

Streamlined Sales Tax State Auditor Training

Core Team Contract Compliance Audit of CSPs
and
Member/Associate Member State Tax Compliance Audits

March 2017 – Tucson, AZ

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Outline

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Introduction

Craig Johnson, Executive Director SST

- SST A Brief Overview
- CSP Certification Process

Ellen Auger and Darrell Engen,
Co-Chairs SST Audit Committee

- State Auditor Responsibilities
- Audit Timelines

Streamlined Sales Tax A Brief Overview

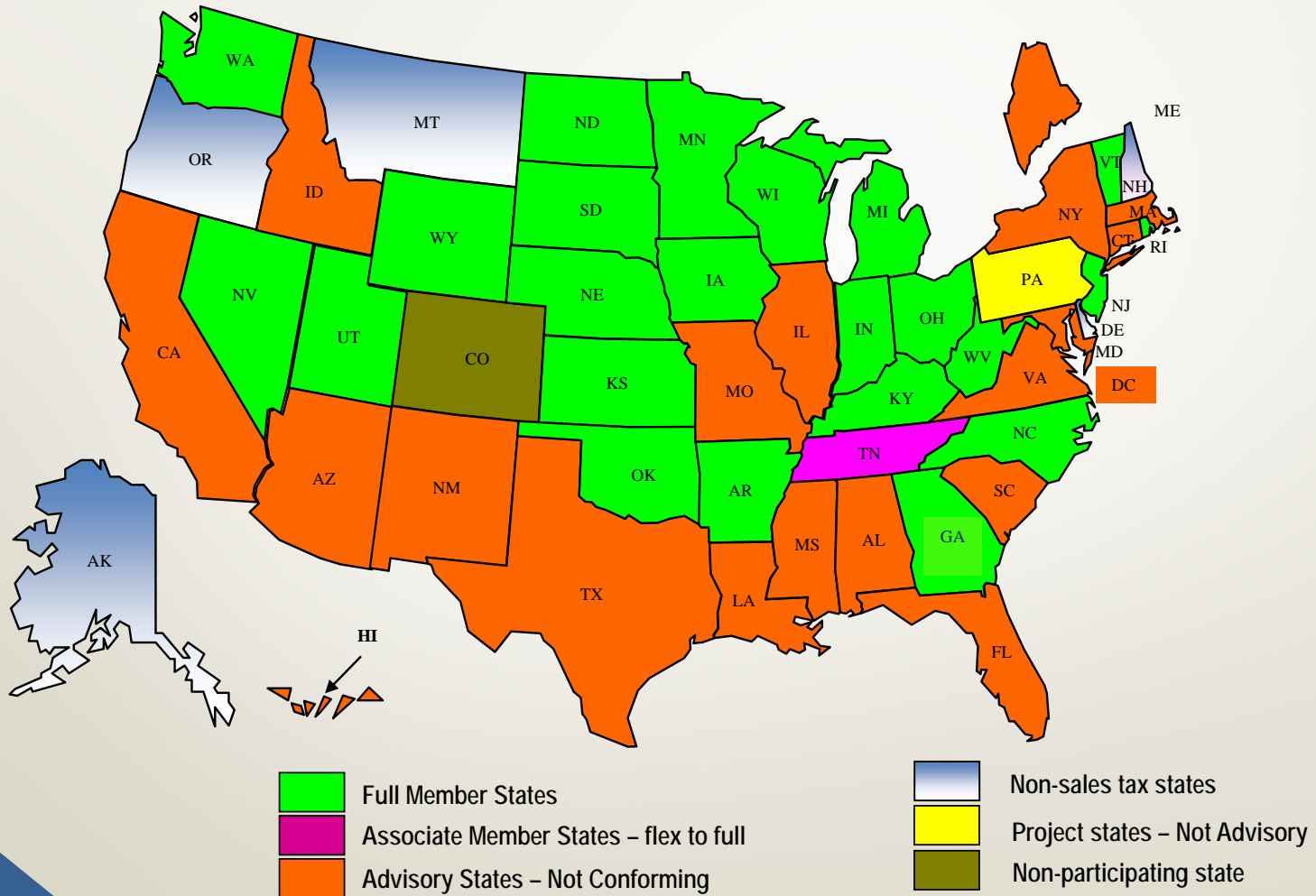
Agenda

- Who We Are
- What We Do
- Why We Do It
- Key Features

Who We Are

- Voluntary Association of States
 - State legislators
 - Tax administrators
- Local Government Officials
 - USCM, GFOA, NLC

Streamlined State Status 01-01-17



Who We Are

Business Community

- Associations
- Individual businesses
- Accountants - Attorneys

What We Do

“Assist states as they administer a simpler and more uniform sales and use tax system.”

- Simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance.
- Improve sales and use tax administration systems for all sellers and for all types of commerce.

Streamlined's Goals

- Create a simpler system for administering the various state and local sales taxes
- At least make processes uniform if they cannot be made simple
- Balance the interests of a state's sovereignty with the interests of simplicity and uniformity
- Leverage the use of technology to ease the retailer's tax collection and reporting

Why We Do It

- *Quill v. North Dakota* (1992)
- Compliance with sales tax laws by multi-state corporations is too complex
- Local merchants suffer from lack of level playing field
- Significant losses of tax revenue due to growth in electronic commerce and inability of states to administer use tax with consumers

Why We Do It – Identifying What Makes the System Burdensome

- Separate state and local tax administration
- Unclear rules on who has the right to tax a transaction
- Too many tax rates within each state and locality
- Different state and local tax bases

Why We Do It – Identifying What Makes the System Burdensome (continued)

- Separate state definitions
- Retailer's held liable for tax when a buyer lies or fails to provide proof of an exempt sale
- Returns different in every state
- Separate registration required in every state

Why We Do It – What Needed to be Done?

1999: National Governors Association and National Conference of State Legislatures requested tax administrators to develop a sales tax system:

- Less complex
- Address unlevel playing field for merchants
- Address loss of revenue from states unable to collect taxes already imposed

Why We Do It – What Needed to be Done? (continued)

A cooperative effort between state legislators, tax authorities and the business community to develop methods of addressing the burdens identified - particularly for multistate sellers.

Results: Streamlined Sales and Use Tax Agreement (SSUTA)

- SSUTA effective October 1, 2005
- Current membership (1/1/2017)

- 23 Full members:

Arkansas, Georgia, Kansas, Kentucky, Indiana, Iowa, Michigan, Minnesota, Nebraska, New Jersey, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, Utah, Vermont, Washington, West Virginia, Wisconsin, Wyoming

- 1 Associate member:

Tennessee

Key Features of SSUTA

- State level administration of local sales and use taxes
- Common state and local tax bases within a state
- Uniform destination-based sourcing rule for goods and services
- States can choose origin sourcing for intrastate delivered products

Key Features of SSUTA (continued)

- One-stop central registration
- Uniform definitions
- Rate and boundary databases
- Taxability matrix
- Uniform returns
- Simplified exemption administration
- CSP Model

SSTGB Committees

- Governing Board
- Executive Committee
- State and Local Advisory Council
- Business Advisory Council

SSTGB Committees (continued)

- Compliance Review and Interpretations Committee
- Audit Committee
- Certification Committee
- Finance Committee

Success to Date

- Completely voluntary system
- Over 3,300 active retailers voluntarily collecting
- Over \$2.7 billion collected by member states
- Continue to look for improvements

Contact Information

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Any Questions



CSP Certification Process (Background)

Not just anyone can be a Certified Service Provider (CSP).

- What companies go through before becoming a CSP
- Rigorous process

CSP Certification Process (Overview)

SSTGB Rule 501 and SSTGB Rules Appendix A

- Self-Assessment Questionnaire
- Certification Committee Review
- CSP Application
 - Minimum standards
 - Site reviews
- Testing Process With States
 - 5 months to complete
- Recommendation to Accept or Reject
- Executive Committee - Contract

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CSP Certification Process (Minimum Standards)

- Corporate Background and Experience
- Financial Soundness
- Project Staffing and Organization
- Technical Approach
- General Controls
- Application Controls
- System Modification Accuracy
- Sufficiency of Information
- Data Security
- Privacy Standards

CSP Certification Process (Requirements)

- Person uses a Certified Automated System
- Integrates its system with seller's system
 - Calculate and collect tax at time of sale
 - Determines jurisdiction and rate
 - Determines taxability in that jurisdiction
- Agrees to prepare and file returns on behalf of sellers
- Agrees to remit tax as required by SSTGB
- Agrees to protect privacy of information
- Enters into contract with SSTGB and agrees to comply with requirements

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CSP Certification Process (Initial Testing Process)

What is initially tested?

