

A MODERN APPROACH TO COMPLEX STATE AND LOCAL TAX COMPLIANCE LEVERAGING TECHNOLOGY

A holistic view on how to harness technology for SALT compliance

November 21, 2023

With you today



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Agenda


Topic	Duration
Corporate SALT compliance	20 minutes
Utilizing technology in NEXUS studies	20 minutes
Partnership SALT compliance	20 minutes

Learning objectives

- Identify how embracing technology can shift compliance from excel and emails to a single visually collaborative project management platform
- Demonstrate there is not a target deadline for tax compliance but a year-round relationship
- Explain how to utilize technology to generate efficiencies, mitigate risk, create customization based on reviewer, and document future opportunities
- Discuss how state and local tax compliance technology can be aligned to reduce rework

Corporate SALT compliance

Current state for many taxpayers:

-  Not a focus for company
- Always at the end
- Updates every time Federal changes
- Manually input everything
- SEVERAL excel workpapers to tie out returns and for audit support
- Files saved in shared folder with little organization and preparers often having copies on their desktop
- Information gathering check list in excel or none at all
- Review points go back and forth via email
- Forget about any identified opportunities or risks








Where do we want to be:

- Year-round focus
- APIs to update federal items opposed to manual
- Import everything possible
- Limited excel workpapers or even web based workpapers
- Comprehensive management platform to visually see where everything is at all times
- Review points everyone can access
- Visual records of opportunities, risks, and plans on how to address

State corporate tax is a year-round engagement

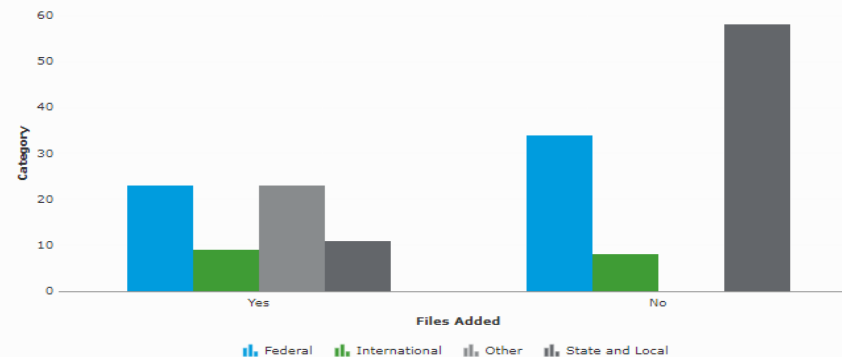
Constant activities

1. State notices
2. State provisions
3. Estimates/extensions
4. State audits
5. State amended returns
6. State opportunity implementations
7. State entity rationalization
8. State credit applications
9. And many more

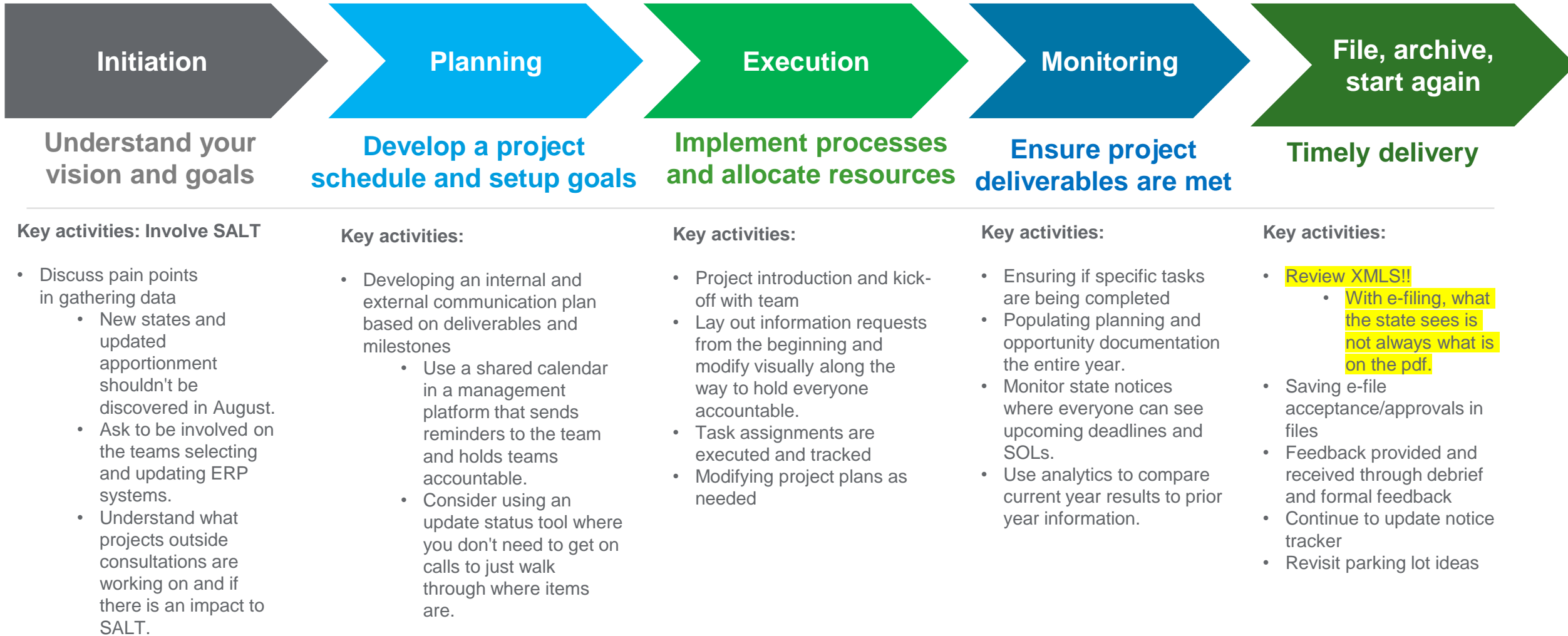
Activity	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT
 Kick-off	█											
 Planning meeting and recurring monthly meetings	█	█	█	█	█	█	█	█	█	█	█	█
 Transition (including staffing, OIT setup, Alteryx workflows, Workpapers redesign)	█	█	█	█								
 Federal tax return preparation							█	█	█	█		
 US International tax filings preparation								█	█	█		
 State and local tax return preparation									█	█	█	█
 File tax returns											█	█

