Procurement Cards and Tax Compliance: Bridging the Gap

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

Federation of Tax Administrators
444 North Capitol Street, NW - Suite 348
Washington, D.C. 20001
Telephone: (202) 624-5890
CONTRIBUTING ORGANIZATIONS

Federation of Tax Administrators
444 North Capitol Street, NW, Suite 348
Washington, DC  20001
Telephone: 202/624-5890
Telefax: 202/624-7888

Committee On State Taxation
122 C Street, NW, Suite 330
Washington, DC  20001-2109
Telephone: 202/484-5222
Telefax: 202/484-5229

Institute of Property Taxation
One Capital City Plaza
3350 Peachtree Road, NE, Suite 280
Atlanta, GA  30326
Telephone: 404/240-2300
Telefax: 404/240-2315

Multistate Tax Commission
444 North Capitol Street, NW, Suite 425
Washington, DC  20001
Telephone: 202/624-8699
Telefax: 202/624-8819

Tax Executives Institute
1001 Pennsylvania Avenue, NW, Suite 320
Washington, DC  20004-2505
Telephone: 202/638-5601
Telefax: 202/638-5607
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 of Property 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 third in a series of reports to be published by the Task Force on electronic commerce 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 corporate procurement cards. A large group of taxpayer representatives and tax administrators as well as representatives of procurement card issuers gave freely of their time and effort to understand the issues involved and to identify approaches which would meet the needs of both taxpayers and tax administration agencies and which were still reflective of reality in the procurement card field.

This report is the product of that effort. It contains a description of procurement card operations and benefits and identifies the primary sales and use tax administration and compliance issues involved with their use. It examines current practices among card users and tax agencies with respect to procurement cards and concludes by providing a series of recommendations for businesses using procurement cards, tax agencies, card issuers and vendors accepting procurement cards that are intended to address the tax administration issues raised by procurement cards. 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 listing of participants is in the Appendix.

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

June 1997
CONTENTS

Introduction ........................................................................................................................................... 1

Procurement Card Operations .............................................................................................................. 1
  Mechanics of the Cards ......................................................................................................................... 1
  Procurement Card Benefits .................................................................................................................. 2

Tax Compliance Issues .......................................................................................................................... 3
  Information and Documentation Required ............................................................................................ 3
  Information Currently Provided on Procurement Card Purchases ..................................................... 4

Current Card User Practices for Verifying Sales and Use Tax
  Accrual or Payment ............................................................................................................................... 6
  Manual Review and Verification ............................................................................................................. 6
  Estimation Methods ............................................................................................................................... 6
  Combination Approaches ..................................................................................................................... 8

Current State Practices for Verification of Sales and Use Tax
  Accrual or Payment ............................................................................................................................... 9
  Taxpayer Rulings ................................................................................................................................. 9
  Audit Practices .................................................................................................................................... 10

Task Force Recommendations .............................................................................................................. 11
  Recommendations to Procurement Card Users .................................................................................. 11
  Recommendations to Vendors/Suppliers ............................................................................................... 12
  Recommendations to State Tax Authorities ......................................................................................... 13
  Recommendations to Card-Issuing Entities .......................................................................................... 15

Conclusion ............................................................................................................................................ 16

Appendix ............................................................................................................................................... 21
Introduction

U.S. businesses are expanding rapidly the use of “corporate procurement cards” or “procurement cards” in purchasing goods and services for their own use and consumption.¹ Procurement card programs can be effective in reducing substantially the costs associated with such purchases when compared to traditional purchasing practices. They do, however, raise certain tax compliance and administration issues for both taxpayers and tax administration agencies. These issues largely revolve around the availability of adequate information to document that the appropriate amount of sales or use tax was paid on purchases made with procurement cards. Developing adequate procedures to address these issues and to prevent tax documentation procedures from hindering the implementation of procurement card programs will require cooperation among all parties involved — taxpayers, tax administration agencies and procurement card issuers.

The Task Force on EDI Audit and Legal Issues for Tax Administration² has developed this “White Paper” with four objectives in mind: (1) improve the understanding of procurement card programs and their operations; (2) identify and analyze the tax administration and compliance issues associated with such programs; (3) review steps that taxpayers and state tax agencies have taken to address these issues; and (4) recommend certain actions to taxpayers, tax administration agencies, vendors/suppliers and procurement card issuers that will be helpful in addressing the administration and compliance issues in a fashion which meets the needs of all parties.

Procurement Card Operations

Mechanics of the Cards. At the most basic level, procurement card programs replace the various steps in the traditional purchasing process (a requisition, followed by a purchase order, followed by an invoice, followed by approval of the invoice, followed by a payment to the vendor) with an authorization to an employee to use a charge card to procure necessary goods and services. Procurement cards are corporate charge cards issued to specific employees of a business after that business enters into a contract with a card issuer involving use of the card, financial responsibility, billing, payment, etc.³ The user company designates the employees authorized to use the cards for making necessary business expenditures and places any transaction limits or use restrictions on the cards and employees. Limits may be placed on transaction size, types of purchases, vendors which may be used and the like. These limitations will vary from company to company.
depending on a variety of factors, including
the nature of their operations, their business
needs, legal requirements, and the extent to
which they want to replace traditional pur-
chasing operations with procurement cards.

At the point of sale, the procurement card
transaction operates identically to a tradi-
tional charge card transaction. In an “over-
the-counter” transaction, the card user pre-
sents the card — in lieu of cash, check or pur-
chase order on account — and then signs and
receives some form of documentation of the
transaction. A substantial portion of procure-
ment card transactions are telephone trans-
actions where the card user provides the card
number to the vendor, and the goods and ac-
companying documentation are shipped ac-
cording to the customer’s instructions.

Payment to the vendor is made by the card
issuer or merchant processor in accordance
with contract terms between those parties.
The issuer, in turn, receives payment from the
company of the card user. Card issuers bill
the user companies on a periodic basis, and a
single, centralized billing and payment is
made for all transactions made by all indi-
vidual card users in the company. Procure-
ment cards differ from company-sponsored
“travel and entertainment” (T&E) cards
where the individual card user is typically
responsible for payment.

Card issuers also provide a variety of pe-
riodic information statements on procure-
ment card transactions to the users, most com-
monly on a monthly basis. These statements
may be issued to individual card users, indi-
vidual plant locations or departments, or on
a company-wide basis. They may include the
transactions of several individual card users
or all users in a company. Statements may be
provided in paper or electronic form.

Procurement cards are used by companies
to purchase a wide variety of goods and ser-
vices necessary to their operation. Traditionally, procurement card programs have fo-
cused on “high volume/low dollar” transac-
tions which account for a large proportion (by
number) of an enterprise’s purchase transac-
tions, but a relatively small amount of the pur-
chasing volume (by dollar) and would, there-
fore, have relatively high “per transaction”
costs under the traditional purchasing pro-
cess. As the programs become more widely
used and accepted, however, the types of
purchases for which they are utilized continue
to expand, depending on the business needs
and desires of the user company.

Procurement Card Benefits. Procurement
card programs can substantially reduce the
costs of purchasing operations, particularly
for “high volume/low dollar” transactions. One source estimates that 60 percent of all
the individual purchases in medium to large
companies average less than $500 in value
and that 30 percent of these purchases are less
than $100 per transaction. Collectively, pur-
chases of less than $100 may account for less
than 5 percent of the total dollar-volume of
company purchases, yet the fixed internal
processing costs of these transactions can be
$120-150 each, regardless of the value of the
item purchased. A procurement card pro-
gram can save as much as 35-40 percent on
overall internal purchasing costs.

