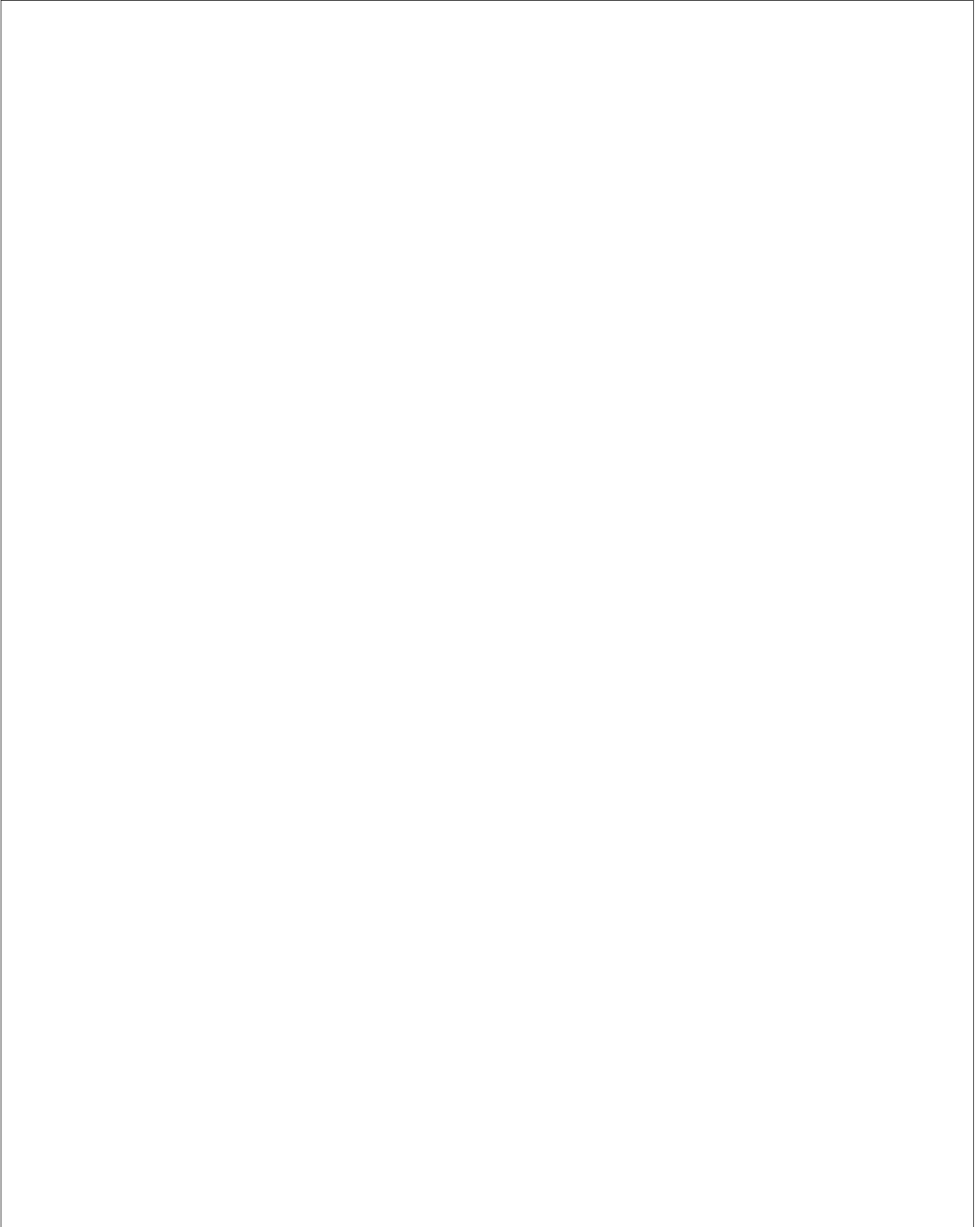
Through the Task Force process, the Electronic Business Processes work group was formed to examine the tax administration and compliance issues associated with certain emerging business processes, including the use of evaluated receipts settlement (ERS). A large group of taxpayer representatives and tax administrators gave freely of their time in an effort to understand the issues involved and to identify solutions which would meet the needs of both taxpayers and tax administration agencies.

This report is the product of that effort. It describes the ERS process and the benefits derived by its use. It identifies audit and recordkeeping issues, the type of accounting information created and retained, and outlines potential solutions that would be helpful in addressing the issues raised by the use of ERS. As with the report itself, the recommendations are premised on a need for all parties to work together to resolve the issues.

The Steering Committee wishes to acknowledge the contributions of all individuals who devoted their time and effort in developing and refining this report. A complete list of participants can be found in Appendix E.