Return Dashboard

PBC Information Request Status



Corporate annual return state tax process



Corporate state tax overview

Data management

1. Gather

Gather source data including state apportionment, state depreciation and state payment details

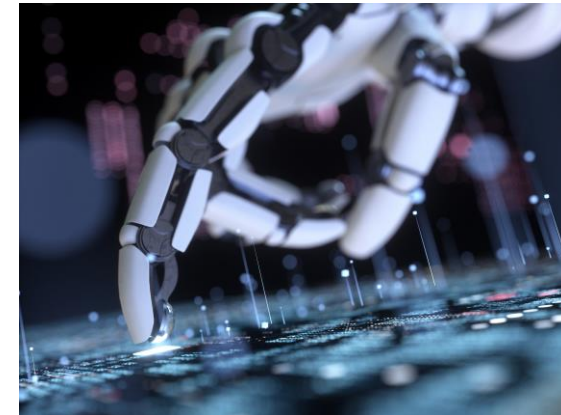


Data transformation

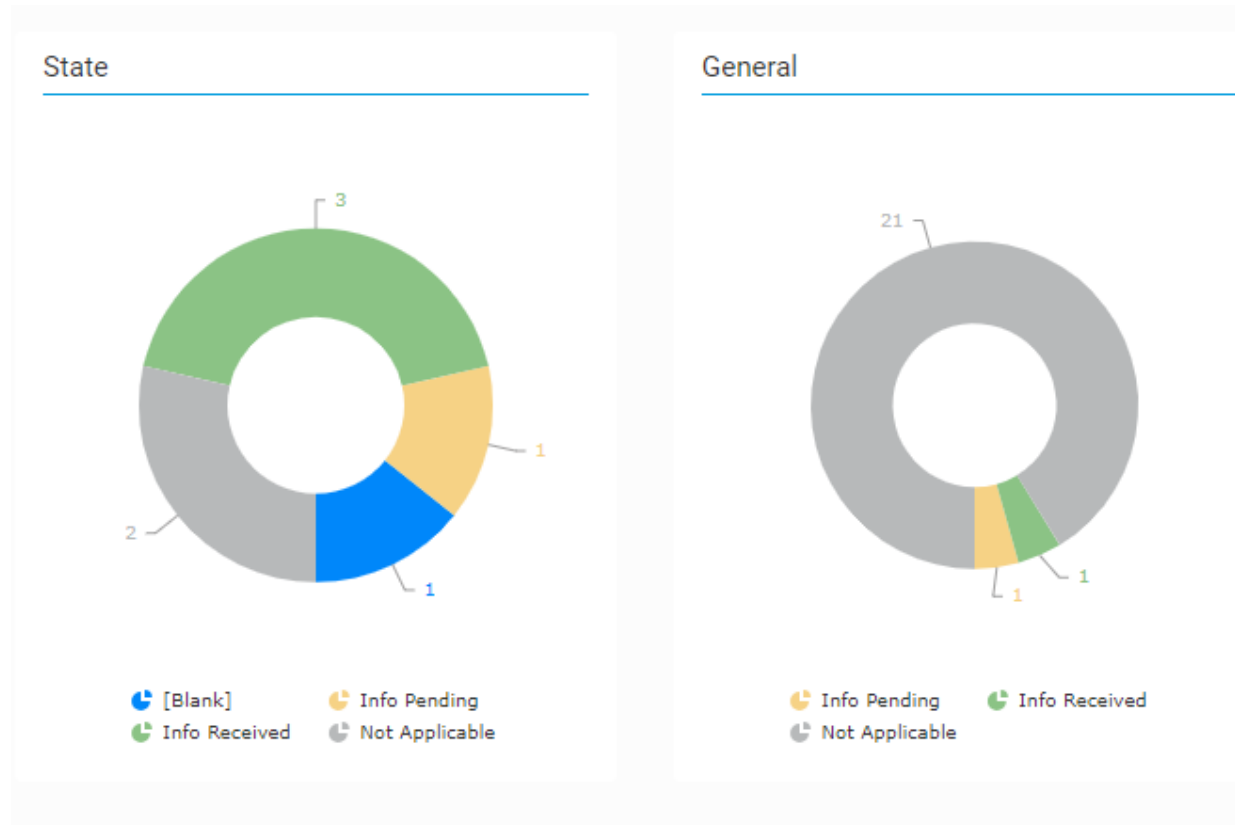
2. Transform

Utilize **data transformation tools** to analyze source data and transform it into a format to import into tax software

Tools such as Alteryx can consolidate data sources and apply repeatable business rules



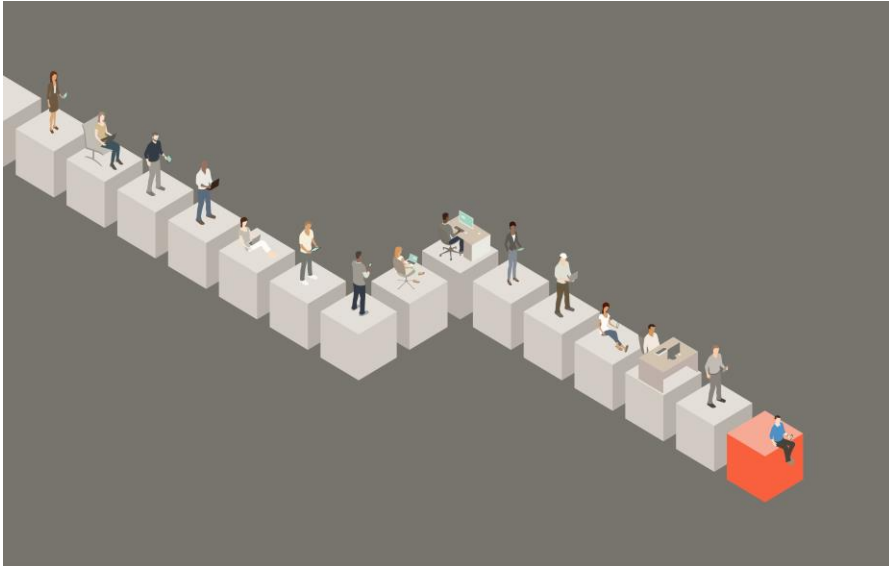
Information tracking outside of Excel



Information Request Tracker ▾ Default ▾

<input type="checkbox"/>	Region ▾	Jurisdiction ▾	Jurisdiction - State ▾	Category ▾	Entity ▾	Project ▾	Information Requested ▾	Due
<input type="checkbox"/> ⌵	North America	United States	CA	State & Local	Consolidated Group C		CA Unclaimed Property Confirmation	05/2

Corporate state tax overview



Tax calculation and reporting engines

3. Calculate

Calculate state modifications and review state apportionment information on a state-by-state filing basis

Leverage state tax provision reporting for state tax return compliance purposes as well as perform additional calculations