These dollar savings are achieved in a
number of ways. Purchasing lead time is re-
duced by avoiding involvement of purchas-
ing and accounts payable staff and avoiding
the costly and time-consuming paperwork of
requisitions and purchase orders. Also elimi-
nated is the need to deal with multiple in-
voices and multiple vendors in a single-payment
cycle. In short, procurement cards can effec-
tively simplify and streamline the procure-
ment process and allow a business to shift
resources previously devoted to paper pro-
cessing and control to other more “value-
added” tasks. In addition, suppliers or ven-
dors which accept procurement cards also
benefit from reduced paperwork and more
rapid payment.

Tax Compliance Issues

In general terms, the primary tax compli-
ance and administration issue raised by the
use of procurement cards — for taxpayers and
tax administration agencies alike — is this:

Whether the information provided to card
users on the periodic statements from the
card issuer regarding purchases made
with procurement cards is sufficient to
document that the correct amount of state
and local sales or use tax was collected on
the transaction at the time of sale.

For the taxpayer, who is responsible un-
der state law and regulation for document-
ing that the appropriate tax has been paid,
the issues become: (1) identifying the steps
that should be taken to ensure that the ap-
propriate tax has either been paid to the ven-
dor or self-accredited and remitted to the state;
and (2) determining what documentation can
be provided to the state tax auditor to dem-
onstrate that payment has been made.\textsuperscript{11} For
the state tax auditor, the issue becomes what
documentation or procedures are to be relied
upon to determine that the appropriate tax
has been paid to the vendor or accrued and
paid to the state by the user to avoid a situ-
ation in which additional tax may be assessed
solely because of inadequate information.

The concern is essentially identical for
both taxpayers and tax administration agen-
cies. The traditional paper documentation on
which they both rely to determine compliance
— the detailed, paper invoice — is no longer
a key part of the purchasing process. The
most readily available substitute — the peri-
odic card issuer report or statement — does
not generally provide the requisite level of
detail to provide a complete “tax picture” for
each procurement card transaction.

Information and Documentation Re-
quired. The information and documentation
requirements that taxpayers must meet for
transactions involving procurement cards are
generally consistent with the recordkeeping
standards contained in the Model Record-
keeping and Retention Regulation (Model
Regulation) developed earlier by the Task
Force.\textsuperscript{12}
Section 3.1 of the Model Regulation states:

A taxpayer shall maintain all records that are necessary to a determination of the correct tax liability under [insert appropriate citations to state tax statutes]. All required records must be made available on request by the [state taxing authority] or its authorized representatives as provided for in [insert appropriate citations to state tax statutes]. Such records shall include, but not be necessarily limited to:

[Insert elements of state law which require certain records to be retained (e.g., books of account, invoices, sales receipts), or specific tax elements or transactions (e.g., credits, exemptions etc.) for which particular records may be required.]

The specific elements that states normally require in transactional records are not listed in the Model Regulation to allow for variances among state laws and tax structures. In general terms, the information required is that necessary to determine the parties to the transaction, the date of the transaction, the goods and services purchased, the unit and total price, the destination, and the tax paid or charged. In “traditional” transactions, such information is normally contained on the invoice provided by the seller to the purchaser. The data elements provided (and required for a correct determination of tax) will depend on the nature of the transaction. Those elements usually provided include the following, although not all elements may be necessary at all times:

- Seller’s name and location
- Purchaser’s name and location
- Transaction date
- Ship to location (with specificity) or FOB point
- Item or product description and quantity purchased

Unit and total price of item or product purchased
- Indicator of taxability or non-taxability of item
- Description of any associated services (e.g., freight, shipping, handling, warranty, installation, maintenance, etc.)
- Charges for associated services
- Amounts of any discounts
- Amount of tax paid or accrued
- Certificate (resale or exemption) on file/type, number and effective date
- Link to purchaser’s accounting records

The Model Regulation specifically addresses procurement card transactions and periodic statements in Section 9.3:

Hard-copy records generated at the time of a transaction using a credit or debit card must be retained unless all the details necessary to determine correct tax liability relating to the transaction are subsequently received and retained by the taxpayer in accordance with this regulation.\textsuperscript{13} Such details include those listed in subsection 4.2.1\textsuperscript{14} [Footnotes not in original.]

In short, the recordkeeping and documentation standards for procurement card transactions are the same as for other transactions that would normally involve a paper invoice. Where the periodic statement from the card issuer contains the required detail, the transaction-level, paper records generated at the point-of-sale need not be retained under the Model Regulation.\textsuperscript{15}

**Information Currently Provided on Procurement Card Purchases.** Capturing the detailed information identified above on procurement card transactions requires one of two approaches: (1) The vendor must utilize special procurement card equipment and separately enter the required information at
the point-of-sale (or at the time a phone order is placed); or (2) A computer interface must be developed to extract the data from the vendor’s point-of-sale system (where the required information is likely to be captured through product numbers, UPC codes, etc.) and to pass it to the processing system of the card issuer where it can subsequently be provided in reports to card users.

Presently, the equipment and technology that is necessary to capture the transaction-level detail is not commonplace among vendors. Instead, procurement card transactions are generally processed using three different types of systems: (1) customary retail credit or charge card systems; (2) intermediate-level systems; and (3) systems in which all the required information is captured and subsequently provided to the card user.

As a result, the type of information provided to card users depends on the system in place.

- Most procurement card transactions are processed through customary retail charge card point-of-sale equipment, and the information provided on the card issuer statement is generally comparable to that provided on an individual charge card statement. It will include only an identification of the purchaser, identification of the seller, and the total purchase price, including any tax that was charged.

- Procurement card transactions may also be processed using an intermediate-level of special procurement card equipment at the point-of-sale which allows some, but not all, of the detailed information to be captured if it is entered by the vendor. The additional information (beyond that above) includes the amount of sales tax (state and local combined) charged on the transaction, the postal Zip Code of the address to which the goods were shipped (if not delivered at the point-of-sale), and some minimal or generic product description based on customer-defined codes.

- Where more sophisticated procurement card equipment is used at the point-of-sale or the requisite computer interface has been developed, all, or much, of the information which is required for tax compliance can be provided on the periodic statements, if it is entered by the vendor or is otherwise available from the vendor’s point-of-sale system and is passed to the card issuer.

No reliable information exists regarding the proportion of total procurement card transactions which fall into each of the above categories. The consensus among representatives of card issuers and user companies who participated in the Working Group deliberations is that the large majority of transactions are accompanied only by minimal information either because the technology used is not sufficient to capture all the required data or because the vendor does not input the data correctly despite having the technology. The intermediate-level technology is being used for a growing volume of transactions. Systems capturing the complete information set are by far the least common.

This is not at all surprising, given that providing increased detail generally requires an investment in equipment by the vendor as well as additional time and expense to input the information at the time of the sale. Likewise, building computer interfaces for what is undoubtedly a wide range of point-of-sale systems is a complex undertaking.
It is the norm then, in today’s environment, that the transaction-level data provided to card users on procurement card transactions is insufficient to document that the appropriate state and local sales or use tax has been paid on the transaction. For transactions where only the minimal information is captured at the point-of-sale, there is no tax-related information provided. Where the intermediate detail is provided, the documentation will still be lacking complete product descriptions, breakdowns of state and local tax charged, ancillary service information, and complete “ship to” information for properly determining the tax situs of the transaction. The question then becomes what steps the taxpayer/card user can take to assure that the appropriate tax has been paid or accrued, and what steps the tax auditor can use to make the same determination.

Management may be far more knowledgeable about and interested in the cost savings derived from the procurement and accounts payable processes than about the sales and use tax issues inherent in procurement card programs. Consequently, it falls primarily to the company’s tax department to devise a way to deal with those tax issues. Experience among users indicates that the ability of a company to properly account for and accrue tax is heavily dependent on the involvement of the tax department in setting up the program, defining the type of information to be received from the card issuer, and encouraging company management to devote necessary resources to address the sales and use tax issues.