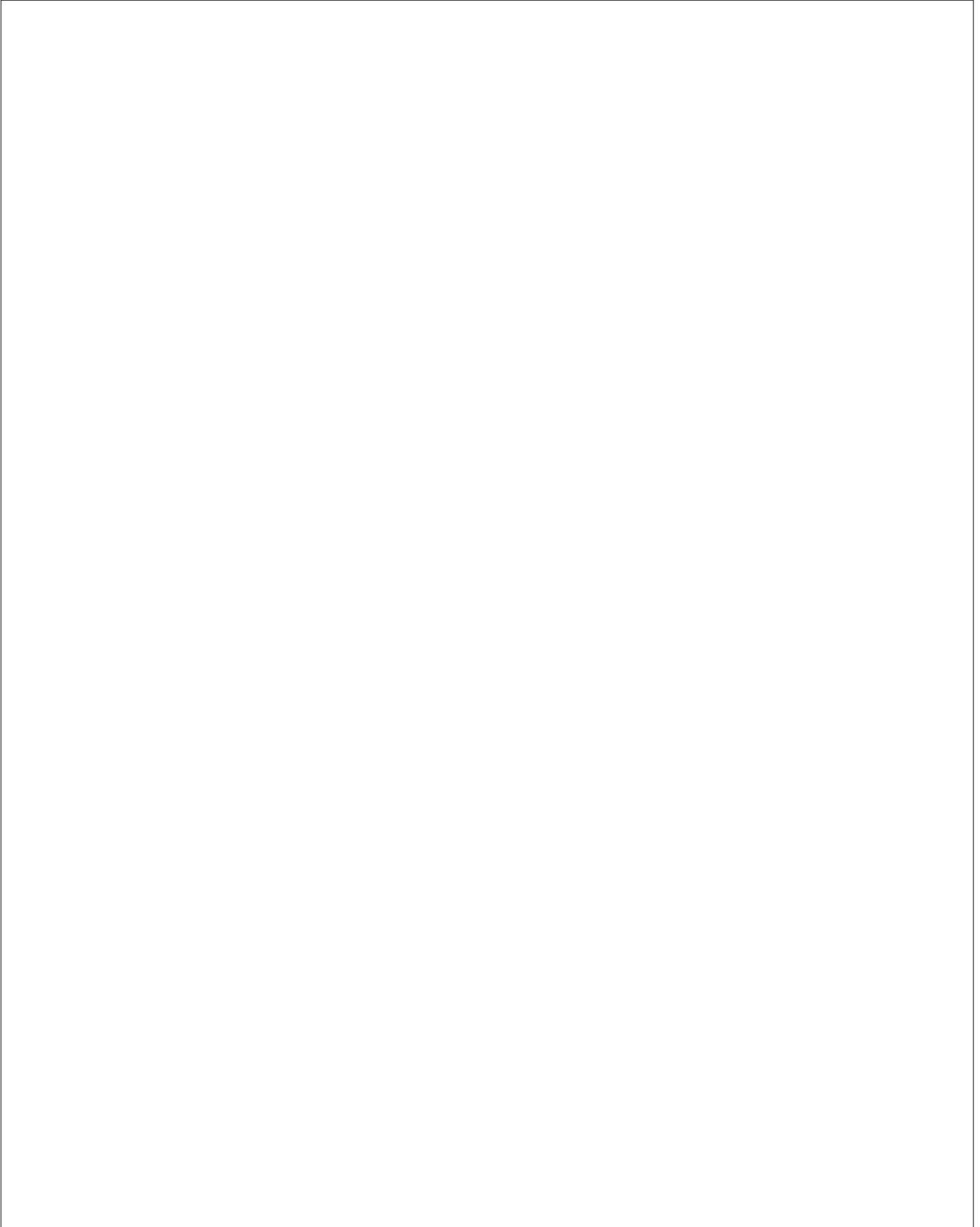
Stanley R. Arnold, Steering Committee Chair
Commissioner, New Hampshire Department of Revenue Administration

September 1998



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EVALUATED RECEIPTS SETTLEMENT AND TAX COMPLIANCE

A Report of the Steering Committee Task Force on EDI Audit and Legal Issues for Tax Administration

Introduction

On October 7, 1994, the Federation of Tax Administrators (FTA) hosted a meeting to begin the process of forming a task force of state and private sector tax administrators to address Electronic Data Interchange (EDI).

On May 2, 1996, the steering committee of the task force met to discuss several additional issues related to electronic business processes utilized by taxpayers and tax authorities. Based on these discussions, the steering committee formed two new work groups to review issues and develop recommended procedures for taxpayers and tax authorities to follow. One of these groups, the Electronic Business Processes work group, is focusing on business issues such as corporate procurement cards, evaluated receipts settlements, exemption/resale certificates, and direct pay permits.

The objective of this work group is to develop white papers that outline the issues and discuss possible options for taxpayers and taxing authorities to follow to ensure the necessary documentation is available for tax compliance and tax audits.

Evaluated Receipts Settlement (ERS), also referred to as Auto Pay, is a relatively new

“business process” which is growing in popularity in the business community. In developing this white paper, the work group identified the following areas: (1) how this process works, (2) why taxpayers are increasingly using ERS, (3) the issues created by the use of ERS, and (4) potential options to ERS use.

