

EXEMPTION CERTIFICATE MANAGEMENT



Are exempt sales costing you in an audit? Is a sales tax audit liability in your budget for 2010? Are your exemption certificates defensible?

The US states are struggling to balance their budgets. Nearly every state has faced a deficit in 2009. The three main sources of general revenue for states are personal income, sales, and corporate income taxes. Each (source) failed to meet states' expectations in terms of revenue generation. State auditors are digging deeper these days, demanding more data pulls, reviewing more documentation and larger sample sizes, essentially leaving no stone unturned in a very high-stakes revenue hunt.

With state budgets reportedly in disarray and states looking for ways to increase revenues, one might expect to see an increase in audit activity in 2010. Will your company be audited? Do you have what you need to properly support and document your company's exempt sales transactions? How can you reduce your company's sales tax exposure?

The best defense is a good offense. Prepare now through proper tax planning. When a company sells taxable goods to another company, it must collect sales tax unless the buyer claims an exemption. In order to comply with the tax code, the seller must obtain a valid exemption certificate from the buyer, as evidence of why the seller did not charge tax. At the time of the transaction, collect the appropriate, properly completed exemption or resale certificate for every exempt sale.

Are the certificates you have on file expired? Are they complete? Are they valid, true exemption certificates? If you don't have the proper procedures in place to review and capture certificates, you are at risk of incurring audit liabilities that could have been avoided.

Major Shortfalls with the Documentation Process

- No document received at the time of the transaction
- Document accepted was not the correct form
- Certificate was not completed properly
- No signature
- No date

The image shows a sample exemption certificate form. At the top, it reads "INFORMAZIONE DEL CLIENTE CERTIFICATO" and "INFORMAZIONE DEL VENDITORE". Below this, there are sections for "Informazioni del Cliente" and "Informazioni del Venditore", each with fields for name, address, and contact information. A central section is titled "ELENCO DEI BENI ESENTATI" and contains a table with columns for "Data", "Descrizione", "Quantità", and "Valore". The bottom of the form includes a section for "Firma e Data" with lines for the buyer's signature and date, and a section for "Firma e Data" for the seller.

- No description of items
- No reason for exemption
- No description of business
- Seller name not listed
- Purchaser name not the customer

Steps to Take

- 1) Verify the proper form is presented
 - a) Ensure that you collect the appropriate taxing jurisdiction certificate
 - i) The proper taxing jurisdiction's certificate is from the state where possession of the purchased or rented item is transferred or where delivery takes place
 - b) Ensure that the form presented is actually an exemption or resale certificate
 - i) not a license
 - ii) not a registration certificate
- 2) Check the content of the certificate
 - a) You act in good faith when you accept a certificate
 - b) Confirm that it is complete and that it is valid
 - c) At minimum, the certificate, whether it be one for resale, direct pay, general, or a specific exemption should include:
 - i) Seller's name and address (your company)
 - ii) Purchaser's name and address
 - (1) company or organization name
 - (2) not the individual or employee making the purchase unless truly an individual (e.g. farmer)
 - iii) Purchaser's registration number with the state
 - (a) not the federal identification number
 - (b) W-9 forms and Certificates of Insurance are not acceptable
 - (c) the number issued by each state when a purchaser registers for sales and use tax purposes
 - iv) Purchaser's signature and date
 - v) Effective date of certificate (prior to or on the transaction date)
 - vi) Description of the items or services being purchased
 - vii) Valid reason why the item or service is nontaxable
- 3) Know the customer
 - a) Be familiar with the customer's business and validate the applicable exemption
 - b) Make sure that the customer who provides a resale certificate is in the business of selling or renting similar items being purchased or rented
 - i) A contractor's use of equipment and subsequently billing someone for the item does not constitute a resale transaction
 - ii) In most circumstances, a contractor is not in the rental business so he will not be able to present a resale certificate for equipment rentals
 - iii) A sale is exempt if the certificate is accepted in good faith and you lack actual knowledge that the sale is not a sale for reasons stated on the face of the certificate
 - iv) It is your responsibility to take notice of the type of business generally engaged in by the purchaser as shown on the certificate
- 4) Determine the validity period and what type of transactions fall under the exemption
 - a) A customer who provides a valid certificate must indicate if the item claimed for exemption from tax is for a single transaction or multiple transactions
 - b) A valid certificate may apply to sales transactions only

- i) For example, a contractor may present a project exemption certificate when performing a contract with an exempt entity which only covers purchases (not rentals) of certain items
- 5) Forward documentation to your Sales Tax Department for final review, imaging, indexing, and storage

Something as simple as a checklist of the required elements of an exemption certificate and a review of each certificate can assist you in ensuring you have the correct documentation on file for future audits.

Are your exemption certificates stored electronically? Are your certificates linked to the exempt transactions that they apply to? Having access to an electronic image of your certificate that is actually linked to your sales tax transaction data can provide significant savings in the course of an audit.

Allyn's Tax Team utilizes our TIMS™ software to capture an image of the actual certificate received and to review the certificate for validity. TIMS™ also stores key data elements, tracks validity periods, and provides notification of expiring certificates so we can request them from customers in advance. Certificates stored in TIMS™ are linked directly to the transactions they apply to and are available through secure web portal.

TIMS™ for Exemption Certificates

- ✚ Centralized data base for managing sales tax exemption certificates
- ✚ Can be easily customized and is scalable to meet clients' needs
- ✚ Exemption certificates are tagged to the sales transaction
- ✚ Supports audit review by enabling access to state and customer level data
- ✚ Clients can search and view certificate images and sales transaction data via web
- ✚ Generate reports such as: Valid Certificates by State, Certificates by Expiration Date, Valid Customers by State, Transaction Reports, and "Orphan" Certificates / Sales Transactions
- ✚ TIMS™ is distinguished from other exemption certificate systems on the market because it can validate, track, and store multiple, separate project exemptions for an individual contractor. This allows the ability to track multiple certificates per customer.
- ✚ The following exemption certificate data elements are captured:
 - Customer Name
 - Exemption Cert. No.
 - Rental Exemption (Yes or No)
 - Customer Acct. No.
 - Doc. Type (e.g. Resale)
 - Customer a Contractor (Yes or No)
 - TaxSitus
 - Invoice or Job No.
 - Cert. Validity (Expiration Date)
 - Branch No.
 - Signature Date

Allyn Exemption Certificate Management Statistics

- ✚ Total Certificates Processed → 68,678
- ✚ Average Certificates Processed per Day → 104
- ✚ Valid Certificates Processed → 58,668
- ✚ Invalid Certificates Rejected → 10,010
- ✚ Certificate Rejection Rate → 17%
- ✚ Sales Tax Paid on Certificates Reviewed, Deemed Invalid and Rejected → \$58.3K

- ✚ Renewals Processed for Expired Certificates → 2,569
- ✚ Customer Clarification Requests Initiated → 192
- ✚ Client Inquiries Answered → 2,715

For More Information

For more information on exemption certificate management or other tax issues, please contact the Tax Team at Allyn International Services, Inc. (239) 489-9900, or email tax@allynintl.com or davidson.t@allynintl.com.

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About Allyn International Services, Inc.

Allyn International Services, Inc. (Allyn) is a privately-held professional services firm established in 1992 dedicated to providing high quality, customer centric services and solutions for the global marketplace. Our core products include transportation management, logistics sourcing, freight forwarding, supply chain consulting, tax management, and customs compliance. More information is available at www.allynintl.com.



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