White Paper

Changing Sales Tax Outsourcing Providers:

A Guide to Orderly Change

taxconnex

your outsourced sales tax department

Summary

From time to time, sales tax outsourcing relationships fail to work properly and a change is necessary.

As the sales tax outsourcing relationship progresses over time, sales and marketing messages give way to the realities of the operational relationship. Changes in ownership, staff or operations can affect provider performance or client needs.

By examining a handful of operational indicators, you can assess whether a provider is meeting your current needs. If they are not, you can initiate and control change to find a provider that better meets your needs.

This guide is based on our experience working with hundreds of clients that have switched service providers. We've assembled this guide to help you work through the process in a professional, orderly, effective, low stress fashion.

Evaluating Performance

You should first evaluate the performance of your current sales tax outsourcing service provider against your current requirements. It's important to measure the service provider's performance against your current requirements because they may have changed since you originally outsourced the work. In addition, here are the common indications that a problem exists with your sales tax outsourcing relationship.

1. **Too much time spent on oversight** – How much time are you spending reviewing the work of your service provider? Occasionally, we hear that a business spends as much time reviewing the service provider's work as they did doing the work themselves. This usually stems from a lack of confidence with the service provider. Lasting impressions are often formed in the initial three months of an engagement. It's expected that a business would have a high level of scrutiny over the work provided by the service provider in the initial stages of the engagement. If confidence is established early on, then the business often steps back from the process and relies on the expertise of the service provider. However, errors early in the relationship and less than professional responses to issues will cause a business to continually scrutinize the process beyond the honeymoon phase, limiting the benefits of the outsourcing relationship.

2. **Notice Activity** – What is your level of notice activity? Notices are part of any compliance process whether it is performed in-house or if it's outsourced. However, if the compliance process is outsourced and you have to track the resolution of the notices and you're not confident the service provider is representing you professionally with the jurisdictions, then additional risk is being introduced into your business. You may want to ask, how many notices are received as a percentage of the filings? How many days old are the notices? What is my notice balance? You may be alarmed by the answers.

3. **No reliable point of contact** – Do you have a central point of contact that knows, cares and can help with your issues? We've heard from some businesses that have outsourced their sales tax process that their service provider does not provide a central point of contact when there's an issue. Some businesses have described a process where they enter a "trouble ticket" similar to an IT support environment and all communication is done via email. Other businesses have described situations where there's a new point of contact every 3-6 months or the point of contact is a clerical resource incapable of providing the level of support necessary. Regardless, you should seek a consistent, reliable, and professional point of contact.

4. **No Accountability** – Who is accountable to you for resolving issues? We see this manifest itself in two varieties:

    a. Too many vendors – Some service providers use a third party payment processor and present it as a "best of breed" option. In this situation, one company provides the return preparation and another company provides the payment processing. You should ask yourself how is it advantageous to bifurcate the process? Having two companies involved in providing one service introduces unnecessary risk and increases the likelihood of finger pointing if there is an issue.

    b. Too many people – Multiple departments involved in the process is "sold" as segregation of duties to enhance security of the process as well as to create scalability in the process. However, this type of arrangement increases the likelihood of finger pointing when there is an issue and reduces the overall accountability. Who's in charge? Is it an IT issue, a Treasury issue, or some other department?

5. **<u>Your boss (insert "C"-level executive) is contacted by jurisdictions</u>** – Has your boss contacted you about a sales tax issue? When the CFO or CEO has been contacted at home or has had their personal assets impeded, it's past time for change. This is a real situation that we have seen on multiple occasions. Usually, once something gets to this stage, there have been multiple additional red flags along the way – high notice volume, lack of responsiveness on notices, lack of accountability, etc. If this occurs, you may be forced to make a change in order to demonstrate to the C-level that you will not allow this type of event to happen again.

Making the Transition

Once a decision to switch providers has been made, transitioning to a new service provider can be achieved in a few simple steps. Remember, that although this may be unusual and stressful for you, your service provider has been through this process with other businesses, and they know their part of the process and will be willing to help. But you need to lead the way.

Use the process below to ensure an orderly transition of service providers and seamless continuation of service.

1. **<u>Gather your documentation.</u>** – During the initial outsourcing process, your business created filing calendars, established data file formats and delivery schedules, documented e-file credentials and other activities. The gathering and documenting of these processes has likely been maintained and updated along the way by your current service provider. Having this level of documentation complete will facilitate the transition to a new service provider. You should also expect that your new service provider will be able to work with the same file formats that your current provider uses. All of these factors lead to a smoother transition to a new service provider.

2. **<u>Review your contract terms to determine your options</u>** – Most contracts have an initial one year term that may renew for additional one-year terms. Some contracts are evergreen. Many require written notification of cancellation with 30-60 days of advance notice. Refer to your service agreement for specific details and adhere to the requirements for notice of cancellation.