The ERS white paper represents the considerable work product of a large number of tax administrators and taxpayer representatives. Since ERS is a relatively new business process, this work group urges state tax administrators to educate their audit groups in this area. Traditionally, the obligation to calculate and remit sales tax is imposed on the supplier. Since the supplier no longer has complete control over the tax calculation function when using ERS, this becomes more complicated. However, it is important that the supplier realize that he still has primary tax responsibility and is not relieved of his obligations. The recently issued *Auditing Electronic Data* white paper by this task force provides general guidelines that are applicable to auditing ERS transactions. However, there are notable variations from electronic data interchange (EDI) that could raise audit issues. Thus, education of the audit workforce is critical to an efficient and effective tax administration process.

Evaluated Receipts Settlement (ERS)

What Is It?

ERS is a business process between trading partners that conduct commerce without invoices. In an ERS transaction, the supplier ships goods based upon an Advance Shipping Notice (ASN), and the purchaser, upon receipt, confirms the existence of a corresponding purchase order or contract, verifies the identity and quantity of the goods, and then pays the supplier.

How Does It Work?

A supplier and its purchaser enter into an agreement to use evaluated receipts settlement. The supplier keeps the purchaser current with price/sales catalogue data from which the purchaser extracts accurate product and pricing information during the purchasing cycle. The supplier delivers the ASN to the purchaser, permitting loading/receiving docks to be properly scheduled and accurate material receipts to be generated. The purchaser authorizes supplier payment upon confirmation of arrival of goods, making the invoice redundant.

Although there are numerous variations of how ERS specifically works, there are several common elements:

1. **Pricing Information** – A list or catalogue of products and prices is sent by the supplier to its purchaser. The information has an agreed upon “shelf life” (30 days, 60 days, etc.). This pricing information may be sent to the purchaser electronically, faxed, or in a paper form. In some cases, it becomes a part of the written contract.
2. **Products/Goods Ordered** – A purchaser using the pricing information sent by the supplier places an order.¹ Usually a purchase order specifying quantity, product type, price, freight, tax, etc. is generated. This purchase order may be sent electronically (EDI), via fax, or paper. This purchase order has a unique number for the specific order. Some purchasers do **not** issue a purchase order but rather place their goods order pursuant to the specific terms and conditions of a contract. The specific contract number is referenced. The order may be placed via EDI, fax, paper, or verbally.
3. **Advance Shipping Notice (ASN)** – A supplier acknowledges the order by sending an ASN to the purchaser. The ASN is usually sent electronically to the purchaser. In an EDI environment, ANSI X12 Transaction/Data Set 856 (Ship Notice/Manifest) is used. Note that transaction set 856 does **not** contain pricing or tax information.
4. **Goods/Products Shipped** – The supplier ships the goods with an itemized bill of lading or packing slip which references the purchase order or contract number.
5. **Validation/Matching Process** – The purchaser matches the goods receipt (bill of lading, packing slip) to the ASN, purchase order, or contract to validate accuracy.
6. **Payment Process** – Instead of responding to a supplier’s invoice, the purchaser calculates payment based on price information stored in their computer. Price updates may be logged into the purchaser’s computer either manually or through EDI messages sent by the supplier. The type, quantity, and condition of the goods re-

ceived are entered either manually into the purchaser's computer or through the use of bar codes. The computer system calculates the payment amount due by multiplying the unit price times the quantity received, accrual or payment of tax, and also takes pricing terms into account. The goods receipt date is used as the basis for taking discounts and determining the due date of the payment. The payment is made either by electronic funds transfer (EFT) or check.

Why ERS?

There are numerous benefits for both the supplier and purchaser who use ERS. The two main categories are summarized as follows: (1) ERS aligns with the reengineering or streamlining of business processes. (2) ERS creates better relationships with suppliers.

1. Streamlining Business Processes

The reengineered purchasing and payment process associated with ERS results in reduced costs, reduced errors, and eliminates non-value-added activities.

- a. **Reduced Costs** – ERS often requires less manpower resources, equipment and floor space, and eliminates lost discounts and the costs to create and print invoices.
- b. **Reduced Errors** – Because there is less human intervention, fewer errors result. Checking purchase order numbers, quantity, pricing discounts, etc. are now automated.
- c. **Non-Value-Added Activities Eliminated** – Mail opening, data entry, fil-

ing of invoices, voucher payment preparation, follow-up of uninvoiced receipts (lost invoices), mail float, cycle time, microfilming, cost of matching invoice to receipt, and the cost of mailing are eliminated.

2. Better Supplier Relationships

ERS results in more timely communication of data between trading partners and often generates other economic values for both partners.

- a. **More Timely Payments** – Because of the streamlining of the process the supplier receives payment sooner.
- b. **Maximized Discounts** – ERS results in fewer problems to resolve, thus allowing purchasers to take full advantage of prompt payment discounts.
- c. **Lower Prices from Suppliers** – Less human intervention, no paper invoices, fewer payment problems and no reconciliation issues result in reduced prices for the supplier as well as the purchaser. Many purchasers use this as leverage to negotiate lower prices with their key suppliers.

