

7 Criteria for Hiring a Compliance Outsourcing Partner

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Because not all outsourcers are created equal, it is helpful for tax executives to treat the selection of a sales and use tax returns outsourcing provider as the equivalent of hiring a new employee. The same rigor applied to internal hiring can reduce the risks associated with hiring an outsourcing partner, and ensure that a company finds a reliable partner rather than settling for a lower-quality option or, worse, for what amounts to a collection of disjointed temp workers who process data.

This type of outsourcing vendor evaluation consists of many considerations, including scope of services, staff experience, communications skills, approach, reputation, and even location. The following discussion explores each of these criteria and provides some suggested questions a tax executive can pose to prospective providers.

1: Scope

Although sales and use tax returns outsourcing sounds like a fairly specialized offering, providers can vary greatly in the scope of services they offer. These variances can have a significant impact on a client's visibility and control of the returns process, its ability to pay tax authorities on time, and even its relationship with tax jurisdictions.

The returns process consists of preparing and filing returns, funds management, and the handling of notices and credits. Some returns outsourcers only handle returns processing. Other outsourcers may claim to handle the entire returns process while actually outsourcing part of the process, or failing to perform these activities in a truly integrated fashion. Returns providers who do not deliver an authentic end-to-end solution are more prone to miscommunications and hand-off issues that can result in late payments, penalties, or other errors resulting from poor control and weak accountability. When an outsourcer does not provide an integrated end-to-end solution, the buyer also must endure the hassle of dealing with multiple points of contact which is never a recipe for success.

Tax executives should carefully assess whether or not an outsourcer provides a true end-to-end returns service with a single point of contact, which represents the lowest-risk, highest benefit approach.

Useful scope-focused questions to ask prospective outsourcers include:

- + Do you handle all of the facets of returns processing, including preparing and filing returns, funds management, and the handling of notices and credits?
 - + Do you outsource any of the work?
 - + Will you provide a single point of contact for our company?
 - + How do you ensure that you perform these components in an integrated manner?
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2: Experience

Experience represents one of the most valuable qualities that outsourcers, or employees, bring to bear on their relationships with a company. With regard to outsourcers, experience applies to the firm itself (how many years the provider has amassed outsourcing sales and use tax returns) as well as to the tax experience of the individual returns preparers.

There is a marked difference between processing data and producing accurate returns. All clients send slightly different data formats and have different needs; and there's no handy "import data and print return" menu item for outsourcing staffers to click with a mouse. So, the preparer must be able to draw on experience to interpret the source data and correctly translate it to the return according to each jurisdiction's requirements. These requirements can vary dramatically for factors such as carry forwards, adjustments, credits, and prepayments. Even the most sophisticated software doesn't automate these decisions.

This experience level may not be evident in the turnaround time for returns preparation; however, clients will definitely feel pain downstream in the form of increased notices and audit penalties for incorrect returns if their returns preparer does not have the expertise necessary to interpret the data, tax rules, and jurisdictional requirements.

Useful experience-focused questions to ask prospective outsourcers include:

- + How long has your firm conducted sales and use tax returns outsourcing?
 - + How much, and what type of, tax experience do the individuals on the returns team have?
 - + What is your current rate of staff turnover?
 - + Do your returns preparers have the skills necessary to manage the data in an effective and efficient manner?
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3: Communications

Even the most experienced employees provide little value to the company if their communications skills are deficient. The same holds true for outsourcing providers.

Ideally, a provider will assign a dedicated point person (i.e., an account executive) to the client company. Tax executives may not hold daily conversations with this representative, but they should work with this partner to establish a regular reporting process – and they must be able to pick up the phone and reach this person any time a need arises. Continuity also is important. If the tax executive regularly has to educate a new point person, the outsourcing relationship likely will fall short.

Clarity and responsiveness are critical. Written and verbal communication skills should be excellent. Additionally, the outsourcer should also be able to point to a record of timely communications responses – to client companies as well as to all of the tax jurisdictions it works with on behalf of its clients.

Useful communications-focused questions to ask prospective outsourcers include:

- + Will you assign a resource – a dedicated account executive, for example – to our company?
 - + What is your record of responding to taxing jurisdictions swiftly?
 - + Are there any factors that might hamper your ability to communicate with us quickly and clearly?
 - + What types of reports do you provide? How often do you provide them? Can you share examples?
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4: Approach

Once new employees walk through the door on their first day, much of their success hinges on their drive and commitment to learning as much as possible about the company and department as quickly as possible. Probing this propensity marks a crucial hiring skill.

Similarly, tax executives should apply great effort to assessing a potential outsourcing provider's approach to learning their unique returns needs. The more an outsourcing provider knows about your industry, your company and your tax process, the more likely that provider is to deliver value.

Useful approach-focused questions to ask prospective outsourcers include:

- + How do you plan to get up to speed on our company's specific compliance needs?
 - + What experience do you have with the tax compliance regulations in our key jurisdictions?
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5: Reputation

Job candidates' reputations are based on the credibility they have built up over the course of their careers. The same holds for outsourcing providers. Tax executives should evaluate the outsourcer's reputation based on how long they have been in business, as well as the credibility and integrity they have established over the years with clients and tax jurisdictions alike.

An outsourcer that has cultivated a reputation for credibility and expertise through its work with tax jurisdictions is likely to reflect positively on its client companies (who share in that credibility). On the other hand, an outsourcing provider that lacks credibility can pose at least somewhat of a reputation risk for its client companies.

Useful reputation-focused questions to ask prospective outsourcers include:

- + What illustrations can you provide that demonstrate that tax authorities view your company as highly credible and reliable?
 - + How do you convey to your entire workforce the importance of maintaining a top-notch reputation in the eyes of customers and tax jurisdictions?
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6: Location

Where an outsourcing provider is located in relation to your company often influences how the outsourcer performs for your company. Working across time zones can pose challenges, for example. To be sure, location is not a major factor in every tax outsourcing relationship, but it should be a consideration that tax executives carefully evaluate during the selection process.

Useful location-focused questions to ask prospective outsourcers include:

- + How does your location vis-à-vis our location strengthen your service (proximity, time zone, language)?
 - + Are there special considerations related to your location that we should recognize?
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7: References

Few tax executives would hire a new employee without checking that candidate's references, and the same holds true when hiring an outsourcer. Any reputable outsourcer will be willing, and eager, to furnish a healthy list of references that operate in a variety of industries. When contacting tax executives at other companies, ask them about the provider's ability to perform to each of the preceding criteria described above.

Useful questions to ask references of prospective outsourcers (in addition to the above criteria) include:

- + How did the outsourcing provider respond to a problem that arose in your relationship?
 - + What impressed you about that response?
 - + What one of your outsourcing provider's service offerings would you like to see strengthened, and why?
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Each compliance outsourcing provider, like each employee, is unique: no two providers deliver the same quality of service over the lifetime of the relationship. That said, it can be difficult to distinguish best-in-class providers from average providers without a rigorous evaluation approach. A useful way to achieve that rigor is by looking at the relationship through a new lens. Don't think of them as outsourcers; think of them as an extension of your staff.

Vertex Sales & Use Tax Returns Outsourcing

Vertex Sales & Use Tax Returns Outsourcing is an end-to-end compliance outsourcing service which includes returns preparation, filing, payments, and notice management. The service manages compliance for U.S. and Canada. Each client is assigned an experienced returns preparer. A secure online portal provides client visibility to the status of returns, tax data archive, past returns archive, and reconciliation reports. All the work is done by experienced professionals in a Chicago-area facility, nothing is off-shored. The entire process is SOC 1 Type 2 audited to ensure quality and security.