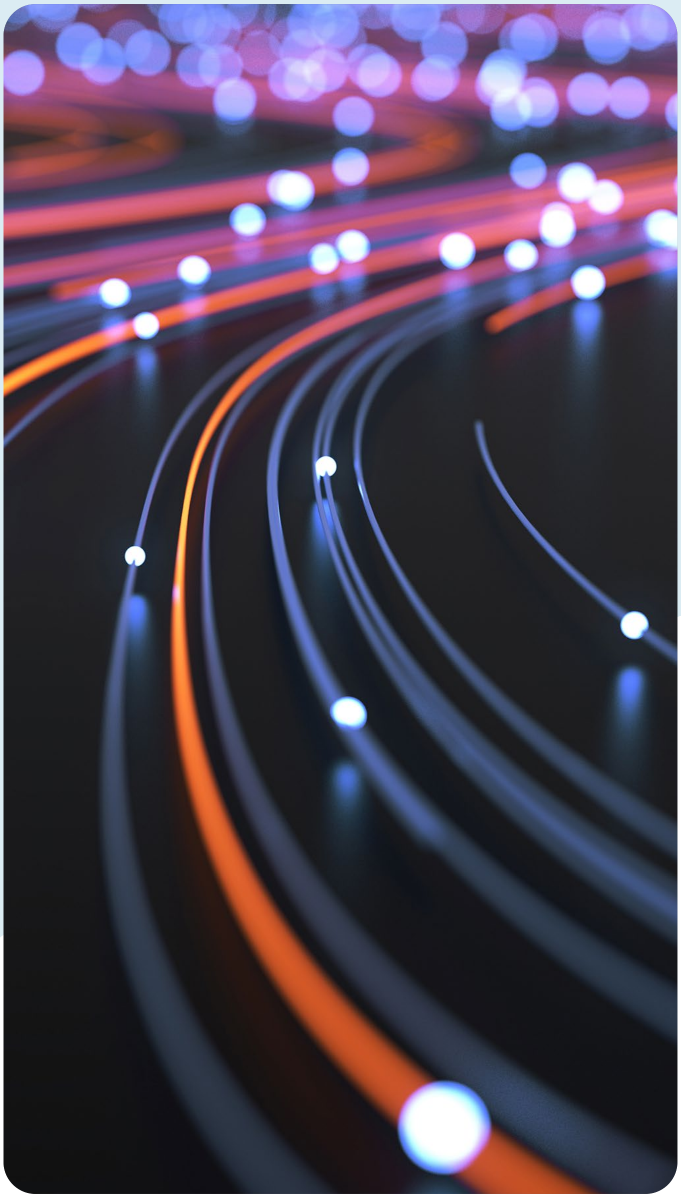
Addressing Technology Companies' Sales Tax Exposure in the Acquisition Process



Many technology companies – in particular those classified as Software as a Service (SaaS) – overlook sales tax obligations which, if left unaddressed, can quickly escalate into financial peril. Unidentified tax obligations create large liabilities that are expensive to clean up. Most importantly, one of the biggest roadblocks to a successful acquisition is sales tax. Buyers see red flags with companies carrying tax exposure. The worth of the selling company is often devalued because the buyer withholds funds to cover these expenses.

See how Cherry Bekaert's sales tax team helped two technology companies identify and address their sales tax obligations at different points of the acquisition process.

Reduction in Sales Tax Exposure Paves Way for Acquisition

Situation

A software company for the healthcare industry was going through the due diligence for an upcoming acquisition and uncovered a significant sales tax exposure of uncollected sales tax. Leadership was concerned that these liabilities would jeopardize the acquisition.

Guidance

Cherry Bekaert's sales tax team conducted a nexus review to identify in which states the company had established nexus, via both physical and economic presence. The team researched contracts to determine taxability of the goods and services and prepared an exposure estimate resulting in more than $1.5 million of uncollected tax. Cherry Bekaert conducted extensive customer outreach to yield favorable results, and remaining liabilities were remediated through Voluntary Disclosure Agreements (VDAs) with several states.

Results

Cherry Bekaert successfully reduced the software company's sales tax exposure from $1.5 million to less than $100,000. By remediating this exposure in a timely fashion, Cherry Bekaert helped clear the way to finalize the acquisition.

Tech Company Combats Significant Liabilities to Becomes Sales Tax Compliant

Situation

A SaaS company inherited significant tax exposure issues as a result of an acquisition. The due diligence process uncovered tax liabilities in several states where the recently acquired business was not registered or collecting sales tax. Funds were placed in escrow at the time of acquisition to remediate this exposure. Unfortunately, the buyer delayed rectifying the problem and tax liabilities increased at the buyer's expense. Cherry Bekaert's tax professionals recognized the magnitude of the tax liability, including back taxes plus penalties and interest owed to multiple states, and recommended that the company seek guidance from our sales tax team.

Guidance

Cherry Bekaert's sales tax team analyzed the company's situation and recommended a series of steps to reduce the tax liabilities and limit future exposure. The team managed 15 VDAs with states to reduce the most substantial tax exposure. In other states, Cherry Bekaert completed historical registration and filed back tax returns to remediate past tax exposure.

The company, which uses Avalara's AvaTax for rate calculation and return filing, needed the tax engine to be configured to reflect the additional state obligations. Cherry Bekaert's sales tax team, which is an Avalara Certified Implementation Partner, helped the company adjust its Avalara account, assisted with Product Tax Code mapping, and updated its tax compliance calendar.

Results

Today, the SaaS company is sales tax compliant. It collects and remits sales tax using the Avalara automated software, and it has honored VDA agreements and eliminated the past tax exposure.

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