Impact on Recordkeeping

The traditional recordkeeping function of the purchaser's accounts payable department in receiving the sales invoice, shipping/receiving documents, comparing and verifying purchase orders and then determining payment has been changed. Responsibility for valuation shifts to receiving/inventory or other departments. Pricing is predetermined based upon the purchase order/seller's price

list. Thus, valuation to inventory/expense accounts is determined from “non-traditional” sources.

For the supplier, sales are based upon shipment rather than when sales invoices are generated. Exact sales amounts are determined by the purchaser. Taxes due are also determined by the purchaser.

What Tax Issues are Created by the Use of ERS?

A number of issues are raised as businesses become more involved in electronic commerce. The use of ERS raises similar issues as electronic data interchange (EDI) and some different issues as well.

Issues common to EDI and ERS are:

1. Is there a sufficient audit trail to ensure proper regulatory compliance?
2. What access to these electronic or computer records will be given to the taxing authorities?
3. Are there adequate internal controls to ensure the integrity of the data?
4. Are hard copies available to support refund claims?

Issues unique to ERS are:

1. Since there are no invoices generated by a supplier, what will be accepted as a valid receipt of sales taxes paid by the purchaser directly to the supplier?
2. Traditionally, the obligation to calculate and remit sales tax is imposed on the supplier. Since the supplier no longer has complete control over the tax calcu-

lation function, this becomes more complicated. How will the tax authorities cope with this changing environment? How will the supplier be able to document that the correct tax was paid?

3. ERS causes accounting and auditing issues different than conventional systems. Validating internal and inventory controls, no sales invoices, and a different method of purchasing and payment provide new challenges for taxing authorities. How will they deal with these challenges?
4. There may be discrepancies such as freight, price, or quantity adjustments that affect the sales tax base. What will be available and acceptable to validate these changes from the original purchase order (goods order)?
5. Local taxes and home rule taxes may differ from state laws. How can these differences be addressed in an ERS system? Alabama, Arizona, California, Colorado, Illinois, Louisiana and others have different local tax rules that may apply differently than their state tax rules. This issue needs to be considered when using ERS.
6. Since a sales invoice may not be created involving an ERS transaction, what will be acceptable proof to support a claim for refund?
7. Many states' laws require that sales and use tax be separately stated. In the absence of an invoice, can this legal requirement be met by other documentation? What forms of documentation will be available and acceptable to meet this requirement?

ERS Business Models

The Electronics Industry Data Exchange (EIDX), Telecommunications Industry Forum (TCIF) and Automotive Industry Action Group (AIAG) have published ERS business models which identify business processes companies should consider when implementing ERS and make recommendations associated with ERS processes. Refer to Appendix A for publications information.

ERS - Tax Methodologies and Processes

Processing tax calculations in an ERS environment relies on standard taxation principles. Transactions between supplier and purchaser still require sales tax calculation when the supplier is registered to collect tax in the destination state. If the supplier is not registered to collect sales tax, the purchaser still must report and pay the consumer's use tax. It is key to understand the standard principles of taxation in order to then apply them to ERS transactions.

Types of Transactions² and Definitions

1. **Tax Verification-Traditional Invoice:** This involves all payables transactions. The purchaser's system will verify that the correct amount of sales tax has been charged on taxable purchases. If the item is taxable and no tax was charged, the invoice will also be processed through the use tax accrual process. If tax was charged incorrectly, a procedure must be programmed to handle the exception.
2. **Use Tax Accrual-Traditional Invoice:** This transaction involves a systems

calculation only on payables invoices that do not include sales tax charged by the supplier (includes sales, seller's use, vendor's use, and retailer's use tax). The purchaser's system will calculate the correct amount of consumer's use tax on the purchase.

3. **Evaluated Receipts Settlement (ERS):** This transaction is usually an electronic process whereby the purchaser submits an order to the supplier who ships goods upon acceptance of the order. The purchaser then processes payment of the amount based on the order terms. The supplier issues no invoice. The purchaser must remit sales or use tax with the payment based on the jurisdictions where the supplier is registered and would have collected tax had an invoice been issued. The purchaser's system will calculate the sales tax as if the supplier had issued an invoice. If no tax is calculated, the purchase will then be processed through the use tax accrual process.

Tax Verification - Traditional Invoice

1. In order to have a tax calculation system verify the amount of tax charged, the purchaser must input tax charged as a separate item in the accounts payable system. Then the purchaser's MIS department can write a routine to compare the tax charged on the invoice to the tax calculated by the tax calculation system. The tax calculated should **not** be established as a tax accrual as it is only a comparison amount, not an amount to be paid.
2. Based on the results of the comparison, a decision tree needs to be deter-

mined. If tax was charged correctly or within a tolerance level, the invoice should proceed through the payables system for full payment.

