



Why
NEXUS is the
NEXT BIG THING
FOR FIRMS

Your **how-to guide** on starting nexus sales and use tax study services.



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WHY NEXUS IS THE NEXT BIG THING FOR FIRMS

Your how-to guide on starting nexus study services – the stepping stone to recurring revenue.

The traditional business model, that is brick and mortar-based business, is no longer the norm. The explosion of online companies has changed the game tremendously – enabling anyone with a computer and an internet connection to launch an enterprise. Online giants like Amazon have paved the way for web-savvy entrepreneurs while also playing a big part in the explosion of complex nexus regulations as states looked to collect their fair share of taxes.

Businesses that sell goods or services online are obligated to collect and pay sales tax, and even income tax, in certain states – depending on a state's definition of nexus. In brief, nexus is "the minimum level of business activity or connection with a state that results in a business being subject to taxation." Adding to the chaos, depending on the state, nexus-creating activity can be determined by a multitude of elements, such as volume of sales, physical presence (facility), and human presence (sales agents). The complexity of nexus tends to leave most business owners confused and at high risk for non-compliance.

Why Should You Care About Nexus?

Nexus is a concept that many of today's business owners don't understand. The confusion around nexus – what it means, the tax implications, and overall compliance – represents an enormous opportunity for firms looking to expand their advisor role with existing clients and add a new and recurring revenue stream.

In many cases, in fact, conducting a nexus study marks the impetus for a stream of long-term, high-value services including annual nexus "checkups", sales and use tax, and income tax filing. **And with each new service offering, you further cement your place as your clients' most trusted advisor.**

"We had a firm that performed nexus studies on multiple clients and identified five clients that should be filing in five additional states – not only for sales tax, but also income tax. These findings resulted in an additional \$2,500 per client to file returns – adding \$12.5k in annual revenue because the firm conducted nexus studies."

ANDREW H. JOHNSON, CPA
Peisner Johnson & Company, LLP

BEYOND THE LURE OF ADDITIONAL REVENUE

THERE ARE SEVERAL REASONS WHY FIRMS SHOULD CARE ABOUT NEXUS.

Those that deeply understand nexus are better positioned to:

1. **Retain existing clients** who may otherwise defect to a competitor firm that does offer state tax services.
2. **Bring in additional clients** via a service designed to mitigate tax penalties.
3. **Stay ahead of client questions** regarding nexus and the implications to their business.
4. **Extend client work year round** as nexus opens the door to added services throughout the year.
5. **Protect your firm** by alerting clients proactively to potential sales tax issues.



“Clients expect their CPA to know everything. So even if the firm doesn’t provide sales and use tax services, if all of a sudden a client has a sales tax issue, they sometimes come back and point the finger at their CPA and ask why the CPA didn’t inform them of the risk. By conducting a nexus study, firms can provide clients with information on potential sales tax issues up front.”

MICHAEL J. FLEMING, Director
Peisner Johnson & Company, LLP

WHAT IS NEXUS AND WHAT IS THE PROBLEM?

As with any new service, firms must first understand nexus and the implications on businesses. With a deeper understanding comes the realization of value to both the firm and its clients.