3. **<u>Agree to pricing and terms and conditions with your new service provider before you cancel your service</u>** – As a note of precaution, have the new service provider lined up and all associated pricing and terms and conditions agreed to prior to canceling service with your current service provider. We've seen engagements fall apart at the 1-yard line due to a contract term that cannot be resolved. If this were to happen you wouldn't want to have to go back to your current service provider and negotiate a new contract.

4. **<u>Ask your new service provider for a list of items they will need to facilitate the transition</u>** – There are basic items that the new service provider will need to facilitate the transition.

These items will include the following:

   a. Current tax calendar noting where you are registered, the filing frequency, and sales tax ID number

   b. Copies of sales tax returns from the most current period

   c. Full set of source data that corresponds to the copies of returns in Item B

   d. EFT information including where EFT's are made and whether they are ACH credit or debit

   e. E-file login credentials including website, login ID, and passwords

   f. Prepayment information including previous prepayment amounts and the necessary historical detail to calculate future prepayments

   g. Copies of original returns provided by the jurisdictions

   h. Carry forward balances including any credits or liabilities that have not been reported due to timing (i.e. liabilities that have been sent to your current outsourcer but have not been reported because of a quarterly or annual return)

5. **<u>Notify your current service provider that you are canceling</u>** – Send notification to your current outsourcing firm, per the contract terms, that you are canceling service. Be clear in setting an expectation of good service and support through the interim. Set a definite date for termination of service.

Sample Termination Letter to be placed on your letterhead

Date

Contact Name

Contact Title

Company

Address

Re: Termination of services

Mr./Ms. Contact Last Name:

This letter is our legal notification of terminating the agreement between our companies. This is our sixty (60) day notice, per our agreement. As of February 1, 2014, Company will no longer be the sales tax service provider for XXXXXXXXXX. More specifically, we expect the December returns filed in January to be the last month of service.

We thank you for the service that you have provided XXXXXXXXXX; however, we will be working with a different outsourcing firm that better meets our current needs.

We anticipate excellent service from you during our transition period and that you will continue to resolve jurisdictional notices received for periods related to when Company provided service to XXXXXXXXXXXX.

Sincerely,

6. **<u>Secure copies of return images and reports</u>** – Once you terminate your engagement with your current service provider, you should expect that access to any online portals or systems will be suspended shortly thereafter. You should provide your login information to your new service provider, as they should be able to get much of what is necessary for the transition directly from the portal. Consider requiring archival copies (CD's) of images of returns from your current service provider.

7. **<u>Notices from prior periods</u>** – Identify how you want to resolve notices from periods where your former service provider is involved. Sometimes this is spelled out contractually. Keep in mind that if you are leaving one service provider for service related reasons, it may be difficult to get them to respond to a notice after your contract has been cancelled. As an example, you may decide to pay any notice that has less than $100 in liability associated with it.

A final note - we've seen hundreds of companies successfully make the transition across sales tax outsourcing providers. During the process of evaluating the performance of their current provider, the client company has the opportunity to reevaluate their needs and reassess the criteria (for example, cost per return or client service levels,) they will use to select their next vendor. This tends to lead to a better fit in the next client/service provider relationship and ultimately more overall client satisfaction.

If you have questions or would like guidance, please contact us.

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About the Author
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Brian is a graduate of Purdue University. He has a rich background in serving the Technology and Accounting industries, while leading successful sales and marketing teams. Brian began his career as an Account Manager for Firstwave Technologies, selling customer relationship management solutions to large, nationwide businesses. Later he joined JD Edwards (subsequently acquired by Oracle) where he used his technology experience to successfully sell enterprise solutions to Fortune 500 tax and accounting departments. Brian leveraged his technology and accounting backgrounds in 2001 by joining Tax Partners as an Executive Account Manager, initially developing sales, transaction, and telecommunications tax solutions through the professional accounting channel...primarily through partnerships with the Big 4 accounting firms. He later led the sales and use tax sales team after the Thomson Reuters acquisition, growing the revenues to multi-million dollar levels. Brian joined TaxConnex as a partner in 2010, guiding the sales and marketing activity and giving TaxConnex a uniquely talented technology and sales tax professional.

About TaxConnex

TaxConnex is America's leading independent Sales and Use Tax outsourcing and consulting firm. Using a team of experienced tax and accounting professionals, TaxConnex provides sales tax outsourcing, sales tax consulting and sales tax emergency response services to businesses of all sizes with a focus on technology companies, small and mid-sized businesses, and VoIP providers. TaxConnex provides a complete set of highly customer intimate services including end-to-end compliance, data analysis, remittance, reporting, notice resolution, question handling, proactive suggestions, straightforward advice, and audit support. TaxConnex is your "on-call" Sales & Use Tax Department.

Comments

TaxConnex provides this Sales Tax Handbook as a service to the sales and use tax community. We invite your comments, including suggestions for future topics, at Brian.Greer@TaxConnex.com

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