3. If the invoice was appropriately exempt from tax and tax was not charged by the vendor, the invoice should proceed through the payables system for full payment.
4. If tax was charged incorrectly or the tax charged exceeded the threshold amount, the purchaser will need to develop an error procedure. This could either be to send the invoice back to the supplier with appropriate exemption documentation for exempt items or a letter explaining the problem and requesting a new invoice. Or the invoice could be paid eliminating the tax charged with appropriate documentation provided to the supplier.
5. Invoices without tax or invoices determined to be taxed incorrectly will then be processed through the use tax accrual procedure.
6. Taxability matrices can be set up in two ways depending on the accuracy desired by the purchaser. For more accurate tax determination, the purchaser must set up their tax calculation system to mirror the parameters that the supplier would use to collect tax. This includes identification of where the supplier is registered to collect tax and where their "ship from" and "order acceptance" locations are. This will accurately calculate sales tax or use tax and the appropriate local taxes.

7. To calculate an approximate amount of tax that the supplier is charging, purchaser can use the same taxability matrices as for use tax accrual. However, this will not necessarily calculate the correct tax type (sales or use) or the correct local tax. The vendor may not be registered in the same jurisdictions as the buyer. This could be an issue with drop shipments and home-rule jurisdictions.

Use Tax Accrual - Traditional Invoice

1. For the tax system to automatically recognize invoices without tax, the tax charged by the supplier must be entered as a separate item in the accounts payable system. Then the purchaser's MIS department can write a routine to send only invoices that did not include an entry to the tax system.
2. Taxability matrices in tax calculation systems would be based on the purchaser's nexus and taxability of products.
3. "Ship to," "ship from" and "order acceptance" addresses are necessary to determine tax type due (sales vs. use tax) and local tax rates for intrastate transactions.
4. Ship from and order acceptance addresses would be supplier's locations. The purchaser will probably default order acceptance to match ship from unless other information is known.
5. Taxability tables can be created using various parameters. The determination of what fields to use for taxability setup will depend on the complexity

or simplicity of the purchaser's accounting system. Some suggestions for fields to use in defining tax exceptions are: vendor, product code, general ledger account/sub-account, cost centers, fixed asset project numbers, inventory codes, or location codes.

ERS - Tax Calculation/Verification

1. In ERS, the purchaser must calculate tax as if the supplier was issuing an invoice. This will entail significant programming and system enhancements to transition from a traditional Accounts Payable environment. Some third-party sales tax software products may be able to accommodate the complexities related to determining tax on ERS transactions. Others will not. Since the purchaser must calculate tax as if it was the supplier, an ongoing relationship between the two parties is necessary to maintain the taxability jurisdictions of the supplier for tax calculation by the purchaser.
2. Purchaser should not remit tax to the supplier for jurisdictions where the supplier is not authorized to collect taxes. In these situations, the purchaser must accrue and pay the use tax on taxable purchases. Many states do not authorize direct pay. Therefore, purchaser should not assume that it can pay all the taxes directly to the tax authorities as use tax. Also, the supplier may turn to the purchaser for payment of tax at a later date and double taxation may occur.
3. To accurately calculate the sales tax³ that the supplier would charge, the purchaser must set up taxability matrices simulating the tax authority of each supplier. It is important for the tax departments of both supplier and purchaser to communicate regarding the jurisdictions where supplier is registered.
4. ERS transactions will be processed first through the taxability matrices simulating the supplier's tax authorities on the purchaser's system to calculate the tax "charged" by the supplier. Tax should **not** be established as a tax accrual since the tax is not being paid by the purchaser to the state. The purchaser will need to set up procedures to include the tax calculated with the payment of the ERS transaction.
5. If no tax was calculated through the taxability matrices either because the supplier is not registered in the delivery state, or because the ERS transaction is exempt, then the ERS transaction is processed through the use tax accrual process. A procedure may be written such that if after passing through the taxability matrices the ERS transaction is determined to be exempt, no pass to the accrual tables is necessary.
6. Since the order may include the tax amount, the purchaser may wish to have an interface to the order system to read the supplier taxability tables to calculate the tax for inclusion on the order system.
7. Because tax rates differ in some jurisdictions between sales and use tax, appropriate address information should be maintained to determine the correct tax type. This information in-

cludes the ship from, ship to and order acceptance locations for both the supplier and purchaser.

ERS - How Do Taxing Authorities Audit in This Environment?

Since ERS (Auto Pay) is a relatively new “business process,” tax administrators are urged to educate their audit groups in this area. Appendix B provides a sample audit questionnaire that can be modified to meet specific tax authority and taxpayer situations.

Potential Solutions to ERS Issues

Steps that can be taken to address the ERS issues include the following:

1. Whenever possible, master service agreements, master contracts, trading partner agreements or other similar agreements should be entered into. Items that should be addressed in these agreements are: taxability of goods; discount terms; supplier’s sales tax registration numbers; calculation and payment of sales tax; and agreement by both parties to cooperate in the event of a tax audit. An example of suggested tax language that could be included in such an agreement can be found in Appendix C.
2. The parties should agree to work together on audit issues, and should make available to each other any and all necessary records or documents as requested by taxing authorities. This may be more important and more frequently needed in an invoiceless environment.