- Taxability rules
 - Taxability matrix
 - Entity exemptions
- Sourcing
 - State and local jurisdictions/rates
- Tax Calculation
- SER Preparation
- Test Decks

CSP Certification Process (Ongoing Testing Process)

Quarterly Test Decks

- Taxability rules (Uniform)
- Sourcing
- Tax Calculation

Expanded Quarterly Test Decks

- CSP Specific Taxability Rules

CSP Specific Online Test System

- Single item entry screen
- Upload process

Any Questions



State Auditor Responsibilities

- Member States will perform tax compliance audits on sales transactions of Model 1 Volunteer Sellers processed by the CSPs.
- As part of the CSP tax compliance audit process, Member States will report audit exceptions to the Core Team (e.g., tax returns not filed timely).

State Auditor Responsibilities (continued)

Rule 806.3.5.5 (D) Tax Compliance Audit of Transactions Processed by the CSP

Member state auditors **are** responsible for reviewing the seller's transactions to determine if they were taxed correctly. If errors exist the auditors must determine if the errors were caused by any of the following reasons including but not limited to:

State Auditor Responsibilities (continued)

Rule 806.3.5.5 (D) (continued)

- 1.) Deviation from the state's rates and boundaries tables;
- 2.) Noncompliance with the state's taxability matrix;
- 3.) Non-compliance with state approved expanded matrix;
- 4.) Changes posted through Testing Central were not implemented in a timely manner (10 days); (This will be verified through the **Audit Core Team**);

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State Auditor Responsibilities (continued)

Rule 806.3.5.5 (D) (continued)

- 5.) Seller overrides of the CSP system;
- 6.) Exemption information and/or certificates **were not available or** did not contain all of the required data elements;
- 7.) Calculations that were tested and approved during the certification process;
- 8.) Errors in computing tax **were** based on erroneous information from the states.

State Auditor Responsibilities (continued)

Notes:

- Audit options (which sellers to audit)
- No benefit to CSPs for not collecting tax
- Intent is not to encourage audits
- Adhere to the timelines

Audit Timelines

- Core Team will conduct a Contract Compliance Audit on each CSP for the period of 01/01/2014 – 12/31/2016. Rule 806.3.1 (C) - Authority and Rule 806.3.2(D) - Audit Core Team
- Member/Associate Member State Tax Compliance Audits of the CSP's Sellers will be conducted based upon each individual state's statute of limitations; but would not be for a period before or after the Contract Compliance audit period listed above.

Audit Timelines (continued)

- Core Team Audit Timeline is for conducting CSP Contract Compliance Audits.
- State Auditor Audit Timeline is for conducting CSP Tax Compliance Audits.
- Important to adhere to the established timelines.
- Already know which periods are being audited.
- Be respectful of timelines – interest is accumulating on tax liabilities.

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Important Dates in 2017 Timelines

- **January 16th** – Core Team submitted Questionnaires to CSPs, States, and Executive Director.
- **February 10th** – Questionnaires due back to Core Team.
- **February 15th** – 2016 Appendix F files due from CSPs.
- **February 1st – 14th** – Core Team conducted a Pre-Audit call with each CSP.

Important Dates in 2017 Timelines (continued)

- **February 15th – 28th** – Core Team requested listing of Sellers, taxability matrix and additional data.
- **February 15th – March 15th** – Core Team will review Appendix F files, perform Interim Review of 2016 Appendix F files, and distribute Appendix F files to states by March 15th.
- **March 1st – March 31st** – Core Team will review completed questionnaires, go over data issues, and finalize CSP field work plans. During this time, the Core Team will prepare informal report to provide to CSP during site visit on reporting and delinquency errors noted by states.

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Important Dates in 2017 Timelines (continued)

- **March 15th – May 31st** – Core Team will complete field work at CSP locations and States will begin their tax compliance audits. By May 31st the Core Team will prepare preliminary reports for states detailing work completed and audit adjustment areas.
- **May 15th – June 15th** – Core Team and States continue audit work. State Tax Compliance Audit Feedback Reports are due to the Core Team by June 15th.

Important Dates in 2017 Timelines (continued)

- **June 15th – July 14th** – Core Team finalizes CSP audits. Meets with states and CSPs as needed. Core Team preliminary reports on findings due to CSPs by July 14th.
- **July 14th – August 15th** – Meet with CSPs as needed. CSP's response to Core Team's preliminary report on findings is due to Core Team by August 15th.
- **August 15th – September 15th** - Core Team final contract compliance audit reports are due to the Executive Director by September 15th.

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Any Questions



Overview of Audit Process

- SST Rules define the Compliance Audit Process & is made up of two parts
 - Contract Compliance – performed by the Core Team
 - Tax Compliance – performed by the state’s individual auditors for Member and Associate Member states.
- The Audit Committee prepares a timeline for the CSPs, Core Team, Member and Associate Member States.
- The Core Team submits questionnaires to Member and Associate Member States.
- The Member and Associate Member states complete the questionnaires & submit them back to the Core Team via Sharefile.

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Overview of Audit Process (continued)

- The CSPs finishes downloading their files. (They should have been doing this at least on annual basis during this audit cycle.)
- The Core Team reviews the files.
- The Core Team performs interim reviews of the data and after last submission they will also perform a final review.
- The Core Team will prepare a preliminary report of findings which includes any audit results they discovered that could be relevant to the tax compliance audit.

Overview of Audit Process (continued)

- The state auditors will download their states data. Keep an original copy of these downloads in a separate file folder on your network.
- Create a working copy for each CSP. Depending on the size of the files, you may or may not want to combine into one working file for each CSP.
- State auditors do their audits and if needed request assistance from the Core Team and/or the CSP. (Do not contact Sellers directly.)

Overview of Audit Process (continued)

- After completing the audits, State auditors prepare a report for the Core Team. States issue their own reports of findings to each individual CSP and issue assessments as necessary.
- The Core Team compiles a preliminary report for the CSPs and the CSPs respond.
- A final report is prepared for the Executive Director.

Any Questions



Pre-Audit

- Appendix F Files and Mapping Files - Karla Koehler
- Appendix F Data - Mike Chertude
- What is a Model 1 Volunteer Seller? - David Steines
- Review Rates and Boundaries Requirements - David Steines
- Review State Taxability Matrix - Chad Paulson
- Test Decks - Chad Paulson

Pre-Audit (continued)

- Discuss Change Controls - Chad Paulson
- Product Certification - Chad Paulson
- Review Expanded CSP Taxability Matrices - Chad Paulson and David Steines
- Information from the Core Team - Mike Chertude and Shannon Hugel
 - Mapping
 - Compensation

Pre-Audit (continued)

- Review Exemption Certificates - Rachael Hearn
- Liability Relief to Sellers - Rachael Hearn

Pre-Audit – Appendix F Files

The SST Governing Board requires data from all Certified Service Providers (CSPs) pertaining to the CSP Services provided to sellers under the CSP contract entered into with the Streamlined Sales Tax Governing Board (SSTGB).

