10 Reasons Why Financial Software Can Lead To Companies Overpaying Sales Taxes

For companies doing business in multiple states, there can be a substantial risk of sales tax overpayment when strictly relying on financial software.

PHILADELPHIA, PA, USA, February 28, 2024 /EINPresswire.com/ -- Most companies use financial software today. Whether the software is proprietary or out-of-the-box, it is a very efficient means of keeping track of transactions, as well as managing financial reports and analysis. However, according to sales tax thought leader, Bill Flick, President & Founder of FM Cost Containment, "When it comes to accounting for sales taxes, our studies have shown that there can be a substantial risk of sales tax overpayment when strictly relying on financial software, especially if the company is doing business in multiple states.

> There are so many changes relating to sales taxes, that the pace of change makes it difficult for financial software to keep up; often causing significant refund opportunities due to overpayment."
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> *Bill Flick - President & Co-Founder FM Cost Containment*

Flick notes that the sales and use tax system, in the United States, is incredibly complex - there are over 10,000 jurisdictions in America that both do and don't charge sales and use taxes. Rates and details are continually changing, including tax payment responsibility from where the sale originates and where it's received. Said Flick, "There are so many changes relating to sales taxes, that the pace of activity often makes it difficult for financial software to keep up; often causing companies to overpay tens, if not hundreds of thousands of dollars each year."

Flick advises that it will be worthwhile for companies to take a second look at the sales taxes they pay, no matter what type of financial software they use. Flick lists 10 key reasons financial software can miss sales tax changes:

1) If financial software does not or is not updated frequently.
As states and municipalities struggle to fund budgets, they look for sources of income, especially through taxation. Once upon a time, taxes were changed once per year. These days, it can happen monthly. Many financial programs are only updated quarterly, semi-annually or annually, leaving inaccurate sales tax rates and rules in the software.

2) If financial software doesn't let customers adjust vendors' invoices once entered.
This may be a good control feature. However, if the vendor makes a mistake with the tax rate or category, it needs to be adjusted and a refund requested.


Bill Flick - Co-Founder & President FM Cost Containment

3) If financial software is not programmed properly for interstate abnormalities.
Although financial software is frequently programmed correctly for state sales and use taxes, it sometimes fails to adjust for doing business between states. For example, Pennsylvania does not charge sales tax on professional services where others do. How should a company adjust to be compliant and not overpay?

4) If financial software does not catch interim tax changes.
Unless the financial software team is following the activities of over 10,000 tax entities on a daily basis, it will most likely miss changes and updates to the latest tax laws.

5) If financial software automatically approves sales tax on invoices.
If financial software has no feature to flag sales tax errors and even make adjustments, companies will overpay.

6) If headquarters-office software overrides satellite-office invoice/tax approvals.
Sometimes the headquarters' financial software automatically adjusts the satellite office's invoice approvals, also leading to improperly paying the wrong sales tax rate.

7) If financial software does not allow for segmentation of an invoice to permit tax payment only where taxes are due.
In the Pennsylvania example above, if part of the purchase price includes professional services, they may not be taxable. Yet, often sales tax is applied on the total of an entire invoice. Software and/or managers must identify and adjust these issues.

8) If financial software is not properly determining the originating and receiving states of an invoice.

Sales tax liability depends on the location of the seller and the recipient. Financial software often does not flag nor adjust for location.

9) If back-office employees miss discrepancies.
Although financial management may be aware of many sales tax discrepancies, those back-office employees who handle vendor and sales tax items are often not aware, focused on or properly trained to catch tax errors.

10) When error becomes embedded in systems.
Sometimes human error gets embedded and repeated in policy or in computer programming that magnifies sales tax overpayments over time, invoices and categories of products.

Said Flick, "Financial software is a valuable tool, but companies, especially those that operate at a multi-state level, should be aware of its limitations. Often, by generating a second look, by those trained or focused on sales taxes, can reveal six and seven figure overpayments over several years that will be very helpful to the bottom line."

ABOUT FM COST CONTAINMENT
FM Cost Containment is one of the leading forensic tax recovery firms in the United States. FM specializes in tax confirmation and recovery of overpayments of taxes, as well as tax audit defense, utilizing proprietary research and knowledge of little-known technicalities in the tax laws of each of the 50 states, including over 10,000 tax entities throughout the nation. Headquartered in the Philadelphia Metropolitan Area, FM Cost Containment provides services throughout the U.S.

FM Cost Containment, LLC
40 Lloyd Ave.
Suite 308
Malvern, PA 19355

Phone: 484-580-8907
Website: https://www.fmcostcontainment.com
LinkedIn: https://www.linkedin.com/company/fm-cost-containment
Twitter: @FMCostContain
YouTube: https://www.youtube.com/@FMCostContainment

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Leo Levinson
GroupLevinson Public Relations
+1 215-545-4600

leo@grouplevinson.com
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