3. The parties should work together to ensure that the taxes are calculated, sourced, and remitted correctly. Issues such as taxability, sourcing for local taxes, and timing for remittance should be thoroughly documented and agreed upon.

4. Trading partners should archive all pertinent electronic data and retain for audit purposes in the same manner as paper records. It is suggested that the following electronic records be archived and retained pursuant to taxing authorities statutes:

- a. **Electronic Purchase Orders** – Including purchase order number, supplier name, description of goods, quantity, price, discount terms, taxability of item, freight, tax, and account coding.
- b. **Electronic Goods Receipt Data (Receiving Report)** – Including goods receipt reference number (receiving report number), date of receipt, supplier name, quantity received, description of goods, bill of lading or packing slip number, purchase order number, and contract number.
- c. **Electronic Price Lists** – Including all updates, changes, dates, etc. to support pricing on the purchase order.
- d. **Tax Calculation Data** – Including historical tax rate tables, matrices, and related data.

See Appendix D which identifies ANSI X12 EDI transaction sets currently

used by some trading partners in conjunction with ERS.

5. States with limited or no direct pay authority should consider broadening or implementing direct pay authority statutes to accommodate taxpayers utilizing ERS and other advanced electronic processes.⁴ This would shift the tax compliance burden to the party that possesses the requisite information. The payment information generated and captured by the purchaser is more precise, therefore, the compliance level increases. Implementation of direct pay authority will require major law changes in some taxing jurisdictions.
6. Maintain documentation of the procedures utilized to enter the information pertaining to the ERS transactions into the accounting system and be prepared to explain to the taxing authorities.
7. Consider the use of “tax only” summaries or invoices to be sent by suppliers to purchasers to address valid receipt concerns. In the event the supplier provides “tax only” invoices, the purchaser will need enough detail to trace the taxes back to the applicable transaction/payment in the purchaser’s system to document for audit purposes and verify for accuracy.
8. Another possibility is for taxing authorities to recognize purchase orders as an “in lieu” invoice, consider ANSI X12 transaction set 856 generated by the supplier as an “in lieu” invoice, or some combination of the purchase order and transaction set 856 as an “in lieu” invoice.

9. Some purchasers send a monthly tax summary or statement to their suppliers. Purchasers that send a monthly statement to a supplier, summarizing by state taxing authority sales taxes paid, may be relieved of their tax liability in some jurisdictions. Other taxing authorities may not accept this premise, and may require additional documentation.
10. In the event the purchaser will be calculating sales and use taxes to pay the supplier, the supplier will need to provide the purchaser with the appropriate list of taxing jurisdictions, and their respective registration numbers, where supplier is qualified and registered to collect sales and use taxes. Without such information, the purchaser will need to remit the appropriate taxes directly to the taxing authority. This ensures that the purchaser does not make a voluntary payment of taxes to the supplier for a jurisdiction where the supplier is not able to remit such taxes.