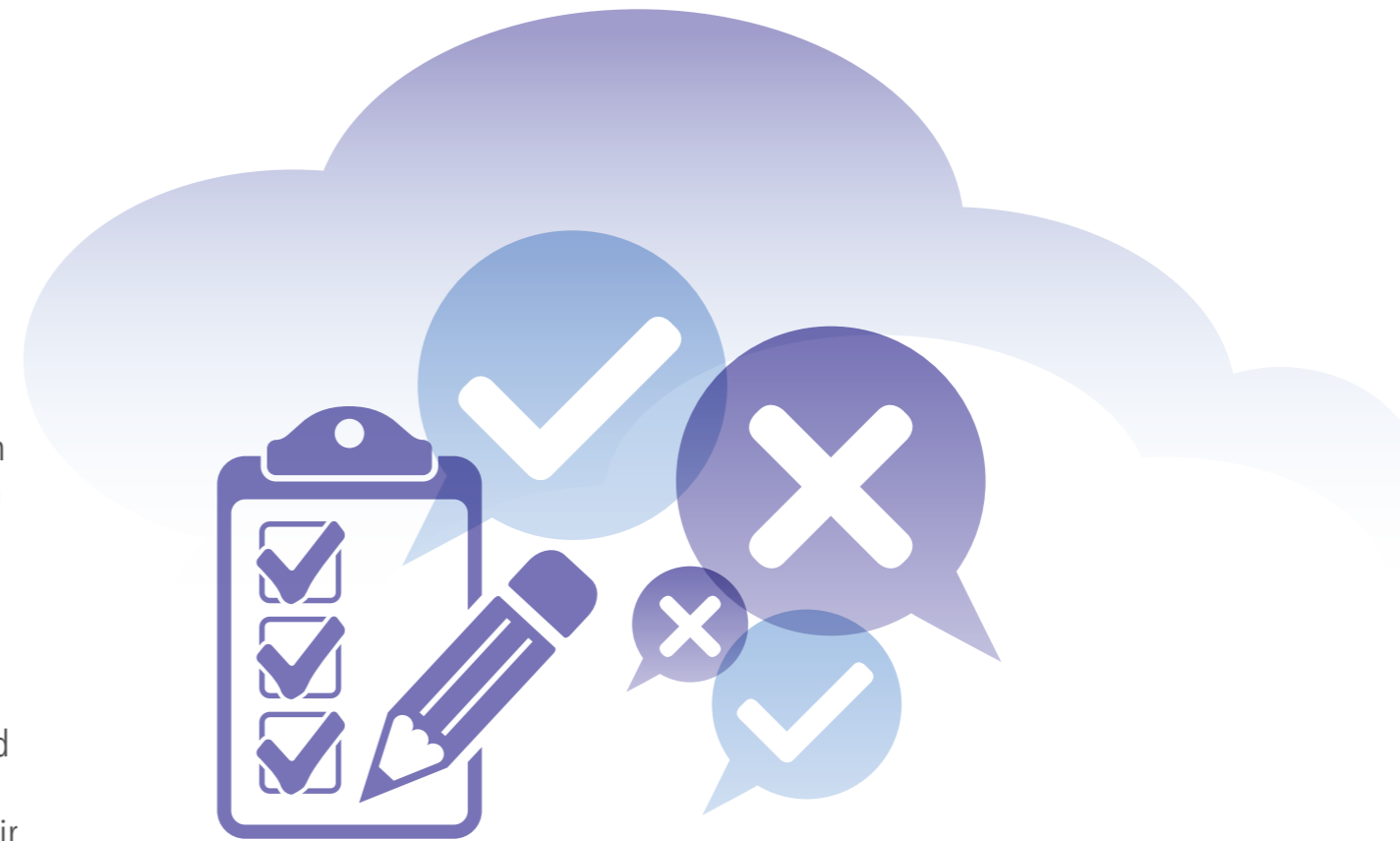
So, first things first: What is nexus?

In simplest terms, nexus is that minimum level of business activity or connection with a state that will result in a business being subject to taxation in a state. With the ease of selling across state lines thanks to the internet and online retail sites like Amazon, there are more businesses today than ever involved in interstate commerce. And where there are interstate sales, there are sales taxes to be collected and paid.

The biggest problem with nexus is that most companies simply don't understand it, nor can they begin to keep up with state-by-state regulations on what constitutes "nexus-creating" activity. Only when a business fully understands their nexus obligations and filing responsibilities can they protect themselves from non-compliance penalties and sales tax audits. So if lack of understanding is the core issue, then what is the solution?

The simple answer is: You.

Because clients look to their CPAs for answers about everything from entity selection to sales tax, it makes sense that firms position themselves as a nexus resource. The best, and very lucrative way to accomplish this, is **by offering a nexus study.**



What is a Nexus Study?

With the primary goal of minimizing risk and bringing taxpayers into compliance, a nexus study constitutes review of a business' relevant facts and circumstances, as well as an interview of company personnel to identify any and all connections a company has in each state. Results are then collected and presented to clients, offering deep insight into nexus obligations and potential exposure. For example, obligations may include filing of state sales tax returns; income, franchise or gross receipts tax returns; and additional state withholding or property tax returns.