Companies using procurement cards have implemented a number of approaches to deal with the sales and use tax documentation issues. These are reviewed briefly below.

**Current Card User Practices for Verifying Sales and Use Tax Accrual or Payment**

Practices for minimizing tax exposure on procurement card purchases vary widely among user companies. In every company, the approach to verification of sales tax charged and accrual of use tax is dependent upon the perceived risk of unpaid taxes by company management. That is, the choice made by the user company will involve a trade-off between the time, expense and complexity that would be involved verifying that the precise amount of tax is paid on each purchase, on the one hand, and the risk of either overpaying or underpaying tax through less time consuming, less expensive and less cumbersome, but inherently less accurate, estimation methods on the other hand.

**Manual Review and Verification.** Given that the procurement card statement may provide little besides the vendor name and the total purchase amount, many companies simply retain all individual charge card slips issued at the point of sale for audit purposes. For this to have even a chance of success, a corporate policy must be in place requiring the individual card user to maintain all receipts or forward the receipts to a central location. Usually, the receipts are attached to the periodic statement and forwarded to division or corporate headquarters. At that point, some companies then manually review each item and accrue tax on the purchase as necessary. Some companies merely retain the receipts for state audit purposes, and estimate the tax due by some other method.

**Estimation Methods.** Rather than manually reviewing and verifying the appropriate
tax payment on each transaction individually, companies have developed several approaches to estimating the appropriate tax accruals based on sampling transactions, etc. It is important to note that estimation involves a higher degree of risk for the company than independently verifying the tax paid on each transaction. At the same time, the estimation methods involve a lesser expenditure of company resources, thus potentially preserving a higher proportion of the benefits of the procurement card program. The estimation methods used also have varying levels of accuracy and varying levels of resource commitments required, thus accenting the trade-off card users face in determining their preferred approach to use tax accruals. State tax authorities have differing rules regarding the acceptance (or nonacceptance) of estimation approaches that are important considerations as well.

The first approach, which must be considered an ultraconservative approach, is used by only a few taxpayers. These companies simply accrue tax on all procurement card purchases, without evaluating whether tax has been paid to the vendor already or whether the purchase is in fact taxable. While this approach inevitably results in payment of more tax than is actually due, these companies have determined, based on their aversion to potential assessments, the nature of their procurement card program, and the relative costs and benefits of other approaches, that this is an appropriate business decision for them.

Other companies have taken a less conservative, and less expensive, approach to estimating actual liability, by making the assumption that in-state vendors are registered for collection of sales tax and are correctly charging and remitting sales tax on taxable items. Accordingly, they accrue tax only on purchases from out-of-state vendors, assuming they are not registered and collecting. Going a step further, they may identify some individual vendors who are exceptions to this general rule of registered or not registered, and accrue or not accrue for those specific vendors on an exception basis.

An alternative approach that is increasingly used by taxpayers is to estimate the appropriate accrual of use tax based on a detailed analysis of procurement card transactions during a sample period. In such an approach, an appropriate sample of individual procurement card transactions during a given period would be examined in detail. Based on the sample, the company would determine the estimated proportion of its procurement card purchases for which sales tax is collected by the vendor. This percentage would then be applied to subsequent periods, and use tax accrued and remitted for the remainder of all procurement card purchases. The taxpayer either continues to save all point-of-sale receipts for audit purposes, or saves only the receipts from the sample period, with an intent of convincing the auditor that this documentation is adequate for determination of the use tax liability. The proportion of taxable purchases would be reviewed and adjusted on a periodic basis.

Some card users are augmenting this statistical estimation approach with computer software that analyzes each transaction on the card issuer’s periodic statement to determine if use tax should be accrued based on certain parameters such as vendor location, account code charged, and vendor and card user profiles maintained by the company. This approach attempts to refine the estimated use tax liability by evaluating each transaction against certain criteria that are developed
through an analysis of sample of procurement card transactions. It effectively substitutes a computerized review and estimate for manual verification, with the resultant accuracy of the estimate being dependent on the accuracy of the parameters established.  

Taking the sampling approach to estimation one step further, some taxpayers have worked to obtain “preapproval” by the state of an effective tax or accrual rate. In this case, an individual state, in cooperation with the taxpayer, performs an audit or analysis of a sample period, and an agreement is then reached regarding the proportion of total purchases determined to be taxable for a predetermined, and agreed upon, period of time, presuming no material changes are made in the use of the procurement card. The percentage is reviewed and adjusted periodically.

**Combination Approaches.** There are also companies which have designed and implemented comprehensive programs which combine elements of individual verification and estimation to arrive at the appropriate accrual of sales and use tax. To be successful, approaches such as these require a commitment on the part of company management to ensure that proper procedures are designed and followed, sufficient detailed information is provided by both vendors and card issuers, and sufficient resources are allocated for monitoring the program and analyzing the information provided. One company’s program consists of the following elements:

**Vendor requirements.** The company has implemented a “preferred vendor” program, whereby it directs as much of its procurement card business as possible to vendors who meet certain requirements. As defined by the company, these vendors must be registered for sales and use tax collection with states to which they deliver merchandise and must use point-of-sale equipment capable of capturing certain data. When accepting orders, the vendor must enter the invoice number in a required reference field, indicate the amount of sales tax collected as a separate amount, and enter other information provided by the individual card users.

**Card user (purchaser) requirements.** When using the procurement card, the individual card user/purchaser must request the vendor to enter the invoice number in the proper field and to enter the sales tax separately. The card user must also provide a cost center number and a general ledger account to be entered into a field capable of being defined (within limits) by the user company. The card user must also give the vendor a code indicating whether the item is taxable or exempt, and provide an exemption certificate on any exempt purchases. As well, the card user provides a ship-to address and obtains a delivery date from the supplier.

**Card issuer requirements.** The procurement card issuer furnishes periodic reports to the user company. (These reports are currently in hard copy form, but will be provided electronically at a future date.) The reports provide detail on procurement card transactions and separate transactions where the additional data described above was captured at the point-of-sale and where it was not. In addition, the report reflects the likely type of vendor based on Standard Industrial Classification (SIC) code, which helps the taxpayer distinguish between vendors of services (which are more likely to be exempt), and vendors of tangible personal property, (which are more likely to be taxable). The report also reflects a likely taxing jurisdiction (or jurisdictions) based on the delivery Zip Code, and provides a maximum possible tax rate for ju-
risdictions in that Zip Code which may be utilized to assess the accuracy of the tax rate charged by the vendor.21

Subsequent analysis, tax accrual, and vendor follow-up. The company then analyzes the data provided on the periodic statement to make tax accruals as required.22 Information captured at the point-of-sale, combined with additional data available to the taxpayer such as vendor profiles and historical purchases, is utilized to make a determination of whether the purchase is taxable and if tax has likely been collected; if not, a tax accrual is made. Where additional detail has not been captured at the point-of-sale, the taxpayer makes assumptions regarding the likelihood of the vendor being registered for tax collection and the product being taxable. For example, vendors such as large discount stores are assumed to have billed the tax, even though the report does not reflect a separate amount for sales and use tax.23 A sample of card receipts may be pulled on certain transactions to determine if sales tax has been billed. The taxpayer verifies sales tax charged by vendor, and follows up with vendors which are not properly billing the tax.

Through this combination of manual review, sampling, and estimation analysis, the taxpayer is reasonably assured that appropriate tax has been paid or accrued on its procurement card purchases. An approach of this sort, however, requires a substantial commitment of time and resources for developing intra-company procedures, educating card users and vendors, and rigorously working with the data on issuer-supplied statements.

In sum, card users have taken a variety of approaches to the tax compliance issues raised by procurement cards. The approach any individual company will choose will depend on a variety of factors, including the operations of the company, the nature of the procurement card program as well as an assessment of the potential tax exposure, and the aversion of the company to that risk.