Tax analytics

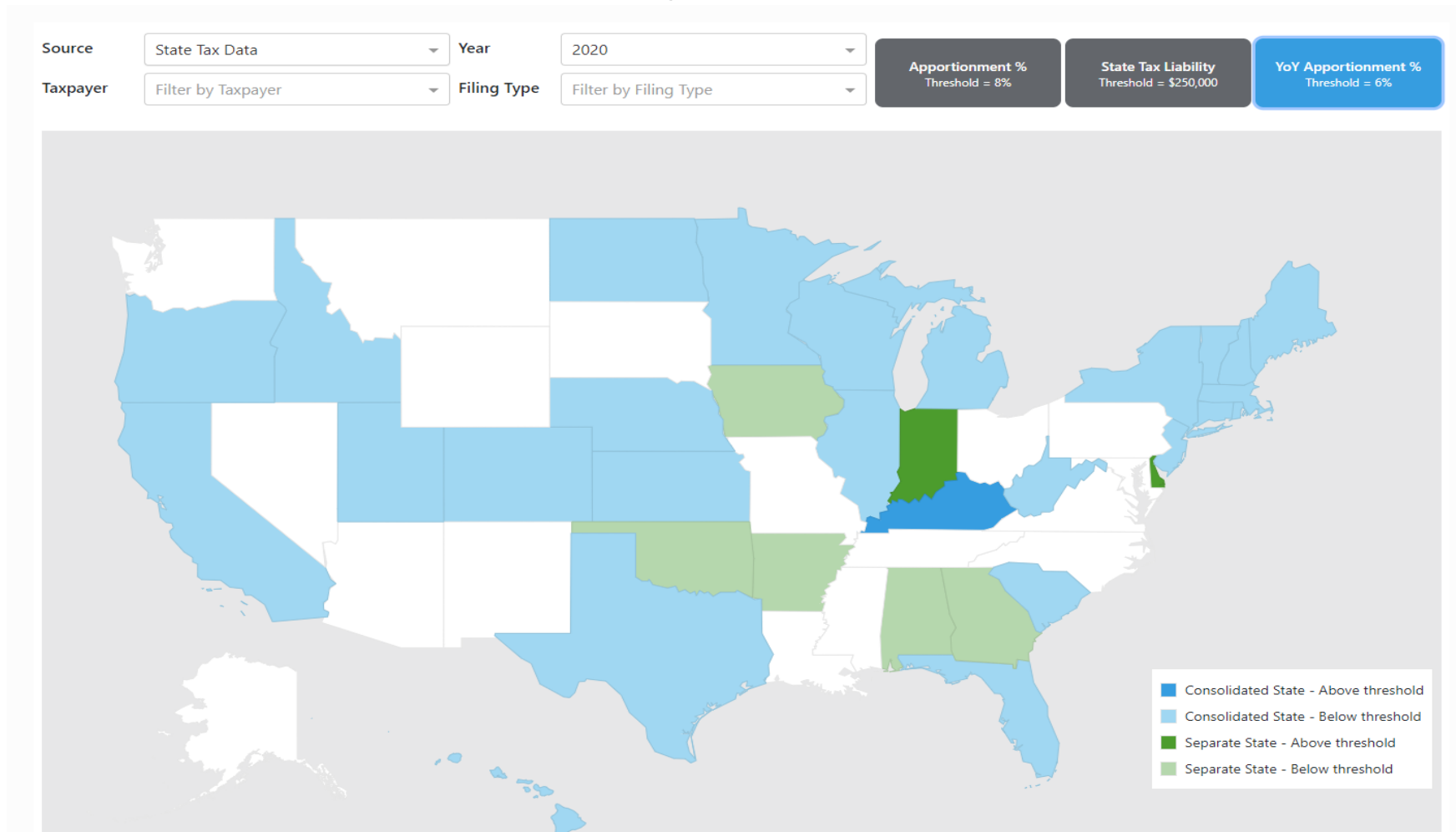
4. Analyze

Use data analytics to highlight state tax return changes between tax return versions

Import state tax details into a dashboard and compare and analyze differences between prior year and current year

Utilizing data analytics – example

State apportionment data analytics for apportionment, state taxable income, state tax liability, etc.



State notices

Add Actions ▾

1 - 1 of 1

Quick search

Notice Tracker ▾ Default ▾



<input type="checkbox"/>	Jurisdiction ▾	Tax Year(s) ▾	Notice Dated ▾	Status ▾	Tax Imposed (\$) ▾	P/I Imposed (\$) ▾	Payment Status ▾	Letter ID ▾	POA on File ▾	Notice Reason ▾
<input type="checkbox"/> ⋮	FL	12/31/2021	10/10/2023	Closed	1,025,999	51,249	Paid	L1010001	Yes	Bonus depreciation incorrectly computed, see revised workpaper

State e-filing tracking

E-Filing Tracker

This report is refreshed from ONESOURCE Income Tax every 12 hours starting at Noon (UTC).

[Executive Summary](#)[E-Filing Tracker](#)[Information Request...](#)

Qualified	Not Qualified	Accepted	Rejected	Error Not Submitted	Wait. for Acknowledgement
4	36	21	0	0	0

