

June, 2011

Sales & Use Tax: Cost of Compliance at a Glance

State and local governments are increasing their audit initiatives against companies to compensate for their revenue shortfall. Not only has the momentum picked up among the auditors, but the expertise among these auditors is decreasing. This means that companies that are not transparent and proficient in their sales and use tax practices are opening themselves up to any potential fine or penalty that the government issues them - with no means of defense or protection. Experiencing government audits can be disruptive to any business, let alone the potential cost of an incorrectly-conducted audit. This research paper compares the cost of compliance (in \$US) with and without audit for small, midsize and large enterprises.

Research Brief

Aberdeen's Research Briefs provide a detailed exploration of a key finding from a primary research study.

Key Assumptions

Several assumptions were in to play and some of those critical ones are explained below:

For the purpose of this research paper, following criteria were used to classify enterprises based on their annual revenue:

Small Enterprises → Revenue of \$50 million or less

Midsize Enterprises → Revenue between \$50 million and \$1 billion

Large Enterprises → Revenue greater than \$1 billion

Cost of Compliance

For the purpose of this research, compliance across businesses (small, midsize and large) was assumed to comprise of these three key functions:

Calculation of Sales Tax

Exemption Certificate Management

Filing and Remittance of Sales Tax

Therefore, Total Cost of Compliance = Cost of resources used to calculate Sales Tax + Cost of resources used to manage Exemption Certificates + Cost of resources used to File and Remit Sales Tax, where:

Cost of resources for all three compliance functions = Time associated with calculation efforts X Average hourly wage of Accounting / Tax professionals

Note: While Accounting / Tax professionals include a myriad of designations, for this research piece, two designations and their hourly wages (based on 52 weeks X 40 hrs/ week work year) were taken in to

account. It was also assumed that all three designations were used for the same duration per month.

Average salaries for the Financial Controller and Finance Manager are based on the data collected via the national survey conducted by PayScale.com (<http://www.payscale.com/research/US/Skill=Accounting/Salary>) and takes in to account an additional 30% (of the annual salary) for burden rate. The breakdown is as follows:

Table 1: Wages / Hr Breakdown

Designation	Annual Salary (Source: Payscale.com)	Benefits (30% X Annual Salary)	Wages / Hr
Financial Controller	\$76,319	\$22,896	\$47.7
Finance Manager	\$77,852	\$23,356	\$48.7

Source: Aberdeen Group, June 2011

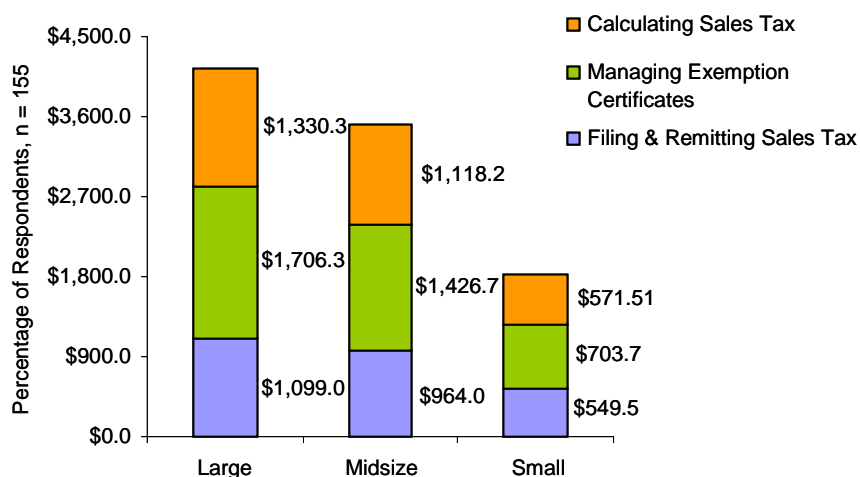
Hours used to complete a task were based on the findings of the Sales and Use Tax survey, conducted in May 2011 and is as follows:

Table 2: Number of Hours

Function	Small (hrs dedicated / month)	Midsize (hrs dedicated / month)	Large (hrs dedicated / month)
Calculating Sales Tax	5.9	11.6	13.8
Exemption Certificate Management	7.3	14.8	17.7
Filing & Remitting Sales Tax	5.7	10.0	11.4