Current State Practices for Verification of Sales and Use Tax Accrual or Payment

To date, there is little “real world” experience among state tax administration agencies in dealing with procurement card transactions in an audit situation. Procurement cards have not been used commercially for a sufficient period of time for the transactions to arise frequently in the normal audit cycle of the states. As a result, a review of current state practices for dealing with procurement cards is necessarily limited.

Taxpayer Rulings. Over the past few years, a number of states have addressed the procurement card issue in response to questions or requests for rulings on the application of state law and audit practice to a specific set of factual circumstances as outlined by a taxpayer (or card issuing entity). To date, the rulings issued by states have addressed the acceptability of periodic statements provided by card issuers as a substitute for an individual, transaction-level charge card receipt or invoice.24 Generally speaking, the state rulings indicate that such statements are acceptable substitutes, to the extent that the transaction-level information required is available on the statement. The rulings most often noted that specific information about the destination of any goods being shipped (beyond postal Zip Code) and adequate product descriptions were the areas in which the card issuers’ statements may be in need of
augmentation to meet the requirements of the states. A related issue in the rulings is whether certain information on the statement (e.g., vendor identification, tax rates, more specific geographic information, etc.) which is obtained from other data bases maintained by the card issuer in any way renders the periodic statement unacceptable documentation to the states. States have, likewise, indicated their acceptance of this practice.

**Audit Practices.** Currently, there do not appear to be audit processes and procedures established for procurement card programs. States have indicated a willingness to work with taxpayers when auditing procurement card transactions. Initial audit findings indicate that lack of supporting documentation, failure to capture tax data, and inadequate procurement card management procedures are resulting in audit assessments.

The most common audit practice is to identify and segregate procurement card transactions. Not unexpectedly, this may require the tax authority to incorporate computer-assisted auditing techniques and other methods that allow for population definition, sample segregation and stratification analysis. In addition, this type of work assumes that the taxpayer has some method of identifying procurement card transactions in their computerized records.

When developing the audit approach related to procurement cards, auditors should consider the following:

- Not all tax managers are aware of the company’s procurement card programs. The purchasing department may administer procurement card programs and may have limited knowledge of sales and use tax implications;
- Procurement card administrators may have a database program which contains information useful for developing audit tests (in-state vs. out-of-state, vendor analyses, card use by dollar and volume, etc.);
- The general ledger will typically provide only the gross amount of the monthly bill, although the monthly amount by card may be available;
- Card issuers, at the request of the company, may place controls on card use. Types of controls include (a) limiting purchases to specific SIC codes; (b) jurisdictional restrictions which could eliminate the out-of-state issue; (c) transaction limits; (d) dollar limits per transaction; (e) dollar limits per week or month; and (f) limits on daily use;
- The company may place controls on the use of the card through written instructions and training. These controls may include limiting card use to non-exempt purchases or linking purchases of certain personnel to specific general ledger accounts, projects, cost centers, or departments. For example, the office manager may be authorized to purchase office supplies which are generally taxable. But, the production supervisor may only purchase production-related supplies or repair parts which could qualify for exemption in some jurisdictions. Auditors should conduct tests to ensure the individual card user observes these controls;
- Tax compliance practices for procurement card purchases may be significantly different from traditional purchases. Therefore, assumptions and projections of tax liabilities should not be transferred from procurement card items to traditional purchases.
Task Force Recommendations

To address the tax administration and compliance issues raised by procurement cards the Task Force has developed a series of recommendations that recognize two important realities. First, all parties — card issuers, vendors/suppliers, card users and states — have a role to play and must work cooperatively to develop approaches which address the requirements of tax administration without offsetting the benefits of procurement cards. Second, the recommendations reflect that the long-term interests of all parties are best served if the level of information captured through procurement card transactions is upgraded to include the items traditionally used in the tax administration process. Improving the level of information captured will serve business needs well beyond tax administration including cost controls, inventory controls, vendor/supplier relations and the like. Accordingly, the Task Force encourages all parties to focus their resources and work toward a long-term solution in which the information captured in a procurement card transaction is substantially similar to that captured in more traditional processes. The specific recommendations of the Task Force follow.

Recommendation to Procurement Card Users. The recommendation to companies using procurement cards has three parts. The first addresses management of an already-existing procurement card program to protect the company from tax exposure, given the current level of information available. The second advises companies that are establishing or expanding a procurement card program. The third encourages companies to use the resources available to them to push for increased information gathering and improved technology.

Existing procurement card programs. Whether a company uses manual review, a tax estimation approach or some combination of the two for verification and accrual of sales and use tax on procurement card purchases, the key to success will be to follow the spirit of the Model Recordkeeping Regulation and “maintain all records that are necessary to a determination of the correct tax liability.” Better records reduce the audit exposure.

Well-defined procedures and internal controls are the first step. When procedures and controls are followed, it is easier to reflect a logical and understandable method of tracking and analyzing procurement card transactions. If taxpayers do not maintain each individual charge card receipt (which may be problematic and will not necessarily provide sufficient information for audit), they should be able to assure themselves and an auditor, by way of other internal or external reports, that the procedures being followed are in fact sufficient for a reasonable determination of tax liability. Regardless of the process used for determining use tax liability, the taxpayer must have sufficient documentation of that process, and the necessary transactional detail to provide to an auditor.

As in any audit, the taxpayer must be prepared in advance by having records available for the auditor’s review. It will benefit the taxpayer if it already has the capability to separate procurement card transactions from other accounts payable transactions, by segregation in a general ledger account, by extraction into a special report, or by some other method, so that procurement card transactions can be examined separately by the auditor. It will also assist the examination if procurement card transaction data is provided in electronic form and access is provided to any proprietary software necessary to manipulate the data.
**New or enhanced procurement card programs.** When setting up, expanding, or enhancing a procurement card program, companies are advised to undertake steps to minimize the tax exposure resulting from utilization of procurement cards. These include:

- Educate themselves about the inherent tax issues and exposure within procurement card programs under current technology and practice;
- Involve knowledgeable staff from the company’s tax function in each phase of setup and administration of the procurement card program;
- Establish an ability to segregate procurement card purchases from other purchases. This will provide the company’s internal tax staff, as well as a state taxing authority, the ability to separately examine these transactions;
- Design and implement procedures and internal controls such that the records may be relied upon by the company and by an auditor;
- Institute a program whereby key spending will be directed to vendors that utilize the most up-to-date point of sale equipment and technology;
- Require that vendors be registered when and where appropriate for billing and remitting of state and local sales tax;
- Require that the procurement card issuer provide as much relevant information as possible, including information that may not be captured at the time of sale, but may otherwise be available from the card issuer;
- Obtain this information in a manageable report and electronic data file whenever possible, so that the information may be combined with data from the company’s accounting records for a more accurate determination of tax liability;
- Support the utilization of procurement card analysis software which interfaces card issuer information with company information;
- Utilize direct pay, state-approved, tax formulas where available.

**Long-term objectives.** As the use of procurement cards expands and technology improves, there will be opportunities to increase the level of detail accompanying procurement card transactions. It is important to recognize that, as new technologies are developed, taxpayers may have better information not only for the determination of tax liability, but also for other business purposes. Company management should both encourage and work with card issuers and vendors/suppliers in adopting new technologies and developing better information sources.

**Local sales tax administration.** Taxpayers and tax authorities alike recognize that a significant portion of the complexity associated with sales and use taxes in a multijurisdictional environment derives from local government sales and use taxes, particularly if tax rates vary from jurisdiction to jurisdiction and there exist any differences between the state and local tax bases. Taxpayers should, therefore, take such steps as are available to work with the appropriate legislative bodies when the opportunity arises to ensure they understand, and work to minimize or reduce, the complexity and issues associated with local sales and use taxes and the burden imposed on businesses.