Filters



Year

All

Entity

All

Jurisdiction

All

Form

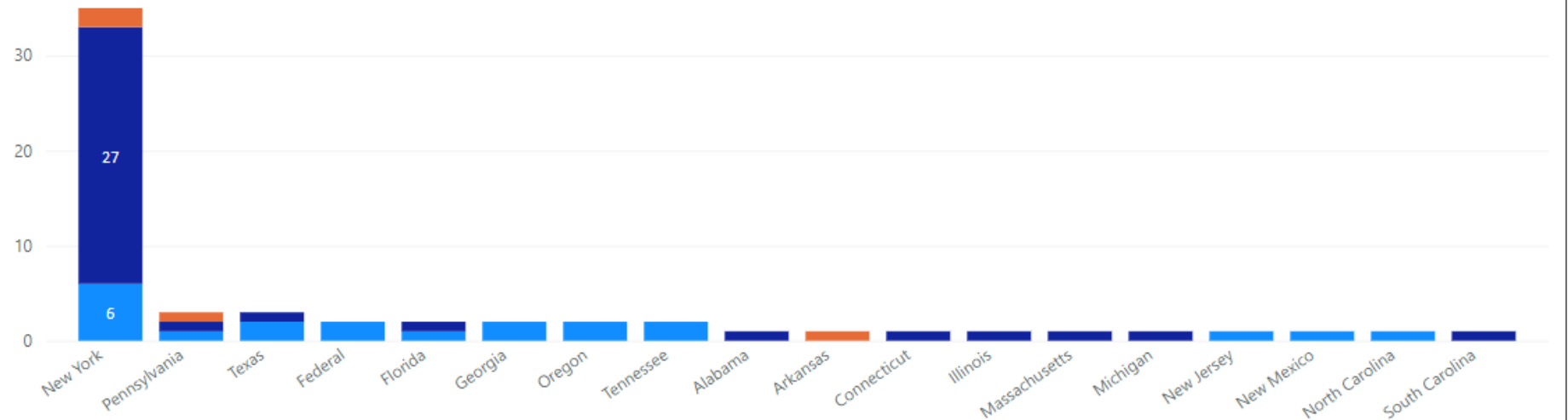
All

Status

All

US e-File Status by Jurisdiction

Status Accepted Not Qualified Qualified



Planning shouldn't be forgotten

Planning Ideas

Last Refresh (in UTC)
3/20/2023 1:59:22 PM

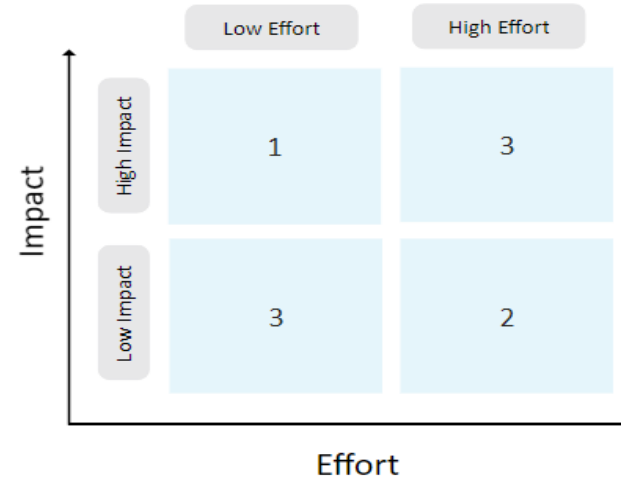
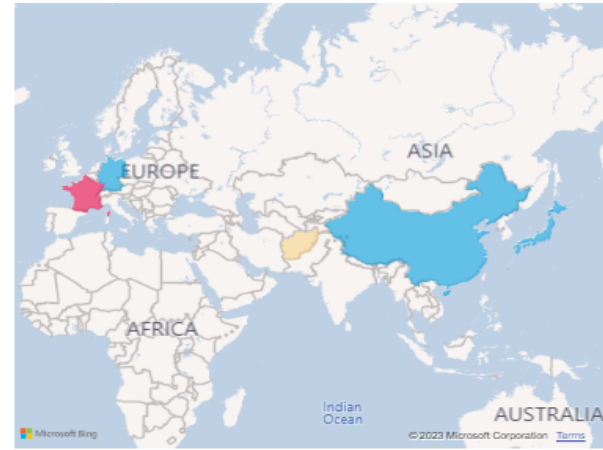
[Planning Ideas Form](#)

Risk	Opportunities	# of Items	Active	Closed	Parking Lot
5	4	9	3	2	3

Filters

- Region: All
- Jurisdiction: All
- Entity: All
- Category: All
- Service Type: All
- Overall Efforts: All

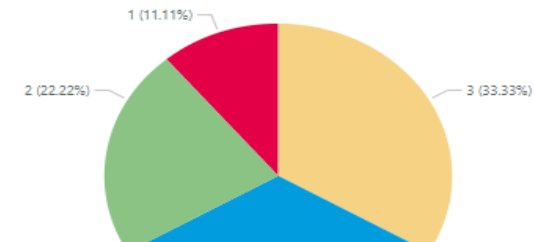
Overall Efforts ● High Effort, Hi... ● High Effort, L... ● Low Effort, ... ● Low Effort, ...