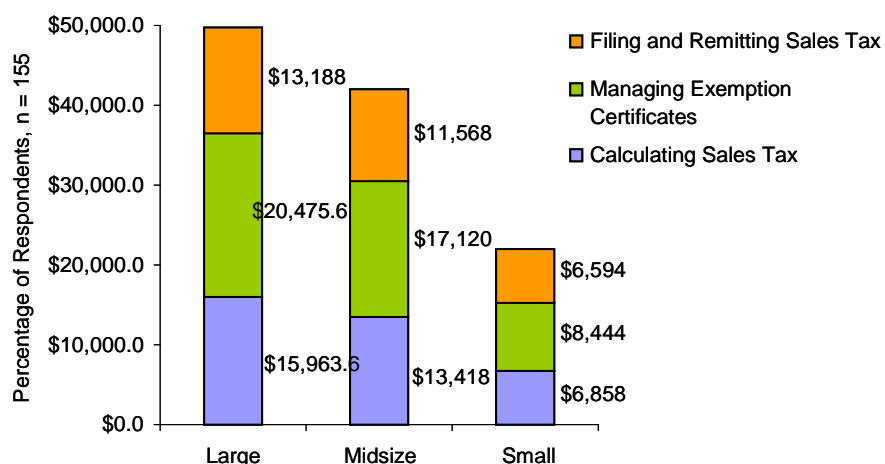
Source: Aberdeen Group, June 2011

Figure 1: Monthly Cost of Compliance



Source: Aberdeen Group, June 2011

Figure 2: Annual Cost of Compliance



Source: Aberdeen Group, June 2011

Total Annual Cost of Compliance

Small Enterprises: \$21,896

Midsize Enterprises: \$42,106

Large Enterprises: \$49,627

Table 3: Number of Audits Performed over the Past 5 Years

Small	Midsize	Large
1.2	4.3	6.1

Table 4: Percentage Change in Penalties over the Past 2 Years

Small	Midsize	Large
Decreased by 13.1%	Decreased by 18.6%	Increased by 7.3%

Source: Aberdeen Group, June 2011

Cost of Compliance without a Government Audit vs. Cost of Compliance with a Government Audit

Many companies only seek professional tax assistance during times of audit. What is apparent is the amount of due diligence and government communication that these tax consulting firms must perform to ensure compliance. The hours spent on corrective actions are often greater than those invested in preventative actions. The lesson here is that being proactive, systematic, and judicious in improving sales and use tax management pays greater dividends than being reactive to audit situations. Many tax consulting firms recognize this, and have been deploying client training programs as part of their audit management support. Successful firms further add client value by recommending and, in most cases, deploying tax software to assist in the compliance process. As a client company, it is important to work with a firm that recommends process re-engineering and software adoption based on alignment to a client's tax management objectives - and not on preferred-software status and / or application interoperability criteria.

Cost break down for the Finance Manager and Financial Controller for Small, Medium and Large Enterprises is as follows:

Table 5: Monthly Cost of Compliance w/out a Government Audit

Function	Hours (based on the weighted average)	Financial Controller (wage / hr)	Finance Manager (wage / hr)	Total Monthly Cost
Calculating Sales Tax	6.8	47.7	48.7	656
Exemption Certificate Management	8.0	47.7	48.7	771
Filing & Remitting Sales Tax	6.6	47.7	48.7	636

Source: Aberdeen Group, June 2011

Table 6: Monthly Cost of Compliance with a Government Audit

Function	Hours (based on the weighted average)	Financial Controller (wage / hr)	Finance Manager (wage / hr)	Total Monthly Cost
Calculating Sales Tax	12.7	47.7	48.7	1,224
Exemption Certificate Management	18.2	47.7	48.7	1,754
Filing & Remitting Sales Tax	11.0	47.7	48.7	1,060

Source: Aberdeen Group, June 2011

Annual Cost of Compliance without an audit = \$24,756

Annual Cost of Compliance with an audit = \$48,456

Author: Ankita Tyagi, Research Associate, Financial Management & GRC (ankita.tyagi@aberdeen.com); William Jan, Senior Analyst, Financial Management & GRC (william.jan@aberdeen.com)

For more than two decades, Aberdeen's research has been helping corporations worldwide become Best-in-Class. Having benchmarked the performance of more than 644,000 companies, Aberdeen is uniquely positioned to provide organizations with the facts that matter — the facts that enable companies to get ahead and drive results. That's why our research is relied on by more than 2.5 million readers in over 40 countries, 90% of the Fortune 1,000, and 93% of the Technology 500.

As a Harte-Hanks Company, Aberdeen's research provides insight and analysis to the Harte-Hanks community of local, regional, national and international marketing executives. Combined, we help our customers leverage the power of insight to deliver innovative multichannel marketing programs that drive business-changing results. For additional information, visit Aberdeen <http://www.aberdeen.com> or call (617) 854-5200, or to learn more about Harte-Hanks, call (800) 456-9748 or go to <http://www.harte-hanks.com>.

This document is the result of primary research performed by Aberdeen Group. Aberdeen Group's methodologies provide for objective fact-based research and represent the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group, Inc. and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group, Inc. (2011a)