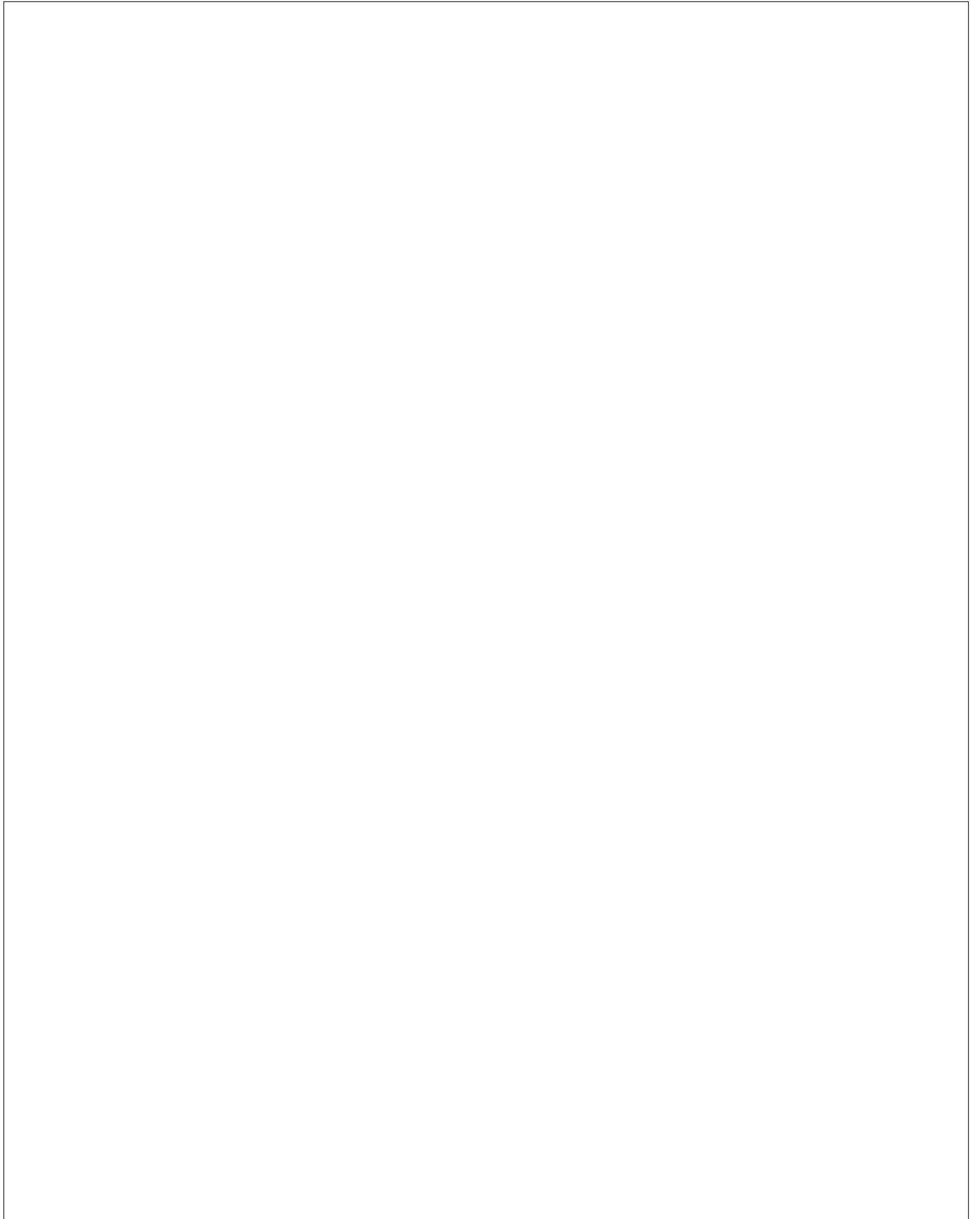
NOTES

¹ An order is defined to include any manner in which a purchaser informs the supplier of its desire to purchase goods or services.

² The term "transaction" refers to the process used to account for payables invoices and electronic records.

³ The term "sales tax" includes sales tax, seller’s use tax, and consumer use tax.

⁴ The joint FTA/Industry Task Force for Electronic Business Processes is addressing separately the development of a model uniform Direct Payment Authority statute. Currently, the majority of states that have a sales tax authorize direct pay in various forms.



APPENDIX A
EVALUATED RECEIPTS SETTLEMENT (ERS)
BUSINESS MODELS

Automotive Industry Action Group (AIAG)

Implementation Guide for Evaluated Receipts Settlement

26200 Lahser Road, Suite 200

Southfield, Michigan 48034

Phone: 810/358-3570

Fax: 810/358-3253

Internet: <http://www.aiag.org/>

Electronic Industry Data Exchange (EIDX)

Evaluated Receipts Settlement Business Model

Electronic Industry Association

2500 Wilson Blvd.

Arlington, VA 22201

Phone: 703/907-7539

Fax: 703/907-7501

Internet: <http://www.eia.org/eig/eidx/>

Telecommunications Industry Forum (TCIF)

Sponsored by Alliance for Telecommunications Industry Solutions (ATIS)

Internet: <http://www.atis.org/atis/tcif/edi/5tc50hom.htm>

Go to "Guidelines," then "Procurement" — The ERS business model, developed by the Procurement subcommittee, is a working document. This document is available in pdf and rtf formats.

Data Interchange Standards Association (DISA)

Various EDI-related Publications

1800 Diagonal Road, Suite 200

Alexandria, VA 22314

Toll Free Phone: 888/363-2334

Fax: 703/548-5738

Internet: <http://www.disa.org>

APPENDIX B
EVALUATED RECEIPTS SETTLEMENT - SAMPLE QUESTIONNAIRE

1. Does your company utilize Evaluated Receipts Settlement (ERS) in purchasing and/or sales?
 Yes No
If yes, What areas, divisions, locations, etc. use the process?
2. Do you restrict ERS to specific suppliers and/or purchasers? Yes No
If yes,
 - In-state only vendors?
 - Mix of in-state and out-of-state vendors?
 - How many vendors do you use ERS with?
 - Please provide a list of the vendors using ERS
3. Do you restrict the types of goods purchased using ERS?
 - Only taxable goods, only non-taxable goods, or a mix of taxable and non-taxable items?
 - Provide a list of the type of goods purchased using ERS
4. How is verification that the correct tax is paid on a purchase to a specific vendor's location made?
5. How are Local and Home Rule taxes addressed?
6. Is ERS addressed in supplier/vendor master service agreements or master contracts?
 Yes No
If yes, items which are covered include:
 - Taxability of goods
 - Discount terms
 - Supplier's sales tax registration numbers
 - Customer requirements to calculate and pay sales/use tax to suppliers (if registered)
 - Agreement to cooperate in the event of an audit
 - Tax rates for supplier-provided locations
 - How vendor will handle tax issues
 - Archiving of information to reconstruct transactions
7. What type of audit trail is available relating to ERS transactions?

