

Exemption Certificate Management

Organizing Principles and Leading Practices

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People, process and technology. There's a sound reason why these three organizing principles are inextricably linked within successful businesses. Managers who put the right people, process, and technology in place tend to build the best systems and post the best results. This holds true throughout all functions and business areas, including some of the messiest corners of the enterprise—such as the management of sales tax exemption certificates.

Twenty-five to 30 percent of audit penalties derive directly from ineffective management of exemption certificates, according to Vertex research. While this figure is painful for organizations to endure, it is also understandable because a number of factors, including decentralization and staffing shortages, routinely hinder exemption certificate management. Although audit assessments associated with exemption certificate mismanagement may be understandable, they are also avoidable.

By recognizing the problems that impede exemption certificate management—as well as the people, process, and technology practices that tax functions with leading exemption certificate management practices put in place—tax managers can clean up these practices and decrease their company's risk of incurring audit penalties.

The Problem

Every tax professional is familiar with the highly administrative activity of exemption certificate management. It is these innate qualities – familiarity and “highly administrative” – that cause significant problems in so many organizations where certificates are difficult to locate, out of date, or just plain missing. Relatively few companies dedicate a single tax professional to manage exemption certificates. And who can blame them? There is limited value to be gained from executing a highly administrative set of tasks. Collecting, storing, and tracking certificate expiration dates can be time-consuming, even with automation tools in place. Tax professionals are better deployed in higher-value work.

Additionally, as companies have grown more decentralized, the risk of misplacing or losing exemption certificates has increased. More than a few tax functions treat exemption certificate management with the same

rigor and discipline that the typical family applies to organizing their digital photos, junk drawers, garages and attics.

For their part, revenue-hungry tax jurisdictions are well-aware of the haphazard way that many tax functions manage their certificates. When audits arise, they thrust tax functions into reactive mode, disrupting normal processes and activities with pressing scavenger hunts for exemption certificates in numerous office locations.

Not surprisingly, tax departments that avoid certificate scavenger hunts—along with audit penalties for missing and invalid certificates – tend to have put the right people, process, and technology in place.

The People

From a people perspective, exemption certificate management requires communications and relationship-management skills. Tax departments that excel at exemption certificate management tend to assign oversight of the process to an individual with the right skill set.

Tax professionals responsible for exemption certificate management must communicate with customers to ensure that their exemption certificates are accurate, complete, and valid. This requires a careful touch as well as an understanding of how to manage the customer experience. An unpleasant conversation can result in a heightened audit risk or, worse, damage to a valuable customer relationship.

The Process

Tax departments with best-in-class exemption certificate management capabilities have also designed and implemented a standardized, ongoing process. This process includes steps for collecting certificates from new customers who are tax exempt (or existing customers who are newly tax exempt), validating the certificates collected, periodically reviewing expiration dates on current certificates, and collecting new certificates upon their expiration.

The ideal process also lays out how and where the certificates will be stored (i.e., not stashed in desk drawers, file cabinets, or on individual computers). The ideal storage solution for exemption certificates should be digital, centralized, secure, searchable, and highly organized.

The Technology

Given the information-heavy and time-sensitive nature of exemption certificate management, leading tax departments typically deploy some form of database technology to support their people and processes. In some cases, these tools not only provide certificate storage and access, but also offer automated validation of certain information fields (e.g., sending an alert if the entered certificate number format is incorrect), and automated communication to customers to replace expired certificates. These technology systems also offer easy search and download capabilities, online access, and automated audit reports; and the systems often integrate directly with tax calculation engines.

That said, the technology used to store and monitor certificates is not sufficient without the right people and manual processes in place, which is why it is important to keep in mind the following:

- The technology tool is of no value if the certificates initially loaded into the system are incomplete or invalid.
- Even if a technology tool is used to contact customers as their certificates expires, tax staff is still needed to visually validate each certificate before placing it into storage.
- Staff also must continue to reach out to customers who do not respond to certificate requests.

Supplement the Process With Services

That's why tax functions with leading exemption certificate management capabilities typically combine technology *and* services to develop a holistic solution. Technology tools store certificates, alert customers of certificate expiration, and provide routine access and reporting for audit. Additionally, outsourced services are often used at specific points in the process to take on large batches of certificate validation, and/or collection. These services can be utilized prior to setup of the technology system to prevent "garbage-in" problems. These services also can be contracted at other times when the need for large-scale validation or collection arises.

More Value, Less Administrative Burden

As is often the case, the right people, processes, and technology can greatly reduce the administrative burden—and the audit risk—of exemption certificate management. By avoiding those types of messes, tax departments have more time to focus on higher-value activities.

About Vertex

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