Itemid	Jurisdiction	Entity	Service Type	Risk/Opportunity	Description	Status
1	Afghanistan	Company A	Tax	Risk		
1	China	Company C	Consulting	Opportunities	Automating manual processes	Active
1	China	Company B	Finance	Risk	Manual processes deficit	Active
1	Japan	Company A	Tax	Opportunities	Tax Technology Data Transformation and Automation	Active
1	Germany	Company A	Audit	Risk	Automating manual processes	Closed
1	Germany	Company B	Consulting	Opportunities	Automating manual processes	Closed
1	France	Company D	Consulting	Opportunities	Updating outdated system and softwares	Parking Lot
1	France	Company D	Consulting	Risk	Updating outdated system and softwares	Parking Lot
1	Japan	Company C	Audit	Risk	Automating manual processes	Parking Lot

Planning Ideas Status

Status ● Active ● Parking Lot ● Closed ●



Utilizing technology in Nexus Studies

What is "Nexus"

- Nexus: a *connection* or *link* between one thing and another
 - For state tax purposes, "nexus" is the critical link or amount of connection required before a state may impose a tax upon the taxpayer.
- Historically, nexus guidelines or limitations were established through court decisions (e.g. *Complete Auto*, *Quill*) or federal law (Public Law 86-272), but actual interpretation of what constituted nexus was largely left to each state.
- However, "nexus" evolves as the modes by which a taxpayer establishes a connection with a state evolves.

Nexus today

- Economic Nexus

- Physical presence is no longer needed to establish nexus.
- Recent court cases have established that "bright-line" thresholds of economic activity are sufficient to establish nexus (e.g. *Wayfair*)
- Due process limitations remain as a defense against imposition (e.g. Complete Auto, P.L. 86-272)

- Economic Nexus can be view from two perspectives

- Objective test:

- Factor presence tests

- Ex: \$500k of sales in a tax year sourced to locations within a state
- Adopted by the MTC

- Organized or commercially domicile in the state.

- Subjective test: "Doing Business"

- "For the privilege of earning or receiving income in the state" (IL. 86 Ill, Admin Code Sec. 100.9720)
- "Engaging in any transaction for the purpose of financial or pecuniary gain or profit" (Cal. Rev. & Tax Code Sec. 23101).
- "Deriving income from sources within this state to the extent permitted by the United States Constitution" (Ga. Code Ann. Sec. 48-7-31(a)).

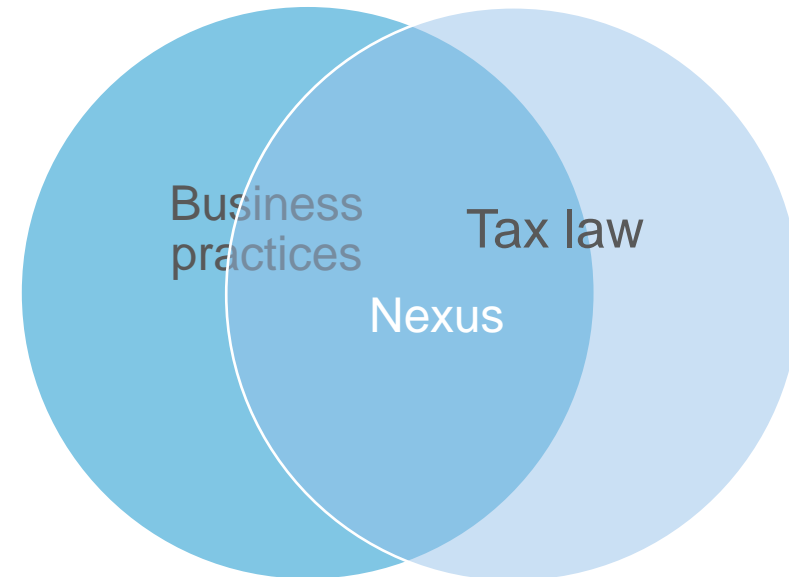
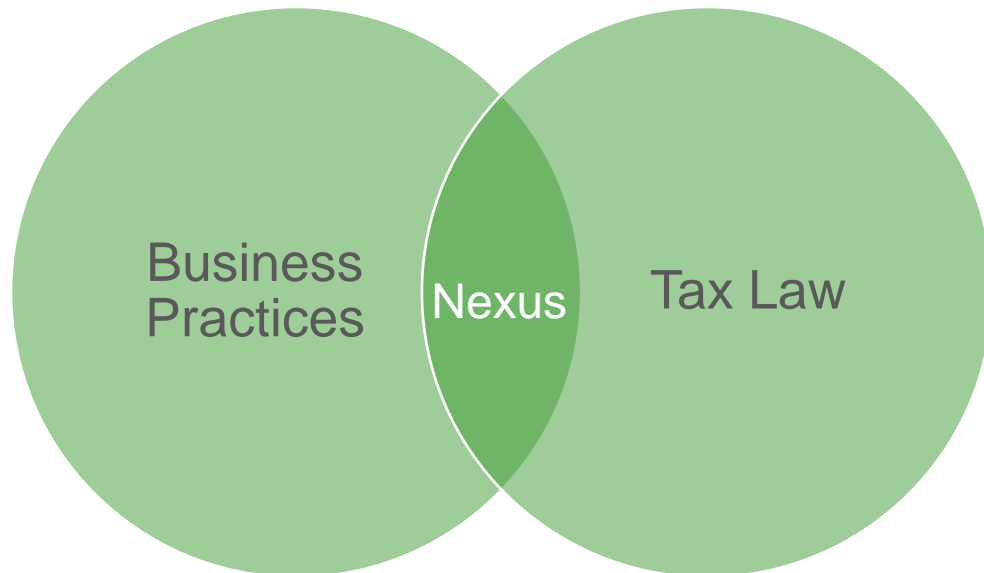
A changing landscape

