CereTax - For Purchases (P2P)

White Paper - A Multifaceted Solution

Overview:

"CereTax" is a comprehensive sales and use tax engine for sales and purchases transactions. For purchase transactions it has a variety of alternative uses as a data analytics tool to identify errors related to consumer's use tax, and sales tax paid to vendors on purchase transactions. Errors are identified at the transaction line distribution level through a unique "multidimensional rules engine". Rules are configured based on a sample set of procurement data from a company's procure-to-pay financial applications. The rules effectively and accurately categorize transactions. These rules are mapped to Product/Service ("PS") Codes and processed against a tax calculation engine to independently calculate the correct tax. The CereTax calculated tax is compared to the actual tax paid to produce a series of variance reports that show the magnitude of over, or underpaid tax.

The results of CereTax can be used in variety of ways, including;

- Sales & Use tax (SUT) diagnostic assessments
- SUT engine implementation and/or optimization
- Reverse SUT audits
- Managed SUT audits
- Monthly Batch Processing

Sales & Use Tax (SUT) Diagnostic Assessments:
Regardless of a company's front end procurement process for determining and calculating tax on purchase transactions, CereTax can be leveraged to assess variances between the original tax paid or accrued and the correct tax per CereTax. Many times a company simply does not have enough visibility into tax paid on purchase transactions in a timely manner. CereTax provides a tool that can capture and combine data from multiple data sources and efficiently calculate tax variances (errors). The results of the diagnostic assessment provide visibility to variances to allow a company to make strategic decisions regarding historical remediation (i.e. refunds, vendor credits, deficiency accruals, etc.). More importantly, the results should also be leveraged to optimize current processes to prevent errors from occurring prospectively (i.e. tax engine implementation and/or optimization, procurement process improvements for SUT, or CereTax monthly processing).

Tax Engine Implementation and/or Optimization:
Purchase-side tax determination poses unique problems relative to the implementation of third-party transaction tax calculation engines (Vertex, Thomson Reuters/Indirect, Avalara, etc.). Most of the time, these solutions are implemented using real time integration methods which use standard tax interfaces, or API's. Without significant customization, this integration approach may not pass enough information from the host procurement systems to the tax engines to accurately derive taxability. In addition, these solutions are "exception-based" tax engines. This means that every transaction passed to the engine is considered taxable unless there is a specific configuration which maps the transaction to a non-taxable, or exempt product code. The tendency is to create an overpaid situation.

CereTax provides visibility into the varying transaction scenarios that need to be accounted for during tax engine configurations. Use CereTax to drive business and tax requirements during an implementation. The result is a much more representative tax engine configuration with far fewer errors. CereTax can help a company that already has a tax engine in place to identify where errors are occurring and determine the magnitude of those errors. CereTax effectively creates a roadmap to what is causing the errors so that measures can be taken to improve the frontend process, customize the integration, optimize the tax engine configuration, or a combination of all these options. In some cases, companies have elected to subscribe to the CereTax as a monthly service in order to manage their tax engine configurations more effectively and proactively.

Reverse SUT Audits and Managed Audits:

Using CereTax, Sales and Use Tax Refund Review processes become more methodical. Designed not only to quickly identify tax determination errors at the transaction level, but more importantly reveal the cause of the error. Our goals are to **identify errors**, **recover overpaid tax**, **highlight audit exposure**, and translate those results into an **effective and proactive long term solution**.   The approach leverages CereTax, giving us the ability to conduct an extremely accurate and efficient review with less interruption to the company's business activities. This "**automated approach**" enables us to review large amounts of data quickly and efficiently.

We start our review with a representative sample of procurement related data (primarily purchasing and accounts payable). The sampling method can vary based on overall transaction volume, but is usually a time period sample or a dollar stratified random transaction sample. After the sample data is imported into the system, we "configure" the situsing and tax policy rules. These rules are a representation of the "nature of the transactions" extracted. The rules are based on various combinations of data elements (defined as "tax policy drivers") from the sample data arranged in a specific sequence. The tax policy rules are then mapped to taxability content.

A distinguishing characteristic of CereTax's rule structure involves combining the use of "**objective**" and "**subjective**" **taxability drivers,** associated with driver-specific **operators**. This unique functionality drives out front end "coding errors", which can cause taxability errors – especially in an automated

environment. For example, exempt computer software miscoded to an office supplies account can have a mapping override if the invoice line description "contains" (operator) the word software. The subjective taxability driver in this example would be the invoice line description.

Our sample review is complete when all transactions in the sample have been mapped to a corresponding tax policy rule. The results produce variances between the amount of tax paid – either to vendors, or self-assessed use tax – and the correct amount of tax per the tax policy rules. After the sample results are evaluated, a decision is made whether to process the entire population against the rule structure. Essentially the result is 100% review of all transactions within the open statute periods. The antiquated methods of "picking the low hanging fruit" are no longer applicable. With CereTax and our automated approach, no tax amount will be too small to review thereby maximizing refund potential. More importantly, **the resulting tax policy rule structure provides a blueprint of requirements for a long term solution reducing the likelihood of errors resulting in overpayment and underpayment of tax going forward**. In addition, our automated approach allows us to analyze data in various other ways including duplicate tax and vendor payments, and variances due to situsing errors.

Monthly CereTax Batch Processing:
CereTax is also offered as a monthly batch process service. Whether a company has a third-party tax engine already in place, or not, CereTax is used to identify errors at the transaction level in the current reporting period. This works as a batch process where daily,

weekly, or monthly data files are imported for analysis. The file transfer and import is an automated process with reconciliation controls in place. Once the data is processed through the CereTax rules engine, company tax professionals review the results for consistency and correctness. Company tax resources also identify any exceptions that occur. Exceptions are any transactions that did not map to a situsing or tax policy rule. New rules are configured based on the nature of those exceptions. The result is a series of variance reports that show all the errors within the batch or period. The client can manage the variances by either posting them to the GL as their use tax accrual, or leaving the variance open for a vendor credit/refund, or audit offset. Another way to look at this service is a proactive monthly managed audit where 100% of the transactions are reviewed through an automated service each month.

For inquiries, or to arrange for a demonstration of CereTax, please contact:

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