Pre-Audit – Appendix F Files (continued)

- Files are provided in a comma delimited (.csv) format
 - Can be converted to Excel
 - Can be used with other software such as ACL
 - Files are placed in the Core Team's Sharefile folder
- Data within the file
 - Only your state's data
 - Only Model 1 sellers shipping into your state
 - Will contain up to 41 fields (39 required)
 - Audit File layout is Appendix F

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Pre-Audit – Appendix F Files (continued)

- Consists of Audit (A), Compensation (C), and Control Total (T) files, and a Product Mapping file, if required
- Due annually from CSPs on February 15th
- Will be placed in CSP's Core Team folder on SST ShareFile site
- Should follow format and layout as specified in Appendix F

Pre-Audit – Appendix F Files (continued)

File names for Audit, Compensation & Control Total are constructed as follows:

- First 3 characters represent the CSP:
 - 011 = Sovos (Taxware)
 - 013 = Avalara
 - 014 = Exactor
 - 016 = Accurate Tax
 - 017 = Fed Tax
 - 018 = Taxify
 - 019 = Taxometry

Pre - Audit – Appendix F Files (continued)

File names for Audit, Compensation & Control Total (continued):

- Fourth & Fifth characters represent the two character state abbreviation
- Sixth character represents the data type:
 - C = Compensation
 - A = Audit
 - T = Totals
- Seventh & Eighth characters represent the year the information is for

Pre-Audit – Appendix F Files (continued)

File names for Audit, Compensation & Control Total (continued):

- Ninth character represents the version designator (V)
- Tenth through fifteenth characters represents the date uploaded to the centralized secure location in yymmdd format.

Pre-Audit – Appendix F Files (continued)

File names for Product Mapping are constructed as follows:

- First character represents the data type
M = product mapping
- Second through tenth characters represent the seller's SSTID
- Eleventh and twelfth characters represent the year the information is for

Pre-Audit – Appendix F Files (continued)

File names for Product Mapping (continued):

- Thirteen through fifteenth characters represent the last three numbers of the SST CSP ETIN as shown on the SER
- Sixteenth character represents the version designator (V)
- Seventeenth through twenty-second characters represent the date submitted to the centralized secure location in yymmdd format

Pre-Audit – Appendix F Files (continued)

Requirements for Audit Files

- Each state shall receive a file from each CSP of all taxable and exempt records in the format indicated for its state only
- Fields 1 through 25 are required to be provided for all records
- Fields 40 & 41 are optional fields as determined necessary by each CSP
- If an exemption by certificate is claimed the remaining fields are to be completed using information from the Certificate of Exemption
 - While CSPs are required to have a system in place to compile exemption certificates they are not out of compliance if not all of the fields are populated since smaller sellers may only have the capability to enter the data elements as part of the transaction

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Pre-Audit – Appendix F Files (continued)

Requirements for Control Total Files

- Each CSP will provide notification of control totals for each file distributed to every state, the Audit Core Team, Executive Director & others to assure that the audit and compensation files contain the same data that produced the related SERs (Simplified Electronic Returns) and to verify that all records provided by each CSP are fully received by the intended parties
- Summarized by each state

Pre-Audit – Appendix F Files (continued)

Data Elements for Control Totals for Each State:

- Total number of line items
- Sum for total sales
- Sum for total taxable sales
- Sum for total exempt sales
- Sum for total tax

Pre-Audit – Appendix F Files (continued)

The **Control Total** file will contain the following information:

Field	Field Name	Description	Format	Length
1	Ship to State	State name based on Ship to Address	Alpha	2
2	Total Number of Line Items	Sum of all line items for data download by State	Numeric	15
3	Total Sales Amount	Sum of total sales for data download by State	Numeric	15 including 2 decimals
4	Total Taxable Sales Amount	Sum of total taxable sales for data download by State	Numeric	15 including 2 decimals
5	Total Exempt Sales Amount	Sum of total exempt sales for data download by State	Numeric	15 including 2 decimals
6	Total Tax Amount	Sum of total tax amount for data download by State	Numeric	15 including 2 decimals

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Pre-Audit – Appendix F Files (continued)

The **Audit** file or Appendix F contains the following information:

Field	Field Name	Description	Format	Length
1	Seller SSTID	Seller SSTID	Alpha/Numeric	9
2	Seller Name	Seller Name	Alpha	40
3	Transaction Number	Invoice or other number required to identify the transaction source document	Alpha/Numeric	40
4	Transaction Line Item	Individual Line number to be used in conjunction with the Transaction Number	Alpha/Numeric	4
5	Transaction Date	Century, Year, Month, and Day the tax was calculated	CCYYMMDD	8
6	Total Amount of Sale	Includes Exempt and Taxable Amounts by State per Transaction Line Item	Numeric	15 including 2 decimals
7	Total Taxable Amount	Taxable Amount per Transaction Line Item	Numeric	15 including 2 decimals
8	Total Exempt Amount	Exempt Amount per Transaction Line Item	Numeric	15 including 2 ² decimals

Pre-Audit – Appendix F Files (continued)

The **Audit** file or Appendix F contains the following information (continued):

Field	Field Name	Description	Format	Length
9	Total Tax Amount	Sum of all Jurisdictional tax amounts per Transaction Line item	Numeric	15 including 2 decimals
10	Seller's SKU Number	Provide the SKU Number that identifies the seller's product	Alpha/Numeric	15
11	Seller's Description of the Item Sold	Provide the seller's invoice level description of the item sold	Alpha/Numeric	65
12	CSP/CAS SKU Number	Provide the SKU number that the item was mapped to	Alpha/Numeric	15
13	CSP/CAS SKU Description for the Item Sold	Provide the CSP/CAS SKU description for the item sold	Alpha/Numeric	65
14	Taxing Jurisdiction Code 1 (FIPS/GNIS/Composite Name)	Taxing Jurisdiction Code Used to report this transaction on the SER	Alpha/Numeric	100
15	Taxing Jurisdiction Code 2 (FIPS/GNIS/Name)	Taxing Jurisdiction Code used to report this transaction on the SER	Alpha/Numeric	100
16	Taxing Jurisdiction Code 3 (FIPS/GNIS/Name)	Taxing Jurisdiction Code used to report this transaction on the SER	Alpha/Numeric	100

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Pre-Audit – Appendix F Files (continued)

The **Audit** file or Appendix F contains the following information (continued):

Field	Field Name	Description	Format	Length
17	Taxing Jurisdiction Code 4 (FIPS/GNIS/Name)	Taxing Jurisdiction Code used to report this transaction on the SER	Alpha/Numeric	100
18	Taxing Jurisdiction Code 5 (FIPS/GNIS/Name)	Taxing Jurisdiction Code used to report this transaction on the SER	Alpha/Numeric	100
19	Ship to Address 1 **	Address line 1	Alpha/Numeric	40
20	Ship to Address 2 **	Address line 2	Alpha/Numeric	40
21	Ship to City **	Name of city	Alpha/Numeric	40
22	Ship to State**	2 character State abbreviation	Alpha	2
23	Ship to Zip Code**	9 character zip code	Alpha/Numeric	9
24	Ship to Country **	3 character country abbreviation	Alpha	3
25	Exemption Type	(T) Taxable, (E) Entity, (P) Product	Alpha	1

Pre-Audit – Appendix F Files (continued)

The **Audit** file or Appendix F contains the following information (continued):

Field	Field Name	Description	Format	Length
26	State Where Exemption is Claimed	2 character State abbreviation	Alpha	2
27	Name of Purchaser		Alpha	40
28	Type of Purchaser ID	“Tax ID”, “FEIN”, “DLN”, or “FDN”	Alpha	6
29	Purchaser ID Number	This is the ID specified in field – Type of Purchaser ID	Alpha/Numeric	20
30	Purchaser Mailing Address		Alpha/Numeric	40
31	Purchaser City		Alpha	40
32	Purchaser State	2 Character State abbreviation	Alpha	2
33	Purchaser Zip Code	9 character zip code	Alpha/Numeric	9
34	Purchaser Country	3 character country abbreviation	Alpha	3

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Pre-Audit – Appendix F Files (continued)

The **Audit** file or Appendix F contains the following information (continued):

Field	Field Name	Description	Format	Length
35	Purchaser Business Type Number	2-digit number	Numeric	2
36	Purchaser Business Type Description	Must be completed if “Other” is selected as the Purchaser Business Type	Alpha	40
37	Purchaser Exemption Reason Code	Letter selected on exemption form	Alpha	1
38	Purchaser Exemption Reason Description	If Purchaser Exemption Reason Code is “Other” – provide the standard description of the exemption	Alpha	40
39	SER Filing Period	SER month represented by transaction (For example the Jan-dated transaction is reported on the Jan SER)	CCYYMM	6
40	Alternate Transaction Number	Seller Invoice number if not recorded in Transaction field 3	Alpha/Numeric	40
41	Optional Transaction Information	Optional field for use by CSP. Not option field for states	Alpha/Numeric	40

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Pre-Audit – Appendix F Files (continued)

Additional Information

- The “seller’s description of the item sold” shall be the seller’s invoice level description. Freight and discounts should be separate transaction line.
(Remember this when working with the file – you will save time by keeping things together)
- **Field will contain address information as to where the item was shipped. If purchased over-the-counter the information will be the address where the item was sold

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Pre-Audit - Product Mapping File

CSP will provide a Product Mapping Report when insufficient item sold information is passed from the seller to the CSP. The file will include the seller's identifying code of products sold, the seller's description of the products, the CSP SKU numbers to which the products were mapped and the CSP SKU description.