Changing business practices:

- The digital age
 - Remote services
 - SaaS
 - Digital advertising
 - Digital currency transactions
- Remote workforce
- Uncontrolled inventory

Changing tax law and guidance:

- Economic Nexus
 - Factor presence
 - Expansion of *Doing Business* statutes
- MTC's update to the P.L. 86-272 *Statement of Information*
- Imposition of new state taxes



Nexus Study overview

1 What is a Nexus Study?

2 Why is it important?

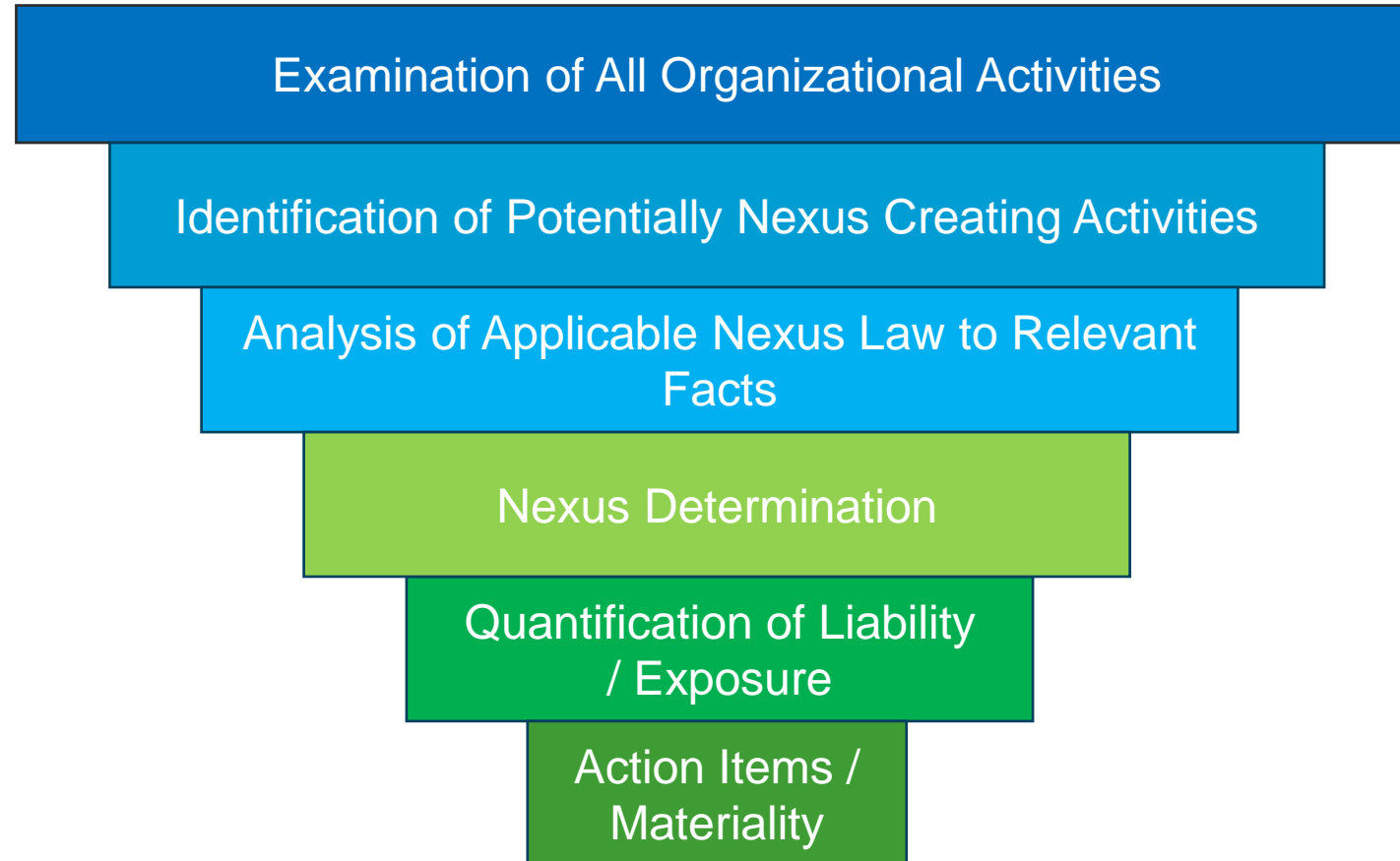
- A review of the activities of a taxpayer to determine if nexus has been met.
- Achieving nexus generally results in legal requirements imposed on the taxpayer.
- The costs of concurrent review and compliance can be significantly less than the cost of non-compliance.

