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## Sales-and-Use Tax Outsourcing Increasing

New survey of *Corporate Taxation Insider* readers reveals majority already outsourcing some portion of tax.

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by Mark Sergas

Sales-and-use taxes have become increasingly complex for companies to manage over the past decade as rate changes and increases across the U.S. and the globe have become the norm. When this increase in complexity is combined with the fact that nearly half (47%) of corporate tax departments have key personnel changes each year and the current hyper-regulatory atmosphere, it is easy to understand why tax has become even more challenging to manage.

Tax departments continue to seek solutions, including returns outsourcing, to not only manage the associated risk and compliance, but also free up valuable resources for higher value activities.

Recently, *AICPA Corporate Tax Insider* readers participated in a survey that focused on companies' reasons for outsourcing tax processes, what tax functions they commonly outsource and time that tax departments are spending on compliance vs. those higher value activities.

### Companies Are Increasingly Outsourcing Tax

Readers were asked what percentage of their company's tax functions was currently outsourced. The survey revealed that more than half (56%) of respondents were not only currently outsourcing some aspect of the tax function, but also increasing their use of outsourcing.

The statistic supports a trend that was seen in the same survey of readers in 2008. At that time a similar percentage of respondents said that outsourcing of tax was increasing.

### Talent Shortages, Time Constraints and Lack of Money

The latest survey also revealed that an overwhelming majority of respondents outsourced tax functions because they lacked sufficiently available staff and saw the need to focus on higher value tax activities.

When asked, what the top reason was to consider outsourcing, four out of five (82%) of respondents either chose:

- "Increase time for higher value activities" or
- "Lack of qualified tax professionals"

as reasons. In fact, both responses received equal support.

The reasons are intrinsically related. Tax departments have been dealing with a variety of headwinds over the past few years, including hyper-regulation, increased scrutiny of tax compliance and fewer qualified professionals entering the corporate tax field as, with departmental cuts that have placed an increased burden on remaining staff.

Cost has also been a significant concern for respondents. One out of four (26%) indicated that reducing expenses was a top reason for outsourcing. This is no surprise in an era when companies are looking to control costs at every level, while not exposing themselves to unnecessary risk.

It's important to note that the outsourcing partner is of particular significance here as only the right partner will help a company realize benefits in terms of time and money.

### **Focus on Higher Value Activities**

Corporate tax departments feel increased pressure to manage more activities in the face of dwindling resources. While necessary, the manually intensive processes associated with monthly return processing mire strategic resources that could be focused on adding value for higher level activities

When asked what percentage most closely described how much of their tax department's time was spent on audit defense vs. compliance, more than three out of four (77%) of respondents said that they spend 80 percent or more of their time on compliance. The result is that tax departments are left unable to focus on activities, such as audit defense and research that help create value for a company, not just maintain it.

Companies that choose to outsource parts or all of their tax processes are free to focus internal resources on activities that are value creators. The result is a measurable impact on the bottom-line *and* tax department professionals that are not mired in compliance and administration.

### **The Bottom Line**

For respondents to this survey, the bottom line is that the time consuming aspects of compliance coupled with risks and penalties associated with inaccuracies in the process have become too great. Outsourcing with visibility and control of the process offers a solution to mitigate this risk, while creating value in some cases.

As a result, companies are turning to outside providers to manage the complexity and volume of data more effectively, while reducing their risk. These providers also free up time spent on the returns process for higher value activities.

But it's not as simple as turning over data and forgetting about it. Choosing the wrong partner to handle returns could actually increase the likelihood of underpayments, overpayments and even cause material weaknesses. Companies should do their due diligence and determine what provider best fits their present *and* their future needs.

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**Mark Sergas** is the services line leader for Vertex Inc. He has been recognized by the ITSSMA for excellence in New Services Development and has a record of fostering the strategies and organizational changes necessary to achieve new and expanded lines of service business.