Use Tax Compliance Teleconference

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I. Overview

A. Georgia-Pacific has historically been decentralized with local procurement and manual tax decisions

B. Company started to move toward decentralization in 1995 with creation of two shared-service centers for AP and AR processing

1) Also bolted on Vertex to main ERP to automate tax-handling

2) Customized tax functionality of AP mod and external PO system, integrated and trained

C. In past two to three years, company has taken further centralization steps

1) Hired chief procurement officer, whose mission is to centralize, including having all procurement people (regardless of location) report to him

a) Formerly, local procurement reported to local management

2) Simultaneously, company embarked on a major "procurement to pay" initiative

a) Six-year, multimillion-dollar effort of process/system improvement

D. Tax Department is part of and active in the procurement to pay team

1) We maintain excellent relationships in corporate and the field by being accessible, monitoring their accruals, spending capital for tax advantages, managing (doing) audits with typically good results

2) Refunds/credits go to the operations

3) Field visits – We've met resistance going in but hugs upon departure

E. Tax Department also developed a “tax data warehouse” six years ago

1) We pull all spend and sales data into the system and utilize for returns, audits, management reporting

2) We also built a custom extraction routine to feed Insource for the return preparation

3) We extract spend by “receiving location,” not GL account, since the incidence of tax is based, for our purposes, on where goods/services are received and not on the account that is charged

F. Highlights

1) Direct pay: We have about 85 of our 300 domestic facilities with DPPs. We favor where we can get them

2) Procurement cards – We have all domestic locations on a P-card program, or about 2000 cards. We modified a CitiBank program to allow for “Tax codes”

a) Requires user input of tax for Type I transactions (often, that is neglected)

3) ERS (evaluated receipts settlement): P2P initiative favors it, but it’s tough since 75% of locations are not and cannot be DP

4) Single rate agreements – Only one for P-card purchases to a mill in ME we just sold

5) Procurement company – Are considering one now, primarily due to above direction

6) Audit findings/overpayments – Sometimes netted with state finds, sometimes a refund check, sometimes a credit against future returns

II. Systems

A. Now have three ERPs, due to acquisitions and business operation autonomy in system preference

1) G-P has several PO systems feeding the procurement modules; integration thus is beset with challenges

a) E.g. use tax error in Indus Passport AP, correction JE’d to SAP GL; very difficult audit trail

B. Infinium (now SSA Global, was Software 2000 in the 1990s)

1) Our flagship system, with Vertex use tax module fully integrated

2) Used for our packaging and BP manufacturing plants

3) Created a "location jurisdiction record" to identify location (interfaces to Geocoder), TDM, use tax account, tolerance, direct pay, origin rule, freight and term discount rules, etc.

4) Customized TDM → product codes are expenditure expense or b/s accounts, with use codes by state

a) Users just have to pick "use," not taxability

5) Validation routine → verify vendor tax, pay or short pay and/or accrue use tax without user interference

C. SAP – Were using for HRIT and sales/order entry for cons. products; acquired Fort James in 2000, enterprise-wide platform for all their businesses (towel/tissue, Dixie)

1) No bolt-on yet, internal tax functionality

2) Users must make taxability decision

3) Insufficient for origin, freight and discount rules

4) Pursuing a tax package; have been evaluating and proposing investment proposal for a couple years

5) Have not been successful pulling detail transaction records into the TDW

D. Indus Passport – Maintenance/stores system, primarily MRO; now using AP module, posting in summary to SAP GL

1) Basically internal functionality, since the program does not have an API for a tax package

2) Customized "tax composites" to identify "use" for user selection

a) Do not use the "Taxable Indicator" to require user taxability determination

3) Have not been successful pulling detail transaction records into the TDW (we think we are within weeks of doing so, after four years)

III. Tax Initiatives

A. Monthly review of use tax accruals >$250, prior to return processing

B. Reverse audit, either in conjunction with state audit or as separate initiative

1) Easy for locations on Infinium, with detailed spend records in TDW

C. Training SAO on tax-handling

D. Conversions – Keeping up with rollouts, changes, acquisitions and even divestitures with provisions for ongoing processing on our AP systems

IV. Major Challenges

A. SAP (and Indus): Improve internal verification routine for users, so that no differentiation between "accrue use tax" or "pay tax to vendor" is necessary

1) Simply taxable vs. exempt, with validation algorithm, can expedite efficiently – No vendor nexus determination required

2) Getting Indus to improve internal tax functionality (origin rule, freight, discount) in the short-term, while trying to convince them to build an API to a tax package long-term

V. More Challenges

A. P-card: Only 20% of merchants sending the tax amount separately from the transaction amount

1) Users not reviewing receipts to enter, nor are they willing to take the time to choose a tax code

2) Excess/unwarranted use tax accrued

B. OCR (optical character recognition) with imaging: Not working well for tax, key entry folks selecting "receiving location" and "use" improperly

C. ERS – In the absence of a DP for states that tax parts

D. Vendors treating us by location as exempt or taxable instead of by purchase, or purchase line

VI. Audit Experience

A. Mississippi: Tough audits and a major hit

1) Contractor >$10K – We'd apply by like-job in a 12 month period; auditors looking for same job at same time

B. Texas: One extremely good, one fine, one miserable; it all depends on the auditor

1) Avoid the Tyler office if possible; Austin is okay

a) Intra-plant transportation – Not allowing for infeed/outfeed

b) Finished goods storage – was really WiP

C. All states – Struggle providing valid resale certificate. Big hits

VII. **Note:** On sales, we do not have a centralized billing platform nor a sales tax engine. We are trying to centralize the resale certificate process, handling and electronically capturing. Due to lack of an engine, we are behind the eight ball for handling ERS for non-DP locations' vendors with nexus and cannot compute the sales tax obligation