5 FUNDAMENTALS OF A NEXUS STUDY



1. DISCOVERY & DIAGNOSTIC

During the discovery phase, gather information from your client based on a series of questions that will help identify all business activities taking place in all states where the client conducts business. Use this information to assess the exposure of sales and use tax via a diagnostic study, where the client provides important information such as:

- Current sales tax returns filed in each state
- Why their company is filing state income, franchise, or gross receipts tax returns in these states, but not sales tax
- Why their company is filing withholding tax returns in a state but not sales tax or income tax returns

The diagnostic study offers clients a high-level report showing potential state-by-state nexus obligations. Indications of nexus-creating activity means clients should move to the next billable phase.



2. NEXUS SURVEY

Based on information from the diagnostic study, the client completes a detailed survey of activity within each state where they may have nexus. Because the first place states look to determine nexus is a company's website, be sure to verify data facts offered by the client by conducting a thorough review of their website—looking for such nexus-creating terms as onsite installation services, repair services, and warranty services.

5 FUNDAMENTALS OF A NEXUS STUDY



3. NEXUS REPORT

From the survey information, create a full report that identifies all states where the client has potential exposure. Gather data from the client to estimate the level of potential exposure, which generally includes tax, interest, late filing fees and non-filer negligence penalties.



4. CLIENT MEETING

In this meeting, review the Nexus Report with the client, explaining where the client may have nexus-creating activities, the states where clients should be filing tax returns, and the potential risk for non-compliance. Provide an estimate of risk for failure to file returns in both the current and prior periods. In general, failure to file a return in a state does not toll the statute of limitations.



5. FOLLOW-UP ACTION PLAN

This plan outlines actions required by the client, such as addressing past risk through a Voluntary Disclosure Agreement with a taxing jurisdiction, getting registered for sales and income tax in identified states, payment of back taxes if any, and other required actions to ensure compliance. It is extremely important for the client to understand the risks of conducting business activities in a state and not filing the required returns. At this point, firms can introduce a solution for automating sales and use tax, if appropriate.

NEXUS SUCCESS STORY

Nexus study services are proving immensely valuable to both firms and their clients. The following story represents an example of nexus study success.

SALE OF BUSINESS UNCOVERS MASSIVE LIABILITY

*During the process of selling a manufacturing business, a due-diligence review of financials uncovered major sales and use tax issues. Exposure issues caused purchasers to cut their offer in half – creating a reserve fund for future potential liabilities. The seller was understandably upset with his CPA firm for not identifying sales and use tax exposure earlier. Upon review by a third-party CPA firm experienced in nexus, reviewers found that use of independent sales reps was a well-settled nexus creating activity, and that taxes were likely due by the owner. However, a thorough nexus study allowed the third-party firm to come up with a plan for resolution, which included a combination of Voluntary Disclosure Agreements, a variety of amnesty programs, and a customer contact plan. **The plan ultimately resulted in a large reduction in taxes owed – from \$15M to \$1M – resolving the issues with the purchaser, saving the deal for***



CONCLUSION

As more companies continue to sell products and services both onsite and online, states will only accelerate efforts to collect their share of taxes, and that means added complexity to nexus rules. Firms that wish to add a new and highly valuable service line will want to consider a nexus study option. Nexus represents a big opportunity to enhance your advisor role and retain existing clients. It is also an excellent “stepping stone” service – leading to a line of recurring revenue options such as annual nexus checkups, sales and use tax, and multi-state income tax work.

NEXUS IS THE NEXT BIG THING.

Firms looking to enrich the client service experience would be wise

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About Vertex SMB

Vertex SMB, a business division of Vertex Inc., helps automate sales and use tax compliance for small to medium-sized businesses. By enabling calculations and returns in a single, cloud-based solution, offering flexible service levels and featuring attractive pay-as-you go pricing with no upfront fees, Vertex SMB meets the sales and use tax automation needs of growing businesses.

About the Contributors


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