Pre-Audit - Product Mapping File (continued)

The **Product Mapping File** will contain the following information:

Field	Field Name	Description	Format	Length
1	Seller SSTID	Seller SSTID	Alpha/Numeric	9
2	Beginning Effective Date	Century, Year, Month and Day	CCYYMMDD	8
3	Ending Effective Date	Century, Year, Month and Day	CCYYMMDD	8
4	Seller's SKU Number	Provide the SKU Number that identifies the seller's product	Alpha/Numeric	15
5	Seller's Description of the Item Sold	Provide the seller's invoice level description of item sold	Alpha/Numeric	65
6	CSP/CAS SKU Number	Provide the SKU Number that the item sold was mapped to	Alpha/Numeric	15
7	CSP/CAS SKU Description for the Item Sold	Provide the CSP/CAS SKU description of item sold	Alpha/Numeric	65

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Any Questions



Pre-Audit – Appendix F Data

Prior to January 1, 2015, CSPs were required to provide data for both volunteer and non-volunteer sellers. In addition to providing a seller's data to those states in which the seller is a "volunteer seller", the data also must be provided to the Core Team.

Pre-Audit – Appendix F Data (continued)

Effective January 1, 2015, CSPs are only required to provide a seller's data (compensation, audit, and control total files) for those states in which the CSP is providing CSP Services for that seller under the CSP contract (i.e., those states in which the seller is a "volunteer seller" under the CSP contract).

Section B.1. of the CSP contract allows the CSP and a seller registered through the Central Registration System, but who is not a "volunteer seller" in one or more of the member states, to agree that the CSP will not provide CSP Services for that seller in those particular states.

Pre-Audit – Appendix F Data (continued)

Interim Reviews

- Beginning with 2015 Appendix F data, the Core Team performed interim reviews of the CSP's annual Appendix F data files.
- The initial interim review also included 2014.
- An Appendix F Data Files Interim Review Report was provided to each CSP.

Pre-Audit – Appendix F Data (continued)

Interim Reviews (continued)

The purpose of the interim review of the data is to:

1. Identify possible problem areas with the data sooner rather than later so that the CSP can determine the reason the problem happened so that it hopefully does not repeat itself and re-run the files (if necessary) while the data is still relatively current. (Note: The other option is to wait 2 – 3 years until the next contract compliance audit and state tax compliance audits take place and have the questions come up then.); and

Pre-Audit – Appendix F Data (continued)

Interim Reviews (continued)

The purpose of the interim review of the data is to
(continued):

2. Help ensure that the Core Team (and states) have complete and properly formatted data at the beginning of the next contract compliance audit (and state tax compliance audits) so valuable time is not spent re-running the files once the audits begin. This will help the Core Team and state auditors better follow their timelines.

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Pre-Audit – Appendix F Data (continued)

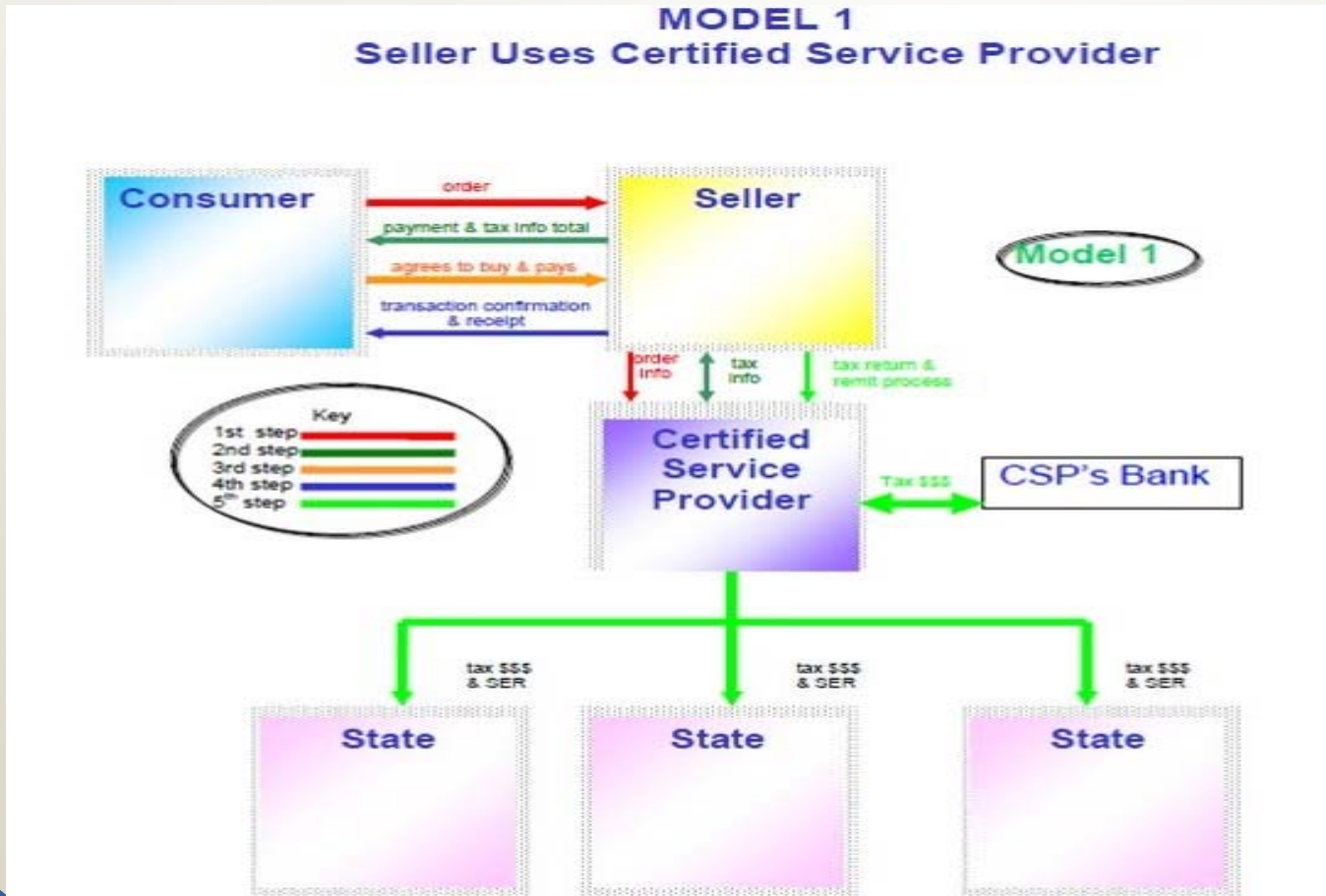
Interim Reviews (continued)

In the long run, this process should help minimize the amount of CSP resources required to re-run files because the CSP will know up front what is being checked by the Core Team and can make sure the files are correct the first time.

Any Questions



Pre-Audit - Model 1 Volunteer Seller



Pre-Audit - What is a Model 1 Volunteer Seller?

- A seller registered under the Agreement
- Certified Service Provider (CSP) performs all the seller's sales and use tax functions
- Seller (not the CSP) is liable for use tax on its own purchases even though the CSP may submit the use tax with the [SER](#)
- CSP is paid compensation by the member state for Model 1 sellers

Pre-Audit - Model 1 Volunteer Seller (continued)

- CSPs required to file SERs monthly.
- CSPs receive compensation based on taxes paid timely.
- CSP compensation based on terms of the [CSP contract](#).
- CSPs not liable for payment when seller fails to remit the tax amount to the CSP prior to the due date of the return with proper notification by the CSP.