**Recommendations to Vendors/Suppliers.** Vendors are ultimately the key to pro-
viding good information to their customers. Vendors in the procurement card process will ultimately enhance their business by improving their capacity to provide detailed transaction information to their customers. Vendors must respond to the increased requirements of their customers and provide quality services to them. Providing the increased information does not necessarily require the acquisition of additional equipment and establishment of redundant data capture processes. Interfaces exist to extract information from vendor point-of-sale systems for transfer to procurement card processing systems. Any costs of upgrading technology and system integration may be more than offset by the increase in business and the ability to process a higher volume of transactions at a more rapid and efficient pace.

It is important for vendors to involve their corporate tax staff when drafting policies and procedures for processing procurement card transactions. Vendors should have policies and procedures in place to ensure that they are properly registered in states where they have nexus for sales tax purposes. They must be educated about requirements for documentation of exempt transactions, and maintain proper exemption or direct payment certificates for those transactions. In some cases, it may be necessary for tax staff of vendor companies and their customers to work together to resolve complex tax issues. Developing good communications between vendors and customers regarding tax issues will enhance the business relationship.

Finally, vendors should work to develop sound relationships with procurement card issuers. Vendors and card issuers should work together to develop industry standards for data capture for procurement card programs. Vendors should be satisfied that they have and are utilizing the best technology available, and that the card issuers are, in turn, transferring all of the information to the customers that require it.

**Recommendations to State Tax Authorities.** State tax administrators are not simply interested bystanders in the procurement card process. They have an important stake in ensuring that the state’s exposure to tax avoidance is appropriately controlled and managed. At the same time, procurement cards will necessarily require changes in traditional audit approaches and procedures, or there is a risk of frustrating the implementation of procurement card programs and wasting state audit resources.

**Taxpayer Guidance.** To assist taxpayers, state tax authorities should strive to provide as much informational guidance as possible regarding the treatment of, and requirements for, procurement card transactions. Such guidance may come in response to specific questions or through more general informational bulletins and releases. Areas in which guidance would be helpful include records-retention standards which will be required of taxpayers, the acceptability of accrual estimates developed by the taxpayer using valid (and replicable) sampling procedures, and areas to be examined in audits of procurement card transactions. Specifically, as recommended in the Model Regulation developed by the Task Force, states should adopt a stated policy that periodic statements provided by procurement card issuers may be accepted as appropriate documentation in lieu of retaining and providing invoices or individual charge card receipts, to the extent that the statement contains the requisite transaction-level information required by the state.

**Audit Techniques.** Auditing procurement card transactions in a cost-effective manner
will require that states develop techniques to minimize the examination of individual transaction receipts for proper payment of tax. Many procurement card programs are used for high-volume, low-dollar purchases. Extensive examination of individual transaction receipts in such an environment is neither feasible nor cost-effective.

It is important that states develop appropriate auditing standards, techniques and guidelines for procurement card purchases. To meet the needs of both tax authorities and taxpayers, such techniques should have among their objectives minimizing the examination of individual transaction receipts, testing and evaluating approaches taxpayers have developed to verify appropriate use tax accruals, and conducting such independent tests as necessary to determine payment of the correct amount of tax. Depending on the nature of the taxpayer’s records, and the laws, regulations and case law of each individual state, these procedures might include:

- Examine a taxpayer’s written operational procedures for procurement card transactions and the internal controls used by the taxpayer;
- Test, validate and evaluate taxpayer systems for verifying or estimating appropriate tax accruals on procurement card transactions;
- Segregate procurement card transactions from other purchases for analysis purposes if possible. Procurement card transactions may have different characteristics from the population of purchases as a whole in terms of taxability, tax paid, etc. Segregation of the transactions will prevent these differences from skewing the results of a sample of the rest of the population;
- Use sampling techniques to reduce the number of individual source documents examined;
- Use computer-assisted audit techniques if transaction or summary information is available in electronic form, and if the procurement card transactions can be identified;
- Stratify procurement card transactions into categories to make it easier to focus on types of purchases for which tax accrual is most likely required. Such strata could include in-state vs. out-of-state purchases, by vendor, by user, by user location, by type of product or taxpayer chart of account code;
- Test and use software sometimes made available to companies by card issuers which allows procurement card transactions to be mapped to general ledger accounts and manipulated (i.e., sorted, stratified, etc., not altered) to assist in any analysis;
- Use periodic reports provided by card issuers which state the amount of tax paid to vendors on purchases to examine effective tax rates and identify transactions which fall outside acceptable tolerances;
- Give appropriate recognition in samples and detailed analysis to transactions involving retailers registered for tax collection with the state and to retailers that are regularly audited by the state for sales tax purposes.

Other Recommendations. Other steps that state tax authorities should consider to facilitate the appropriate use of procurement cards by taxpayers would include:

- State tax authorities should consider working with taxpayers in establish-
ing pilot procurement card review programs if requested and if resources are available. In such an arrangement, the tax authority could review proposed controls and procedures to assure appropriate purchases are reviewed for tax accrual purposes and review taxpayer-conducted analysis of projected accrual rates.

- State tax authorities, where their laws, regulations and case law permit, should consider entering into agreements with taxpayers regarding procurement card transactions. By way of example, such an arrangement might have the taxpayer conduct a review and develop an estimated tax accrual rate for its procurement card transactions. If the tax authority finds that the work of the taxpayer meets acceptable standards, it would authorize the use of the estimated rate for the upcoming audit period. On audit, the tax authority would focus its efforts on the verification and examination of the estimated tax accrual rate. Depending on state law and practice, the agreement might also address questions regarding assessments of additional tax and penalty if the rate developed on audit is within a specified tolerance from the originally projected rate, provided that the underlying nature of the process and business use of the procurement card does not change. The agreement might also provide that the rate developed on audit would be used on a prospective basis.

- Taxpayers and tax authorities alike recognize that a significant portion of the complexity associated with sales and use taxes, particularly if tax rates vary from jurisdiction to jurisdiction and there exist any differences between the state and local tax bases. Tax authorities should, therefore, take such administrative steps as are available to minimize such complexity and to work with the appropriate legislative bodies when the opportunity arises to ensure that they understand the complexity and issues associated with local sales and use taxes.

It is important to note that the procurement card process and available information are in a transition period. Thus, flexibility in the audit process may be necessary until products and systems for capturing the required data have been refined.

**Recommendations to Card-Issuing Entities.** Card issuers as well as their respective supervisory organizations (in the case of bank cards) have an important role to play in resolving the use tax issues associated with procurement card transactions. The position of the Task Force is that all interested parties should strive to ensure that detailed information is ultimately available to card users in a meaningful and useable form. Such information is necessary not only for tax administration purposes, but it also serves other important corporate purposes for the card user, including cost control and appropriate financial analysis. Card issuers and related parties are the primary “interface” between the card user and the vendor/supplier for procurement card transactions; they are also the ultimate provider of information to the card user. As such, they have a critical role in ensuring that all required information will ultimately be available to card users. To guide card issuers in this area, the Task Force offers the following recommendations:
• Card issuers should develop and pursue a strategy to ensure that all suppliers can provide the required detail data on procurement card transactions. Detailed transaction-based information is important to card users, and as such, it is in the interests of the issuers to ensure that vendors can provide such data. Steps that could be taken include working with suppliers to upgrade their technological capabilities, reducing the hardware/software requirements for providing such data, working to set up industry standards for data capture, and effectively promoting the procurement card program and the importance of detailed information to vendors. Likewise, card issuers should make information regarding vendors who have the capability to provide detailed information known to card users.