8. How are ERS transactions entered into your Sales, Accounts Payable or General Ledger systems?
 - What information is being captured?
 - What are the sources of that information?
9. How are miscellaneous items handled in your ERS environment?
 - Freight
 - Handling charges
 - Service charges
 - Other
10. How are discrepancies handled in your ERS environment?
 - Quantities ordered and quantities received reconciled and handled for payment purposes
 - Goods that are received in unacceptable condition
 - Pricing discrepancies handled between order pricing and receiving pricing
 - Electronic catalogs exchanged and maintained with revisions
11. How do we get the information necessary to resolve timing differences between pricing, quantities, holdbacks, receiving dates, etc.?
12. What ASC X12 Transaction sets are utilized in your ERS process?
13. What documentation is available to show the flow of the ERS transactions into your accounting system?
14. Are system or other audit reports (internal and/or third party) of the ERS system available for review?

APPENDIX C
ERS MASTER AGREEMENT EXAMPLE TAX CLAUSE
(SALES AND USE TAX)

Example language for ERS Master Agreement Tax Clause.

Purchaser shall be responsible for all taxes (herein referred to as the “Applicable Taxes”) levied upon or imposed as a result of any transaction involving the sale of goods or services to be provided by Seller in connection with an ERS purchase order transmission, including, but not limited to, sales, use, gross receipts and similar taxes, but not including taxes based on or measured by the net income or net worth of Seller. Purchaser shall pay to Seller all Applicable Taxes attributable to any taxable goods and services, and Seller shall remit such amount to the appropriate taxing authority in accordance with applicable law. Purchaser shall hold harmless and shall indemnify Seller for any Applicable Taxes assessed against Seller by any taxing authority in respect of sales hereunder, including the amounts of any penalties, interest and attorneys’ fees levied against or incurred by Seller in connection therewith. Any legal expenses incurred by Seller to reduce or avoid any of the aforementioned taxes shall be paid or reimbursed by Purchaser.

In the event that Purchaser seeks to claim any exemption from Applicable Taxes in any transaction involving an

ERS purchase order transmission, the Purchaser agrees to promptly furnish to Seller hard tangible copies of any appropriate or required exemption certificates or other required documentation deemed necessary or desirable by Seller to properly support any such claimed exemption. Failure on the part of Purchaser to promptly provide any such exemption certificates or other documentation to Seller upon request will give Seller the right to immediately invoice Purchaser for all Applicable Taxes due as if the claimed exemption did not apply. In any event, Purchaser agrees to indemnify and hold harmless Seller from any taxes, interest, penalties or additional costs incurred by Seller as the result of any claimed exemption from Applicable Taxes.

It is the intent of Purchaser to comply with all applicable state and local sales and use taxes or gross receipts taxes in connection with each transaction contemplated hereunder. In the event that Purchaser is required to remit taxes to the Seller in connection with Purchaser’s purchase of goods or services pursuant to an ERS purchase order transmission, Seller shall promptly provide to Purchaser upon its request adequate written documentation to evidence that Seller is licensed to col-

lect sales and use taxes or gross receipts taxes in any applicable jurisdiction, including, but not limited to, a list of the tax registration numbers of Seller in any and all jurisdictions in which the Seller is registered.

Seller agrees to indemnify and hold harmless Purchaser from and against any taxes, interest or penalties assessed against or imposed upon Purchaser as a result of the negligence, willful misconduct, act or omission of Seller in

connection with any applicable sales and use taxes or gross receipts taxes. Should any purchase hereunder constitute an isolated or occasional sale and not be subject to sales, use or gross receipts tax with any of the taxing authorities having jurisdiction over such transaction, no such tax will be collected by Seller from Purchaser. Seller agrees to cooperate with Purchaser in demonstrating that the requirements for an isolated or occasional sale or any other tax exemption have been met.

APPENDIX D
EDI TRANSACTION SETS

	<u>Description</u>	<u>Explanation</u>
810	Generic Invoice	Standard electronic invoice sent by supplier to customer.
820	Remittance Advice (Payment Order)	Instructions to the bank/payment (information) notification.
824	Application Advice	Computer-generated response to another ANSI X12 transaction set. Example: Bank validates information sent on 820 was correct.
850	Purchase Orders	Standard electronic purchaser order sent to supplier.
856	Ship Notice/Manifest	Supplier acknowledges the order placed by customer.
861	Receiving Advice	Used for freight forwarders. Send 850 to vendor.
862	Supplier Delivery Schedule (SDS)	Similar to 861.
997	Functional Acknowledgment	(Non-computer) Non-application response to all transaction sets. Generated by EDI translators checking for ANSI X12 standards.

APPENDIX E
STEERING COMMITTEE AND WORK GROUP MEMBERS

Steering Committee

Debra Abbott
Director, State and Local Taxes
The Coca-Cola Company

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APPENDIX E
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