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Pre-Audit - Model 1 Volunteer Seller (continued)

Seller Registration Process

- Old SST registration system versus current system
- SST extract
- Seller's Model 1 status may change over the course of the audit period
- Discussion of issues that could affect audits

Pre-Audit – Rates & Boundaries Requirements

- States submit updated [rate and boundary files](#) to Sharefile quarterly (if state has changes)
- Rate file should contain historical data for state rate changes since rates should not be deleted (rate change example)
- States need to enter start and end dates for changes
- Demo state rate and boundary lookup applications – [WI](#) and [MN](#)

Pre-Audit – Rate and Boundary Files

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27,45,27,0.0650,0.0650,0.0650,0.0650,20051001,20090630
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Any Questions



Pre-Audit – State Taxability Matrix

Where to find taxability [matrix](#) on SST website

- Reference number
- Administrative definitions (e.g., sales price, prosthetic device)
- Tax treatment:
 - Taxable or exempt
 - Included or excluded in sales price
- Statute or rule reference
- Administrative practices

Pre-Audit – State Taxability Matrix (continued)

Administrative Definitions		Treatment		Reference	
Reference Number	Sales price: Identify how the options listed below are treated in your state. The following options may be excluded from the definition of sales price only if they are separately stated on the invoice, bill of sale or similar document given to the purchaser.	Included in Sales Price	Excluded From Sales Price	Statute/Rule Cite	Comment
10010	Charges by the seller for any services <ul style="list-style-type: none"> necessary to complete the sale other than delivery and installation 	X		Minn. Stat. 297A.61, Subd. 7(a)(3)	
10070	<ul style="list-style-type: none"> Telecommunication nonrecurring charges 	X		Minn. Stat. 297A.61, Subd. 7 & Subd. 24	
10040	<ul style="list-style-type: none"> Installation charges 	X		Minn. Stat. 297A.61, Subd. 7(a)(5)	

Pre-Audit – Test Decks

- States submit quarterly test decks to CSPs
- CSPs return results
- Quarterly test decks evaluate transactions for:
 - Rate and boundary calculations
 - Taxability of product categories from the taxability matrix

Pre-Audit – Test Decks (continued)

Example

S00025001	KS	T	13693 40TH ST S	Afton	MN	55001	20050	25119.01
S00025001	KS	T	868 6TH ST N	Bayport	MN	55003	20020	241224
S00025001	KS	T	23847 JOHNSON ST N	Bethel	MN	55005	20030	98455.51
S00025013	WV	T	4542 Hwy 95 NW	Cambridge	MN	55008	20040	175789.4
S00025012	UT	T	31760 65th Ave	Cannon Falls	MN	55009	30100	603.01
S00025001	KS	T	31760 65th Ave	Cannon Falls	MN	55009	30040	25000.01
S00025001	KS	T	19210 GILLIS ST NW	Cedar	MN	55011	30050	15434.49
S00025001	KS	T	43 EAST RD	Circle Pines	MN	55014	30060	25556.51
S00025013	WV	T	9201 South Highway	Lexington	MN	55014	30200	2329.99
S00025013	WV	T	9201 South Highway	Circle Pines	MN	55014	30210	2329.99
S00025001	KS	T	8790 IMPERIAL AVE S	Cottage Grove	MN	55016	30220	221156.1
S00025012	UT	T	8461 SE Point Douglas	Cottage Grove	MN	55016	30300	4200.87
S00025001	KS	T	517 SPRUCE ST	Farmingdale	MN	55024	30310	78917.48
S00025012	UT	T	18286 Pilot Knob Rd	Farmingdale	MN	55024	30320	498.89










Pre-Audit- Test Decks (continued)

Results

1000.01	73.75	722	73.75	0.00	73.75	Product Exempt	
1000.01	73.75	724	73.75	0.00	73.75	Product Exempt	
1000.01	71.25	740	71.25	0.00	71.25	Product Exempt	
1000.01	68.75	787	68.75	0.00	68.75	Product Exempt	
1000.01	73.75	1313	73.75	78.75	-5.00	Missing FIPS	47
1000.01	73.75	1314	73.75	78.75	-5.00	Missing FIPS	47
1000.01	73.75	1315	73.75	78.75	-5.00	Missing FIPS	47
1000.01	73.75	1316	73.75	78.75	-5.00	Missing FIPS	47
1000.01	73.75	1317	73.75	78.75	-5.00	Missing FIPS	47
1000.01	73.75	1318	73.75	78.75	-5.00	Missing FIPS	47
1000.01	73.75	1319	73.75	78.75	-5.00	Missing FIPS	47

Pre-Audit – Change Controls

- States identify errors to CSPs for quarterly test decks
- CSPs notify errors to states (e.g., rate error)
- Changes should be maintained by the state and can impact audit adjustments

	FIPS Codes
	Internal RB Master
	MN Regression Test Deck
	MN-SST Procedures
	Procedures
	R and B Testing Files
	SST Consolidated Report
	SST Tracking Systems
	SSTP Timeline

Pre-Audit-Change Controls (continued)

Date Needed In Production:	<input type="text" value="ASAP"/>
Affected State:	<input type="text" value="Minnesota"/>
Requested By: CSP/CAS:	<input type="text" value="Avalara"/>
Representative:	<input type="text" value="Rebecca Calaman"/>
Email:	<input type="text" value="rebecca.calaman@avalara.com"/>
Reason For Change:	<input type="checkbox"/> Maintenance <input type="checkbox"/> Additional Tax Rules <input checked="" type="checkbox"/> Other
Change Description:	Avalara has received notification that the address 21280 594th Ave, Mankato, MN 56001-8533 is returning an incorrect total rate. According to our research, this address should return a .5% Blue Earth County Tax. Currently, the address is only returning the Minnesota state tax.
Additional Documentation:	<input type="checkbox"/> YES (No. of Files) <input checked="" type="checkbox"/> NO
Is Change Ready To Be Tested?	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO

Pre-Audit – Expanded CSP Taxability Matrices

Charges for separately stated consulting services associated with the sale of TPP where the consulting is a mandatory element of the sale required to affect the transfer of tangible personal property.	Taxable
Separately stated charges for the service of providing public storage where the lessor retains full control over the stored goods (excludes boat storage).	Exempt
Optional maintenance or warranty contract for canned software on tangible medium, which only includes software updates on tangible medium	Taxable
Mandatory maintenance or warranty contract for canned software on tangible medium, which only includes software updates on tangible medium	Taxable
Sales of canned software on tangible medium	Taxable
Sales of canned software transmitted to the purchaser electronically	Taxable
Sales of custom software on tangible medium	Exempt
Sales of custom software transmitted to the purchaser electronically	Exempt
Licenses of canned software on tangible medium	Taxable
Licenses of canned software transmitted to the purchaser electronically	Taxable

- Other certified codes
- Expanded test decks
 - Taxability of certified product codes

Pre-Audit – Product Certification

- CSPs submit product codes to states for taxability certification
- States identify potential errors on CSP taxability
- Back and forth between CSPs and states when certifying these product codes (until resolved)
- Product codes are certified by default if the state does not respond within 30 business days
- Product codes that are certified should be maintained by the state and can impact audit adjustments

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Pre-Audit – Product Certification (continued)

Notes:

- Working on uniform product category certification
- Utilize state contact list to find the correct person in your state, example to follow.
- [Taxability matrix](#) is on SST website

Pre-Audit- State Contact List

Responsibility	Name	Phone	Email address	Backup Name	Backup Phone Number	Backup Email address
SST Registration	SST Registration mail group		SSTRegistrationMN.mdor@state.mn.us	Abiy Shoa	651-556-4905	Abiy.Shoa@state.mn.us
SST Audits	SST Audit mail group		SSTAuditMN.mdor@state.mn.us	Cindy Amey	651-556-5740	cindy.amey@state.mn.us
SST Returns	SST Returns mail group		SSTReturnsMN.mdor@state.mn.us	Chad Paulson	651-556-4891	chad.paulson@state.mn.us
SST Tax Funds	SST Tax Funds mail group		SSTTaxFundsMN.mdor@state.mn.us	Chad Paulson	651-556-4891	chad.paulson@state.mn.us
Access to Taxability Matrix	Chad Paulson	651-556-4891	chad.paulson@state.mn.us	MacKenzie Ferris	651-556-6707	mackenzie.ferris@state.mn.us
Access to Taxability Matrix	Chad Paulson	651-556-4891	chad.paulson@state.mn.us	MacKenzie Ferris	651-556-6707	mackenzie.ferris@state.mn.us
Testing Tax Rules/Certification	Chad Paulson	651-556-4891	chad.paulson@state.mn.us	MacKenzie Ferris	651-556-6707	mackenzie.ferris@state.mn.us

Any Questions



Pre-Audit – Information from the Core Team

Mapping

Product mapping is defined as classification of an item or transaction within a certified category as provided in Section 502 of the SSUTA.