• Card issuers have a critical role to play in ensuring that data available on procurement card transactions is made available to card users in a usable format. To fulfill this role, card issuers should ensure that all relevant information at their disposal is provided in an electronic format. Importantly, they should also take steps wherever possible to capture data from the vendors’ point-of-sale transaction systems on the items purchased, tax paid and the like. In many retail locations, (particularly those which operate as part of a regional or national chain), detailed information of the sort needed for tax administration and other corporate purposes is provided by the vendor’s point-of-sale system and equipment. Card issuers should work with such entities to ensure that such information can be incorporated into the data made available to users regarding their procurement card transactions. Use of electronic data interchange standards for the exchange of such information will ensure the maximum flexibility for vendors that accept more than one type of purchase card.

• By the nature of their business, card issuers and related entities are exposed to a variety of methods in which companies have implemented procurement card programs. It is appropriate, therefore, that issuers should be active in facilitating the transfer of experiences and education among their users. For example, card issuers could develop a set of “best practices” to guide users in the development and installation of appropriate controls and processes not only for tax administration purposes but for other business purposes. Such practices and experiences could be shared through user group meetings and other forums.

• Card issuers should emphasize in sales presentations to prospective card users that their internal tax departments should be involved in implementing the procurement card program.

Conclusion

The use of procurement cards as a means of improving efficiency and reducing costs raises important tax administration and compliance issues that are virtually identical for taxpayers and tax administrators alike. These issues are certainly not unsolvable, and companies with procurement card programs, card issuers and others have developed a number of effective programs and approaches for reducing the tax exposure of the user company.
The most important element of these programs is that the tax issues must be recognized by corporate entities at the outset and treated as important matters that must be accommodated in the design and implementation of the procurement card program.

The next important step is largely in the hands of state tax administrators as they develop techniques and approaches to the audit of procurement card transactions. They, too, will have to recognize that these programs differ from traditional purchasing operations and will require different audit approaches which facilitate an efficient and cost-effective review for both states and taxpayers.

As a final matter, however, all parties recognize that what we have today is not what we will have tomorrow or the day after. As the use of procurement cards matures and the technology of procurement cards improves, all stakeholders should establish a goal of ensuring that, over the long term, procurement card transactions are like any other and that the detailed information required for tax administration and other business purposes is readily available.
Estimates are that the total potential market place of indirect purchasing (those purchases not directly associated with an end product), including procurement card purchases, for U.S. business at $400 billion.

For a description of the Task Force, its mission, organization and agenda, see the Appendix.

Procurement card programs, as a rule, do not involve the extension of a revolving line of credit between the issuer and the card user company. All charges to the cards are the responsibility of the card user company, rather than the individual employee. At the present time, American Express offers a procurement card program, and a number of financial institutions offer MasterCard and VISA procurement card programs. The paper uses the generic term of procurement card to refer to all such offerings.

This documentation may be either a charge card receipt or an itemized vendor-generated receipt, depending on the capabilities and systems of the vendor.

Industry estimates indicate that phone transactions may account for as much as 80 percent of procurement card transactions.

In VISA and MasterCard procurement card programs, merchants employ a bank or financial institution that is a member of an association of financial institutions in order to clear procurement card transactions. The clearing banks or financial institutions are generally referred to as “merchant processors” or “acquiring banks.” Financial institutions that issue procurement cards to users are known as “issuing” banks or financial institutions. In the American Express procurement card program, the “issuing” financial institution and the “merchant processor” are the same organization.

It is the level of detail on individual transactions available in these statements that is of primary concern from a tax compliance and administration standpoint.

Procurement cards are generally used to purchase materials, supplies and parts that the company will use or consume itself, rather than for the purchase of an inventory of products for resale or further processing. Neither are procurement cards typically used to make “travel and entertainment” (T&E) purchases. Considerations of control, flexibility and federal income tax documentation are such that T&E purchases are generally made using other specifically designated charge cards.


Note that the only tax at issue here is the state and local sales and use tax on goods and services purchased by the card user for its own use and consumption. In most circumstances, sales tax is collected by the vendor at the time of sale (or included in the amount charged to the procurement card, in this case). However, where the vendor is not required to collect tax, the purchaser is responsible for accruing the appropriate tax and remitting it to the state. States regularly audit large numbers of businesses for use tax liabilities. The most common reason a vendor would not be required to collect tax is if it does not have sufficient presence in the taxing state to enable the state to require the vendor to register and collect tax under the U.S. Constitution. The sale tax accrual issues may become more complicated when factoring in state regulations related to timely payment of taxes. Card users may not receive the periodic statement until after the date for which tax on certain purchases is due. Consequently, the taxpayer may not have the requisite detail to determine the use tax liability prior to the due date and may be exposed to potential penalty and interest assessments.

See Model Recordkeeping and Retention Regulation, A Report of the Steering Committee, Task Force on EDI Audit and Legal Issues for Tax Administration, March 1996, available from the Federation of Tax Administrators, Committee On State Taxation, Institute of Prop-
The Model Regulation was developed primarily to address the recordkeeping issues associated with transactions for which all documentation is generated or retained electronically. It is also applicable, however, to transactions with paper-based documentation. The Model Regulation is simply a recommendation to the states. Its general requirements, however, are consistent with the general requirements in most state statutes. At this writing, the Model Regulation has been adopted by four states, and is being considered for adoption in several others.

Section 8 of the Model Regulation provides that where hard copy records are required to be retained, they may be retained on various types of media, including a “storage-only imaging system,” provided that certain standards regarding integrity, retrievability and ability to access and review when necessary are met.

Subsection 4.2.1 contains a requirement that transactions accomplished using electronic data interchange technology must contain information equivalent to that which would be contained in an acceptable paper record. It then lists, by way of example, most of the data elements which would normally be found in a paper invoice (and which are included in the text above). Note that the Model Regulation could have been more precise in its references than using “credit or debit cards.” Its intent was clearly to address transactions and records involving procurement cards, whether they use a credit card or charge card.

More detailed data than is available on the periodic statement may or may not be available on the individual charge card receipt or other documentation provided by the supplier/vendor at the point of sale (depending on the vendor and his/her capacities and systems). It may not be considered practical, on an ongoing basis, to use the individual card receipts for tax compliance purposes (at least in a procurement card program that is used widely within a company) because of their sheer number. For a taxpayer to examine each individual transaction receipt to determine the amount of tax paid would detract from the economies associated with the use of procurement cards. Likewise, to examine individual card receipts in an audit situation may not be cost-effective, particularly if the procurement card program is used primarily for “high volume/low dollar” transactions. Accordingly, this report focuses on the information available on the periodic statement from the card issuer and the manner in which that information or other procedures may be used to determine tax compliance. It should be noted that not all taxing jurisdictions have adopted the Model Regulation. These jurisdictions may require the point-of-sale receipts in an audit situation.

Lippman and Smith, op. cit., indicate some estimates are that only 1-5 percent of the vendors accepting procurement cards for purchases can provide the intermediate level of data previously discussed (1996 citation).

As noted earlier, an itemized receipt is not always issued at the point-of-sale, and they also may not accompany phone order purchases. This will require individual card users to maintain some independent log of purchases with the appropriate itemization. This obviously entails time and expense and may be of limited utility in an audit situation.

These tax accruals may not be accurate because point-of-sale receipts generally have only a limited description of the items purchased.

The issue becomes far more complex when dealing with state-specific exemptions, which this paper does not address.

See Lippman and Smith, op. cit., for a description of this approach. See also Susan J. Rapp and Douglas P. McCubbin, “Implementing a Purchasing Card Program,” Treasury Management Association Journal, March/April 1997, pp. 30+ for a discussion of this approach as well as a discussion of various tax estimation alternatives and the trade-offs between complexity and precision that are involved.

