Common Misconceptions About Outsourcing Returns

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As we talk to tax executives across the U.S. about sales and use tax returns outsourcing, we've found there are a number of misconceptions that prevent companies from considering this option. Following is a discussion of the ***Top 5 Myths About Outsourcing Returns***. Understanding the truth about the issues and the marketplace offerings will prove that returns outsourcing can be a valuable alternative for a tax department.

Myth #1: Outsourcing providers don't perform as well as in-house staff.

In the past, you could make a strong case for in-house returns preparation given the long tenure of many tax professionals and their accumulated knowledge of their organization's and industry's tax issues. Today, however, a snapshot of the tax department is quite different. Most tax departments have some employee turnover every year. And there are fewer professionals even entering the tax field. That reduction in subject matter expertise puts more pressure on the tax function. And those executives need to focus their attention on more strategic issues than sales tax returns processing.

A good outsourcing provider will have dedicated staff with proven tax expertise handling a company's returns. Their singular focus can make them even more efficient than in-house staff who can sometimes get pulled away on other projects. Additionally, many returns outsourcing providers have multiple clients in the same markets and industries so they build an understanding of the tax issues specific to those industries and jurisdictions.

Myth #2: Outsourcing is more expensive than keeping the returns function in-house.

Quite the contrary, our research tells us the number three reason that companies consider outsourcing is actually to reduce costs. Obviously, it depends on how you measure costs. Direct costs are easy to track – like tax department personnel, filing expenses, and time spent handling notices. But there are also indirect costs that aren't as clear cut – like the multitude of check requests and other Accounts Payable processes, not to mention potential audit penalties from errors. Also, there's the carrying cost of those errors. If exposure is created by an inexperienced preparer on staff, that has material impact years down the line. From a total cost perspective, Vertex customers have indicated that outsourcing returns is just as (or more) cost effective as in-house management of this process.

Myth #3: After outsourcing returns, it will become difficult to justify the tax department headcount.

This is often the most difficult challenge of outsourcing the returns process. But when tax executives look at their departments with a blank sheet of paper, most have no problem reallocating staff to higher value work, and demonstrating the increased value per staff hour. Some will present the staff reallocation plan along with the business case for returns outsourcing so these changes are seen as one and the same. And some companies have even launched training/educational programs concurrent with the move to returns outsourcing in order to provide a clear path for tax staff to higher value roles.

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Myth #4: Outsourcing reduces your control and visibility of the returns process.

Often, tax executives are concerned about losing visibility and control if they don't prepare (or at least review) every return. But effective reporting and continual communication can keep the tax executive in control without having to do all the manual work of returns processing. The outsourcing provider should provide a reconciliation by jurisdiction and by date, as well as trend analysis (including a rolling view of liabilities and payments by jurisdiction so they can see exceptions). Continual communication with the client can ensure the outsourcer becomes a valuable extension of the tax staff, and keep the tax executive in complete control.

Myth #5: All outsourcing providers offer the same thing, so just shop for the lowest price.

This is just not true. To ensure a successful outcome with a returns outsourcing provider, companies must understand what they're paying for. The biggest difference seems to be the steps beyond returns preparation. Does the outsourcing provider sign, file, and certify the returns or send them back to you to complete that step of the process? Do they manage payments to all tax jurisdictions? How do they manage funds? What security procedures are in place for your data and funds? What level of customer service do they provide? How quickly do they respond to inquiries? And what's the experience level of the returns preparers? Will you get dedicated staff on your account?

Don't be too quick to dismiss the idea of outsourcing returns. There's a host of details that can vary from provider to provider that will make a real difference. Companies must be sure to manage the RFP process carefully and thoughtfully. With the right provider it can yield significant benefits to your tax function.

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