



ARE MERCHANTS THE MOST EFFECTIVE COLLECTORS OF SALES TAX?

Sales tax is typically applied to transactions for tangible goods and certain services that occur between a merchant and a consumer. Merchants act as agents of state government collecting sales tax from consumers and remitting payments to the proper taxing authority. Merchants are in effect involuntarily conscripted tax collectors gaining no benefit for fulfilling the role. As tax collectors merchants are required to collect sales tax at the prescribed rates, segregate sales tax funds into a separate account, file a tax return, and pay all collected tax funds by a certain date and they bare 100% of the risk and responsibility for non-compliance or mistakes. Penalties for infractions are severe and can negatively affect the bottom line of a business. In the worst cases, non-payment can result in confiscation of assets and/or closure of a business as well as criminal prosecution. In short, merchants have a fiduciary responsibility to collect sales tax, hold it harmless and secure and remit it on-time and they are personally liable for any unpaid sales tax.

The current system is inefficient, cumbersome and antiquated with merchants being the weak link between the collection of sales tax and the payment of sales tax to state. The end result of this weakness is billions of dollars of sales tax revenue go uncollected while states spend millions of dollars chasing non-compliant merchants. The currently system is clearly inefficient and broken.

The current system would be vastly improved if merchants were only responsible for collecting sales tax from consumers and NOT responsible for segregating sales tax funds and payment to the state. New technologies offer states the ability to do this. By limiting the merchant's role to simply collecting sales tax from consumers and removing their responsibility to hold sales tax secure and remit it on-time, states will see an increase in sales tax revenue and merchant compliance. At the same time a simplified, efficient process would reduce state's cost of chasing non-compliant merchants, a win-win for both states and merchants.

As previously mentioned, the technology exists to limit merchants' responsibility to just the collection of sales tax. Sales data from the merchant's point of sale ("POS") can provide a third party tax service the data required to impound sales tax revenue daily and make payments to the state, efficiently and securely. This technology enables the sales tax compliance to be outsourced and managed in an automated, seamless and secure process at little or no cost to the merchant. The result will be near 100% compliance of remittance of sales tax collections.

Using the sales data directly from a merchant's POS system and the electronic funds transfer networks ("EFT networks"), which includes the card processing and ACH networks, it is possible

to determine the exact amount of sales tax collected for a given period, (usually one day) and impound these funds by splitting off the sales tax owed to the state during the settlement process. Segregated sales tax funds are placed in a secure escrow account for payment to state governments on the proscribed date or may be paid on a daily basis. Daily payment of taxes compresses the current 30 or 90 day sales tax cycle to 24 hours increasing cash flow to states.

The benefits to a system such as this are numerous.

1. Increased compliance through an efficient, automated system.
2. Increased tax revenue from to the greater compliance.
3. Daily remittance of sales tax funds to states, enhancing cash flow and the present value of money.
4. Transfer of liability away from the merchant in most every case except fraud.
5. Remove the merchants' responsibility of filing and paying.
6. Decrease state expense for merchant compliance or filing and paying.

Merchants are not effective sales tax agents and outsourcing sales tax to a third party vastly increases efficiency while reducing costs creating a win-win for both merchants and states.

DAVO TECHNOLOGIES: INTEGRATED SALES TAX SOLUTIONS