Readers should be aware that geographic boundaries for Zip Code designations do not coincide in many cases with the political boundaries on which differing local sales tax rates will be defined. Thus, a system which uses only a postal Zip Code will, in many cases, not be able to generate a correct local tax rate or precisely identify the jurisdiction to which tax is due. Automated systems are available which can generate more refined local tax information based on additional street or other address information, or based on specific company program design.
ommendations in some states because of audit procedures and documentation standards. Taxpayers electing to use procurement cards for exempt purchases should contact the tax administration agency to determine its position on such usage.

Card user companies should not be reluctant to inquire of the card issuers for information on the manner in which other clients have addressed the use tax compliance issue, i.e., the “best practices” in the field.

It is important to distinguish between direct payment authorization and the payment of accrued taxes to the state. Direct payment authorization involves certification by the state that the taxpayer is released from paying tax to its vendors, and accrues and remits tax directly to the state on all taxable purchases. Not all states provide direct payment authorization. However, all states require payment of taxes to the state when sales or use tax on taxable purchases has not been charged by the vendor.

Where technology is available to integrate information from vendors’ order entry systems into internal company systems, card issuers should ensure card users are aware that this option exists.

Endnotes

22 The periodic report data will be made to flow directly into the software when it becomes available electronically.

23 This is not unlike the estimation method described in Lippman and Smith, op.cit.

24 See, for example, Florida Department of Revenue, Technical Assistance Advisement 94A-57, Nov. 7, 1994, Revised December 23, 1994; New Jersey Division of Taxation, State Tax News, Summer 1996, pp. 5-6; Texas Comptroller of Public Accounts, Tax Policy News, Vol. V, Issue 12 (December 1995), p. 2; and Virginia Department of Taxation, Ruling of the Commissioner, P.D. 95-275, October 31, 1995. Similar rulings have also been made in other states including California, Arizona, and New York. Private rulings of this sort are considered confidential information not subject to release in other than redacted form by the state. All rulings used by the Task Force and the Federation of Tax Administrators for this project were made available to them by the requester, not the state, or they were made available in redacted form.

25 Using procurement cards for certain types of exempt purchases may complicate implementation of the rec-
In November 1994, the Federation of Tax Administrators (FTA) facilitated the formation of a task force of state tax administrators and taxpayer representatives to address the issues posed by the use of electronic data interchange (EDI) technology and other similar, emerging business processes. Formally titled the Task Force on EDI Audit and Legal Issues for Tax Administration (Task Force), it is comprised of representatives of the Committee On State Taxation (COST), Institute of Property Taxation (IPT), Tax Executives Institute (TEI), Multistate Tax Commission (MTC), FTA and commissioners from several state tax administration agencies.

Mission and Objectives. The general mission of the Task Force is 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 responsible for making recommendations to the governing bodies of the participating organizations on the actions states and taxpayers should take in addressing those issues.

Organization. The work of the Task Force has been accomplished by a Steering Committee and Work Groups focusing on specific areas.

The Steering Committee is chaired by Stanley R. Arnold, Commissioner, New Hampshire Department of Revenue Administration, and consists of twenty-two persons, including tax administrators and business representatives from each of the participating organizations. The Steering Committee is responsible for establishing the scope of the Task Force work, identifying issues to be addressed by the Work Groups, and providing overall direction and assistance to the effort. It serves as the final reviewing entity for recommendations developed by the Work Groups.

One product of the Task Force is a Model Recordkeeping and Retention Regulation which has been recommended for adoption by the states. The Model Regulation governs taxpayer retention of books and records, particularly those that are electronically generated. Several states have begun rule promulgation processes to adopt record retention regulations or related policies based on the Model Regulation (e.g., Arizona, Florida, Illinois, New Hampshire, and New Jersey).

A second Work Group has focused on identifying the issues involved when auditing electronic records and assessing alternative approaches to the audit of such records. Auditing Electronic Data, A Report of the Steering Committee, was published in January 1997. It is available from the Federation of Tax Administrators.

Emerging Business Processes. In May 1996, the Steering Committee discussed several issues related to electronic business processes utilized by taxpayers and tax authorities. Based on these discussions, two additional Work Groups were formed, each to address one of two broad topics—Electronic Business Processes and In-bound EDI Transactions. Both groups are charged with developing approaches that are mutually satisfactory to the needs of the states for tax administration and to the business necessities of taxpayers. The In-Bound EDI Transaction Work Group is concentrating on issues associated with electronic filing of tax information. The Electronic Business Processes Work Group is focusing on other business process issues, such as corporate procurement cards, evaluated receipts settlement, exemption/resale certificates, and direct pay permits. This report presents the initial work product of the Electronic Business Processes Work Group.

A listing of Steering Committee and Electronic Business Processes Work Group members who assisted in the preparation of this paper follows.

APPENDIX

Task Force on EDI Audit and Legal Issues For Tax Administration

In November 1994, the Federation of Tax Administrators (FTA) facilitated the formation of a task force of state tax administrators and taxpayer representatives to address the issues posed by the use of electronic data interchange (EDI) technology and other similar, emerging business processes. Formally titled the Task Force on EDI Audit and Legal Issues for Tax Administration (Task Force), it is comprised of representatives of the Committee On State Taxation (COST), Institute of Property Taxation (IPT), Tax Executives Institute (TEI), Multistate Tax Commission (MTC), FTA and commissioners from several state tax administration agencies.

Mission and Objectives. The general mission of the Task Force is 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 responsible for making recommendations to the governing bodies of the participating organizations on the actions states and taxpayers should take in addressing those issues.

Organization. The work of the Task Force has been accomplished by a Steering Committee and Work Groups focusing on specific areas.

The Steering Committee is chaired by Stanley R. Arnold, Commissioner, New Hampshire Department of Revenue Administration, and consists of twenty-two persons, including tax administrators and business representatives from each of the participating organizations. The Steering Committee is responsible for establishing the scope of the Task Force work, identifying issues to be addressed by the Work Groups, and providing overall direction and assistance to the effort. It serves as the final reviewing entity for recommendations developed by the Work Groups.

One product of the Task Force is a Model Recordkeeping and Retention Regulation which has been recommended for adoption by the states. The Model Regulation governs taxpayer retention of books and records, particularly those that are electronically generated. Several states have begun rule promulgation processes to adopt record retention regulations or related policies based on the Model Regulation (e.g., Arizona, Florida, Illinois, New Hampshire, and New Jersey).

A second Work Group has focused on identifying the issues involved when auditing electronic records and assessing alternative approaches to the audit of such records. Auditing Electronic Data, A Report of the Steering Committee, was published in January 1997. It is available from the Federation of Tax Administrators.

Emerging Business Processes. In May 1996, the Steering Committee discussed several issues related to electronic business processes utilized by taxpayers and tax authorities. Based on these discussions, two additional Work Groups were formed, each to address one of two broad topics—Electronic Business Processes and In-bound EDI Transactions. Both groups are charged with developing approaches that are mutually satisfactory to the needs of the states for tax administration and to the business necessities of taxpayers. The In-Bound EDI Transaction Work Group is concentrating on issues associated with electronic filing of tax information. The Electronic Business Processes Work Group is focusing on other business process issues, such as corporate procurement cards, evaluated receipts settlement, exemption/resale certificates, and direct pay permits. This report presents the initial work product of the Electronic Business Processes Work Group.