Pre-Audit – Information from the Core Team (continued)

Mapping Sampling Plan for CSP Appendix F Data for current audit cycle

Sampling Objective

- To verify proper Tax was calculated.
 - We are not concerned if the item sold was in the proper bucket (SKU) or not, only that tax was charged on taxable items.

Pre-Audit – Information from the Core Team (continued)

Mapping Sampling Plan for CSP Appendix F Data for current audit cycle (continued)

Procedure for Sampling Mapping

1. For each CSP combine the annual Appendix F data files creating the Population.
2. Determine the Audit Population from combined Appendix F data files (Population) by removing the following items:
 - a. Remove items that have tax charged (TotalTaxAmount = 0.00).
 - b. Remove items with Exemption of "E" (entity).
 - c. Exclude reversals, adjusting entries, 0.00 sales.
3. Export the Audit Population.

Pre-Audit – Information from the Core Team (continued)

Mapping Sampling Plan for CSP Appendix F Data for current audit cycle (continued)

Procedure for Sampling Mapping (continued)

4. Refine the Audit Population to determine the Sampling Frame.
 - a. Summarize the Audit Population on the following:
 - i. SellerSSTID
 - ii. CSPSKU and CSPSKUDesc
 - iii. SellerSKU and SellerLineItemDesc
 - iv. TotalAmtOfSale
 - b. Review the Summarized Audit Population to remove items of no interest:
 - i. Remove small Total TotalsSaleAmt or small Total Count items in the summary.
 - ii. Remove CSPSKUs that are of no interest.
 - c. Summarize the Audit Population by SSTID and CSPSKU to determine the Summarized Sampling Frame (items to sample).

Pre-Audit – Information from the Core Team (continued)

Mapping Sampling Plan for CSP Appendix F Data for current audit cycle (continued)

Procedure for Sampling Mapping (continued)

5. Export the Summarized Sampling Frame.
6. In the Audit Population determine Sample transactions (1 transaction for each item in the Summarized Sampling Frame).
7. Request and review invoices for Sample transactions. Compare invoice description to CSPSKU Desc.
8. Does the invoice description match the CSPSKU Desc? Y or N
 - a. Y – No further review necessary
 - b. N – Identify CSPSKUs in error and review in detail.
 - i. Notify states as needed

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Pre-Audit – Information from the Core Team (continued)

Mapping Sampling Plan for CSP Appendix F Data for future audit cycles:

- Reporting results
- Coordinate a review of taxability with States

Pre-Audit – Information from the Core Team (continued)

Compensation

- Verify correct compensation (should not be greater than 8%)
- Check the SER filing period to verify amendments in the data that appear to be in the wrong period were based on the correct period.

Pre-Audit – Information from the Core Team (continued)

Compensation (continued)

CSP Contract Section D.5. Compensation Formula

Compensation rates are based upon the volume of Taxes Due from each Volunteer Seller with whom the Contractor agrees to provide CSP services. Compensation to the Contractor shall be paid in accordance with the formula set forth below.

(a) For the first \$250,000 of Taxes Due from each Volunteer Seller to all Member States, Contingent Member States and Associate Member States combined, the Contractor shall be allowed compensation in an amount equal to eight percent (8%) of the Taxes Due. The remainder shall be remitted to the Member States, Contingent Member States and Associate Member States.

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Pre-Audit – Information from the Core Team (continued)

Compensation (continued)

(b) For Taxes Due from each Volunteer Seller to all Member States, Contingent Member States and Associate Member States combined that exceed \$250,000 but total no more than \$1,000,000, the Contractor shall be allowed compensation in an amount equal to seven percent (7%) of the Taxes Due. The remainder shall be remitted to the Member States, Contingent Member States and Associate Member States.

(c) For Taxes Due from each Volunteer Seller to all Member States, Contingent Member States and Associate Member States combined that exceed \$1,000,000 but total no more than \$2,500,000, the Contractor shall be allowed compensation in an amount equal to six percent (6%) of the Taxes Due. The remainder shall be remitted to the Member States, Contingent Member States and Associate Member States.

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Pre-Audit – Information from the Core Team (continued)

Compensation (continued)

(d) For Taxes Due from each Volunteer Seller to all Member States, Contingent Member States and Associate Member States combined that exceed \$2,500,000 but total no more than \$5,000,000, the Contractor shall be allowed compensation in an amount equal to five percent (5%) of the Taxes Due. The remainder shall be remitted to the Member States, Contingent Member States and Associate Member States.

(e) For Taxes Due from each Volunteer Seller to all Member States, Contingent Member States and Associate Member States combined that exceed \$5,000,000 but total no more than \$10,000,000, the Contractor shall be allowed compensation in an amount equal to four percent (4%) of the Taxes Due. The remainder shall be remitted to the Member States, Contingent Member States and Associate Member States.

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Pre-Audit – Information from the Core Team (continued)

Compensation (continued)

(f) For Taxes Due from each Volunteer Seller to all Member States, Contingent Member States and Associate Member States combined that exceed \$10,000,000 but total no more than \$25,000,000, the Contractor shall be allowed compensation in an amount equal to three percent (3%) of the Taxes Due. The remainder shall be remitted to the Member States, Contingent Member States and Associate Member States.

(g) For Taxes Due from each Volunteer Seller to all Member States, Contingent Member States and Associate Member States combined that exceed \$25,000,000, the Contractor shall be allowed compensation in an amount equal to two percent (2%) of the Taxes Due. The remainder shall be remitted to the Member States, Contingent Member States and Associate Member States.

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Pre-Audit – Information from the Core Team (continued)

Compensation (continued)

Rates of compensation shall reset on January 1 of each year for sales made by each Volunteer Seller. Regardless of the total amount of Taxes Due from each Volunteer Seller to the Member States, Contingent Member States and Associate Member States during the previous year, the rate at the beginning of each year shall return to eight percent (8%) on the first \$250,000 of Taxes Due from each Volunteer Seller, and the rate shall adjust according to the formula set forth above.

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Any Questions



Pre-Audit – Exemption Certificates

A PAPER FORM IS NOT REQUIRED

A seller is required to collect the information required in Sec 317:

- Purchaser name and address
- Type of business
- Reason for exemption
- ID number required by your state
- Signature (IF and only IF a paper form is used)

A seller may digitize the data elements of an exemption certificate and is NOT required to retain the paper certificate.

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Pre-Audit – Exemption Certificates (continued)

- A seller does not need to verify the accuracy of the information
- The fully complete standard applies to exemption certificates received:
 - on the date of the sale, or
 - received within 90 days after the date of the sale.

Pre-Audit – Exemption Certificates (continued)

- A state must allow a seller with missing or incomplete exemption certificates at least 120 days to provide:
- fully completed exemption certificate taken in good faith from the purchaser, or
- other information acceptable to the state establishing that the transaction was not subject to the tax.



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Pre-Audit – Exemption Certificates (continued)

120-Day Rule

- If an exemption certificate is subject to “good faith standards”, an auditor can examine the validity of the certificate (or other documentation retained by a seller).
- A certificate (or other documentation) can be considered invalid if:
 - Not complete (still complete if all SSUTA Exemption Certificate information on the form is provided);
 - Exemption claimed does not exist; or
 - Not reasonable for the seller to believe that the purchaser is entitled to the exemption.

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Pre-Audit – Exemption Certificates (continued)

120-Day Rule (continued)

- The 120-day rule starts subsequent to a request for substantiation by a member state of missing or incomplete certificates.
- A general notice of intention to conduct an audit on a seller's exempt sales is not sufficient to trigger the start of the "120-day" period.
- Any appeal period in which certificates would still be accepted may be included in the 120-day period.

Pre-Audit – Exemption Certificates (continued)

Good Faith

“Good faith” means that the exemption claimed on an exemption certificate must be:

- statutorily available on the date of the transaction in the jurisdiction where the transaction is sourced,
- applicable to the item being purchased, and
- reasonable for the purchaser’s type of business.

The “good faith” standards do not apply when reviewing fully completed exemption certificates received at the time of sale or within 90-days from the date of sale.

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Pre-Audit – Exemption Certificates (continued)

Renewal of Exemption Certificates

- Member states shall allow blanket exemption certificates for all exemption purposes.
- Member states may require purchasers to update exemption certificate information or to reapply with the member state to claim certain exemptions.
- Member states may not request from sellers renewal of blanket certificates or updates of exemption certificate information or data elements when there is a recurring business relationship between the purchaser and seller (transactions at least every 12 months).

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Pre-Audit – Exemption Certificates (continued)

Drop Shipment

- A state shall allow a third party vendor (e.g., drop shipper) to claim a resale exemption based on an exemption certificate provided by its customer/re-seller, or any other acceptable information available to the third party vendor, showing the sale qualifies for a resale exemption.
- The exemption is allowed to the third party vendor regardless of whether the customer/re-seller is registered to collect and remit sales and use tax in your state.

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Any Questions



Pre-Audit – Liability Relief to Sellers

Streamlined Sales and Use Tax Agreement (SSUTA) Section 502: STATE REVIEW AND APPROVAL OF CERTIFIED AUTOMATED SYSTEM SOFTWARE

- Each member state reviews certified automated software (CAS) to determine that the program accurately reflects the taxability of the product categories.
- Upon approval, the state certifies its acceptance of the product categories included in the program.

Pre-Audit – Liability Relief to Sellers (continued)

Section 502: STATE REVIEW AND APPROVAL OF CERTIFIED AUTOMATED SYSTEM SOFTWARE (continued)

- States shall relieve CSPs and model 2 sellers from tax liability resulting from the CSP or model 2 seller relying on a pre-certified CAS.



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Pre-Audit – Liability Relief to Sellers (continued)

The relief from liability provided in this section shall not be available for a CSP or model 2 seller that has incorrectly classified an item.



Pre-Audit – Liability Relief to Sellers (continued)

- If you determine that an item or transaction is incorrectly classified, notify the CSP or Model 2 Seller.
- The CSP or Model 2 Seller has ten days to revise the classification.
- The CSP or Model 2 Seller shall be liable for the failure to collect the correct amount of sales or use taxes due and owing to the member state after ten days.

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Any Questions



Audit

- Auditor Responsibilities - Karla Koehler
- Auditing the CSP - Karla Koehler
- Coordinating State Requests for Invoices – Steve Krovitz
- Things to keep in mind - Karla Koehler
- Other helpful tips - Karla Koehler
- State Tax Compliance Audit Feedback Report – Steve Krovitz

Audit - Auditor Responsibilities

- Notify the Core Team whether or not your state will be participating in the current audit cycle.
- Complete the tax compliance audit steps for your state's transactions.
- Complete tasks and your audits within the designated timeframe .
- Complete the audit using your state's specific policies and procedures.
- Complete feedback reports for the Core Team by designated deadline.

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Audit - Auditor Responsibilities (continued)

- You are auditing the CSP, not the seller (ABC Company) using the CSP.
- You are only auditing Model 1 Seller transactions.
- You should make sure that you have all of the data from each CSP for the entire audit period or the period that CSP had transactions in your state.
- SST requires certain information and file layouts for reports and files.
- You will be primarily working with the audit files but there are also compensation reports, control total files, and product mapping files.

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Audit - Auditing the CSP

- Remember you are not auditing the Model 1 Seller.
- You are auditing the Model 1 Seller's transactions processed by the CSP.
- The CSP is liable for any additional tax as a result of the audit.
- The state tax compliance audits are performed by member states under the coordination of the Core Team.
- The state tax compliance audit process is to determine if transactions are properly taxed, tax is reported and remitted to the correct jurisdiction when due.

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Audit - Auditing the CSP (continued)

- Have a copy of your state tax matrix available for reference when reviewing transactions
- Work with Core Team to ensure you have all of your state's data. Make sure that you did not receive any other state's data.
- As part of the audit process, your state representatives complete a questionnaire for compliance with the contract and these are uploaded to your state's Sharefile for the Core Team's use.
 - You may or may not be involved in completing these but you should get a copy of them as they may be a helpful resource

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Audit - Auditing the CSP (continued)

- Once you have the transaction data (Appendix F format), keep an original copy and make yourself a working copy.
- When working with your copy, keep the columns as originally received. I like to put comment columns off to the far right.
- Sort the transactions by the seller and keep invoices together.
- Prepare a high-level comparison of sales tax collected per Appendix F with your state's amounts reported on the simplified electronic returns (SER).

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Audit - Auditing the CSP (continued)

- If the high-level collected versus reported has differences, start by breaking it down by quarter or month to determine where the differences might be.
- If there are differences, report them to the Core Team. The Core Team may help you figure out if there is missing or duplicate data.
- If there isn't missing or duplicate data and it is material, you may need to include it in your audit assessment.

Audit - Auditing the CSP (continued)

- Turn on filter for spreadsheet
- Filter for Total Tax Amount = 0.00
- Filter for Taxable Sales and Blank Exemption Types
 - Filter for taxability = T or #N/A
 - Filter for exemption type = T and/or "Blank"

Audit - Auditing the CSP (continued)

The remaining sales shown are potential errors

- Review these transaction in accordance with your state's taxability matrix and your state's laws, regulations, policies and procedures.
- Put any questions or comments in columns you create to the far right of the Appendix F data.
- Remember you can hide columns but DO NOT delete them.

Audit - Auditing the CSP (continued)

The remaining sales shown are potential errors (continued)

- Remember to keep transaction and invoice information together. For example, if your state taxes freight and it is shown on a separate line item, you will have to evaluate if the tax is included with the item or with the freight.
- In the non-taxed sales file, you could also find “T” sales and exemption type that is not indicated or “blank”. These are sales that are taxable per the taxability matrix where tax is not charged. Follow-up with the CSP for an explanation.

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Audit - Auditing the CSP (continued)

Product exemption

- Filter for Exemption Type = P
- Look at Taxability Column and filter = T or #N/A
- The remaining sales shown are the potential errors
- If the CSP has followed the tax matrix and the audit discovers an error in the matrix, the state will correct the matrix and notify the CSP of the correction. The CSP will not be held liable for the error since it relied on the Department's documentation.

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Audit - Auditing the CSP (continued)

Entity exemption

- Filter for Exemption Type = E
- Sort data by Purchaser Id column
- Review for complete data elements
 - If elements are incomplete or missing, compile and provide a list of exceptions to the CSP for further analysis
- If an entity exemption is claimed, the audit will review for completeness of the data elements contained in the SST Exemption Certificate. If all the data elements are on the certificate, the CSP is relieved of any liability.

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Audit - Auditing the CSP (continued)

- If the CSP provides complete data for the exemption certificate and the audit determines the reason for the exemption is invalid, the State will look to the purchaser for verification.
- If the CSP claims an entity exemption and is missing data fields for the exemption certificate, the state will go back to the CSP for additional documentation to validate the exemption claimed.

Audit - Auditing the CSP (continued)

- Your state may also want to review the taxed sales to determine if tax was properly charged and at the proper rate for the purchaser's location.
- Filter for taxable sales greater than or less than 0.00.
- Filter for taxability = T
- If your state uses a rate finder on its website, pull up purchaser's address to determine proper tax rate.