A listing of Steering Committee and Electronic Business Processes Work Group members who assisted in the preparation of this paper follows.
# Steering Committee

<table>
<thead>
<tr>
<th>Name</th>
<th>Title and Company/Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debra Abbott</td>
<td>Director, State and Local Taxes, The Coca-Cola Company</td>
</tr>
<tr>
<td>Stanley Arnold</td>
<td>Commissioner, New Hampshire Dept. of Revenue Admin.</td>
</tr>
<tr>
<td>Barbara Barton</td>
<td>Manager, State Research &amp; Planning, Electronic Data Systems Corporation</td>
</tr>
<tr>
<td>Dan Bucks</td>
<td>Executive Director, Multistate Tax Commission</td>
</tr>
<tr>
<td>Merle Buff</td>
<td>Tax Counsel, American Express Travel Related Services</td>
</tr>
<tr>
<td>Billy Cook</td>
<td>Executive Director, Institute of Property Taxation</td>
</tr>
<tr>
<td>Harley Duncan</td>
<td>Executive Director, Federation of Tax Administrators</td>
</tr>
<tr>
<td>Larry Fuchs</td>
<td>Executive Director, Florida Department of Revenue</td>
</tr>
<tr>
<td>Robert Goldman</td>
<td>Partner, Vickers Madsen &amp; Goldman LLP</td>
</tr>
<tr>
<td>Billy Hamilton</td>
<td>Deputy Comptroller, Texas Comptroller of Public Accounts</td>
</tr>
<tr>
<td>Les Koenig</td>
<td>Director/Joint Audit Program, Multistate Tax Commission</td>
</tr>
<tr>
<td>William McArthur</td>
<td>Executive Director, Committee On State Taxation</td>
</tr>
<tr>
<td>Chip McClure</td>
<td>Director, Sales/Gross Receipts Taxes, Sears, Roebuck and Company</td>
</tr>
<tr>
<td>Kenneth Miller</td>
<td>Commissioner, Indiana Department of Revenue</td>
</tr>
<tr>
<td>Val Oveson</td>
<td>Chairman, Utah State Tax Commission</td>
</tr>
<tr>
<td>Jeff Rasmussen</td>
<td>Counsel, Tax Executives Institute</td>
</tr>
<tr>
<td>Sandra Robertson</td>
<td>Director, State and Local Tax, Georgia-Pacific Corporation</td>
</tr>
<tr>
<td>Terry Schroeder</td>
<td>Vice President, Retail Division, Marvin F. Poer &amp; Co.</td>
</tr>
<tr>
<td>Stephen Shiffrin</td>
<td>Assistant Director, Compliance Division, Arizona Department of Revenue</td>
</tr>
<tr>
<td>Ken Zehnder</td>
<td>Director, Illinois Department of Revenue</td>
</tr>
<tr>
<td>Bill Zornes</td>
<td>Director of Taxes, Western Auto Supply Company</td>
</tr>
</tbody>
</table>
## Electronic Business Processes Work Group

<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brian Andreoli</td>
<td>Boehringer Ingelheim Pharm. Inc.</td>
</tr>
<tr>
<td>Norman W. Ayers</td>
<td>New York State Dept. Taxation &amp; Finance</td>
</tr>
<tr>
<td>Glenn Bedonie</td>
<td>Florida Department of Revenue</td>
</tr>
<tr>
<td>Renee Blocker</td>
<td>Multistate Tax Commission</td>
</tr>
<tr>
<td>Andy Blumbergs</td>
<td>New York State Dept. Taxation &amp; Finance</td>
</tr>
<tr>
<td>Karen J. Boucher</td>
<td>Arthur Andersen LLP</td>
</tr>
<tr>
<td>Fred Bracey</td>
<td>Tennessee Department of Revenue</td>
</tr>
<tr>
<td>Julia Bragg</td>
<td>International Paper Company</td>
</tr>
<tr>
<td>Cynthia Bridges</td>
<td>Louisiana Dept. of Revenue &amp; Taxation</td>
</tr>
<tr>
<td>Connie Caligiuri</td>
<td>Iowa Department of Revenue &amp; Finance</td>
</tr>
<tr>
<td>Lloyd Callaway</td>
<td>The Coca-Cola Company</td>
</tr>
<tr>
<td>Terry Charlton</td>
<td>Illinois Department of Revenue</td>
</tr>
<tr>
<td>Arnie Chinich</td>
<td>Warner-Lambert Company</td>
</tr>
<tr>
<td>Barbara Connolly</td>
<td>Illinois Tool Works, Inc.</td>
</tr>
<tr>
<td>Barry Conover</td>
<td>Utah State Tax Commission</td>
</tr>
<tr>
<td>Elisa Corridore</td>
<td>MasterCard International</td>
</tr>
<tr>
<td>Luetta Donalds</td>
<td>Internal Revenue Service</td>
</tr>
<tr>
<td>Mary Jane Egr</td>
<td>Coopers &amp; Lybrand LLP</td>
</tr>
<tr>
<td>Joe Evans</td>
<td>Missouri Department of Revenue</td>
</tr>
<tr>
<td>Elizabeth Fasciana</td>
<td>Citibank, N.A.</td>
</tr>
<tr>
<td>Mike Goral</td>
<td>MultiTax Services</td>
</tr>
<tr>
<td>Judith Gries</td>
<td>Wyeth-Ayerst Laboratories</td>
</tr>
<tr>
<td>Dan Hall</td>
<td>Illinois Department of Revenue</td>
</tr>
<tr>
<td>Mary Ilg</td>
<td>Marvin F. Poer &amp; Company</td>
</tr>
<tr>
<td>Beth Ann Kendzierski</td>
<td>Apria Healthcare, Inc.</td>
</tr>
<tr>
<td>Rita A. Klepitch</td>
<td>WMX Technologies, Inc.</td>
</tr>
<tr>
<td>Mark Loftis</td>
<td>Northern Telecom Inc.</td>
</tr>
<tr>
<td>Douglas McCubbin</td>
<td>KPMG-Peat Marwick, LLP</td>
</tr>
<tr>
<td><strong>Electronic Business Processes</strong></td>
<td><strong>Stephanie Rosenbusch</strong></td>
</tr>
<tr>
<td><strong>Work Group (Contd)</strong></td>
<td><strong>Federation of Tax Administrators</strong></td>
</tr>
<tr>
<td>Deborah Mosier</td>
<td>Robert Shickora</td>
</tr>
<tr>
<td>Tenneco Packaging</td>
<td>New Jersey Division of Taxation</td>
</tr>
<tr>
<td>Ellen Murphy</td>
<td>Gregory Stroud</td>
</tr>
<tr>
<td>Internal Revenue Service</td>
<td>GE Client Business Services</td>
</tr>
<tr>
<td>Stephen Myers</td>
<td>Barbara A. Timek</td>
</tr>
<tr>
<td>Louisiana Dept. of Revenue &amp; Taxation</td>
<td>AT&amp;T</td>
</tr>
<tr>
<td>Edwin P. Nacci</td>
<td>Maureen White</td>
</tr>
<tr>
<td>General Motors Corporation</td>
<td>Xerox Corporation</td>
</tr>
<tr>
<td>Stephen P. Olivier</td>
<td>ChuckWooding</td>
</tr>
<tr>
<td>Chevron Corporation</td>
<td>First National Bank of Chicago</td>
</tr>
<tr>
<td>Elizabeth Pitman</td>
<td>Fred Yates</td>
</tr>
<tr>
<td>Arthur Andersen</td>
<td>Abbott Laboratories</td>
</tr>
<tr>
<td>Anne Pontrelli</td>
<td>Diane Yetter</td>
</tr>
<tr>
<td>American Express Travel Related Services</td>
<td>Yetter Consulting</td>
</tr>
<tr>
<td>Joel Postal</td>
<td>Linda Zell</td>
</tr>
<tr>
<td>Arizona Department of Revenue</td>
<td>New York State Dept. Taxation &amp; Finance</td>
</tr>
<tr>
<td>Bob Reep</td>
<td>Bill Zornes</td>
</tr>
<tr>
<td>Illinois Department of Revenue</td>
<td>Western Auto Supply Co.</td>
</tr>
</tbody>
</table>