Audit – Auditing the CSP (continued)

Things to keep in mind:

- If your state chooses to not audit the CSP, please let them and the Core Team know
- Don't drag out your audits, interest is accumulating. If you have submitted questions to the CSP, keep following up at least every 30 days and document

Audit – Auditing the CSP (continued)

CSP Name:
Audit Period :

Sample Audit Program

Recommended Procedures for State Auditors When Auditing a Certified Service Provider		Work Completed	
Remember that the Model 1 Sellers are not under audit, only their transactions processed by the CSP are being audited.		By	Date
1	The Audit Committee has established the following guidelines to be used as a reference tool by member states when conducting audits of transactions of a Model 1 seller processed by a CSP. The CSP is liable for any additional tax as a result of the audit.		
2	The tax compliance audit process is to determine if transactions were properly taxed, tax reported and remitted to the correct jurisdiction when due.		
3	The tax compliance audit or transactions of the Model 1 Seller are performed by member states under the coordination of the Core Team.		
4	Complete Core Team questionnaire.		
5	Review timelines established by the Audit Committee.		
6	Verify that the sales tax reports were sent to the state by the CSP for the Model 1 Sellers. A. Follow up with CSP's for any missing reports		

Audit – Auditing the CSP (continued)

Sample Audit Program

- 7 Verify that Appendix F data transaction files have been received.
- 8 Combine the annual Appendix F files into one large file, if possible, for each CSP.
 - A. Work with a copy of this file - keep the original file intact.
- 9 Sort this file by Model 1 Seller
- 10 Total by month to compare with the amounts listed on the Sales Tax Reports.
- 11 Reconcile the totals back to the download files.
 - A. Differences may be listed on the state report to the Core Team.
- 12 Sort by item description/code to take out the nontaxable items.
- 13 Sort remaining items by tax amount.
 - A. For those with tax, verify sourcing, correct rates, etc.
(Use the method approved by your state)
Errors will be listed on the state report to the Core Team.
 - B. For those without tax, verify mapping and examine the exemption information.
The transactions with no exempt information will result in a request to the CSP for the exemption documentation. If no response is received, errors will be listed on the state report to the Core Team.

Audit – Auditing the CSP (continued)

Sample Audit Program

14 Maintain follow up every 30 days with the CSP, and review their responses.

15 Prepare and submit the report to the Core Team.

16 Complete State report.

17 Send letter to CSP with audit results.

18 Liability relief is available to sellers under the following circumstances:

A. Sec 304 of the SSUTA:

Each member state failing to provide for at least thirty days between the enactment of the statute providing for a rate change and the effective date of such rate change shall relieve the seller of liability for failing to collect tax at the new rate if:

- 1) The seller collected tax at the immediately preceding effective rate; and
- 2) The seller's failure to collect at the newly effective rate does not extend beyond thirty days after the date of enactment of the new rate.

Audit – Auditing the CSP (continued)

Sample Audit Program

- B. Sec 306 of the SSUTA:
Incorrect tax charged as a result of a member state supplying bad information as to the rates, boundaries, or taxing jurisdictions assignments.
- C. Sec 317 of the SSUTA:
If the Seller has ongoing business with purchaser for over a year and has been presented a blanket exemption certificate with all appropriate data elements filled in.
- D. Sec 328 of the SSUTA
If Seller has charged and collected the incorrect amount of sales or use tax resulting from the seller or CSP relying on the erroneous data provided by the member state in the taxability matrix.
- E. Sec 502 of the SSUTA
If the matrix and extended was certified by the State to be accurate then the CSP is not liable for a period of time.
- F. CSP Contract Section E-4
If a seller fails to deliver tax monies to the CSP and the CSP timely notifies the Member and Associate Member States, the CSP receives relief from any liability to the Member and Associate Member States. The liability for the unpaid taxes reverts to the Seller.

Audit – Auditing the CSP (continued)

Finalizing the audit

- Submit final report to the Core Team.
- Submit findings and assessments to the CSPs.

Any Questions



Audit – Coordinating State Requests for Invoices

Core Team to coordinate state requests for invoices:

- Option for states to increase turnaround time for obtaining invoices
- States would submit invoice requests by a specific deadline
- CSPs would give a higher priority to these invoice requests

Audit - Coordinating State Requests for Invoices (continued)

The process:

- States would provide Core Team with a list of invoices
- Core Team would submit invoice list to respective CSPs
- Core Team would distribute invoices to respective states

Audit – Coordinating State Requests for Invoices (continued)

Advantages of this process:

- Faster turnaround of invoice requests
- Fewer requests for invoices the CSPs have to make to their sellers
- Coordination of invoice requests may allow for more efficient audits
- More comprehensive audit of taxability by having invoices sooner
- Allow states to obtain confidence early on regarding accuracy of taxability

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Audit - Things to keep in mind

Remember you are auditing the CSP not the seller. The seller is relieved of any liability under the following circumstances as outlined in the Streamlined Sales and Use Tax Agreement (SSUTA):

- Sec 304 – Each member state failing to provide at least 30 days between the enactment of the statute providing for a rate change & the effective date of such rate shall relieve the seller of liability for failing to collect the tax at the new rate if:
 - The seller collected the tax at the immediately preceding effective rate and the seller's failure to collect at the newly effective rate does not extend beyond 30 days after the enactment of the new rate.

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Audit - Things to keep in mind (continued)

- Sec 306 of the SSUTA:
 - Incorrect tax charged as a result of a member state supplying “bad information as to the rates, boundaries, or taxing jurisdictions” assignments.
- Sec 317 of the SSUTA:
 - If the seller has ongoing business with purchaser for over year and has been presented a blanket exemption certificate with all appropriate data elements.
- Sec 328 of the SSUTA:
 - If seller has charged and collected the incorrect amount of sales or use tax resulting from the seller or CSP relying on the erroneous data provided by the member state in the taxability matrix.

Audit - Things to keep in mind (continued)

- State auditor's roles and responsibilities are to handle their state's portion of the audit and are responsible to ensure conformance to the audit plan and timeline, according to their state's audit policies and procedures. Member state auditors are responsible for reviewing Model 1 seller's transactions to determine if they were taxed correctly.
- Follow the Who, What, Where, When document which interprets the responsibilities of both the Core Team and the Member State Auditors as set out by the SST Audit Rule.

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Audit - Things to keep in mind (continued)

- The Audit Committee has established guidelines to be used as a reference tool when conducting audits of Model 1 seller transactions processed by a CSP. The CSP is liable for any additional tax as a result of the audit.
- The tax compliance audit is to determine if transactions were properly taxed and that the tax is reported and remitted to the correct jurisdiction when due.
- The tax compliance audits are performed by the Member states under the coordination of the Core Team.

Audit - Things to keep in mind (continued)

- Demonstrate looking at all lines of an invoice to answer questions before sending single line items to CSP
- Reminder - SST ID counts as a state ID.
- When providing Appendix F data file to the CSP - hide but don't delete data any fields and send the file to the CSP for populating.
- Each line of Appendix F is not an individual sale but a transaction line item.
- Could be valid reasons for a 0.00 sale amount within data.

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Audit - Other Helpful Tips

- Maintain a list of sellers
- If you have maintained a list of sellers from prior audits or if your state can easily find sellers by CSP, you can make sure your data has all the sellers. Sometimes in this process, you discover that a seller may have switched from one CSP to another.
- Create a list of purchasers where known issues were discovered with exemption certificates. This may be used in audit selection and/or assessments that are sent directly to the purchaser.

Audit - Other Helpful Tips (continued)

- Make sure you are aware of any changes to your state's taxability matrix during the audit period.
- Make sure you are also aware of any changes in your local tax rates during the period
- Make sure you are aware of any rates and boundaries changes during the audit period
- Follow the timelines laid out by the Core Team

Audit - Other Helpful Tips (continued)

- If you want to see an invoice, make sure that it is something that is material
- Don't be afraid to ask questions
- Statutes for some states may expire quickly, keep that in mind as you complete your audit

Any Questions



Audit – State Tax Compliance Audit Feedback Report

- Report due to the Core Team by June 15th
- Main sheet – Model 1 Sellers
 - Must be completed and returned to Core Team via Core Team Sharefile
- Audit Report sheet
 - Must be completed if questionable items or errors are found from Model 1 sellers during audit of each CSP

Any Questions



Closing Comments on Topics Discussed

- Introduction
- State Auditor Responsibilities
- Audit Timelines
- Overview of Audit Process
- Pre-Audit
- Audit

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THANK YOU