Risk of exposure vs. benefits of Nexus review

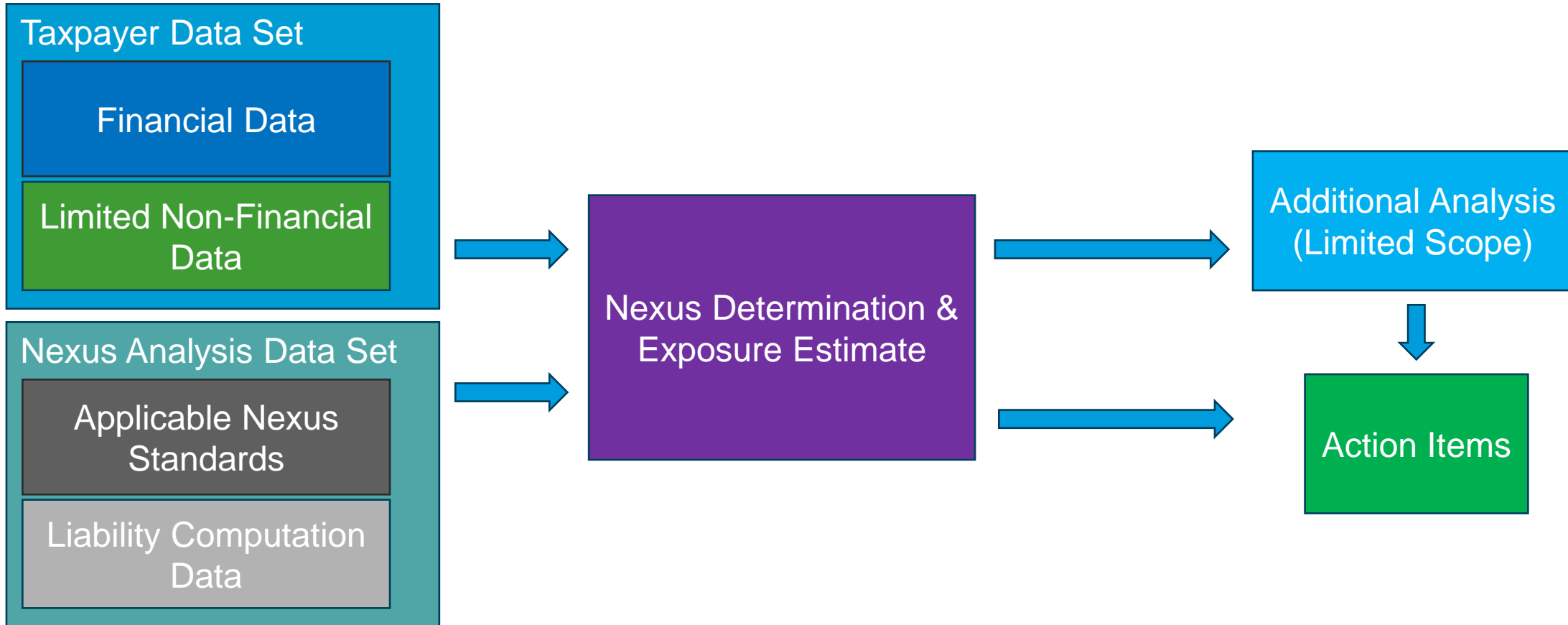


- Playing defense on audit
 - No statute of limitation for noncompliance
 - Record keeping issues
 - Significant interest and penalties
- Playing defense on diligence
 - Purchase price concessions
 - Escrow hold-back
 - Forced compliance
- Financial statement issues
- Monitoring risk concurrently
 - Timely identifying and addressing material liabilities
 - Reserve documentation for nexus observations that did not result in compliance
- Identifying opportunities
 - Tax leakage due to self-assessing tax in no-nexus states
 - Considering alternative business practices to mitigate a nexus determination
 - Understand impact of business decisions before they occur

Traditional Nexus Study approach



Nexus Study utilizing technology



Technology driven Nexus review

Technology enable process designed to produce the following:

- Efficient use of time and data (limited involvement by management)
- Quantification of potential exposure to determine materiality and areas of focus.
- Scenario functionality – proactive vs. reactive
- Leveragability of process
- Focus on action items

How we get there:

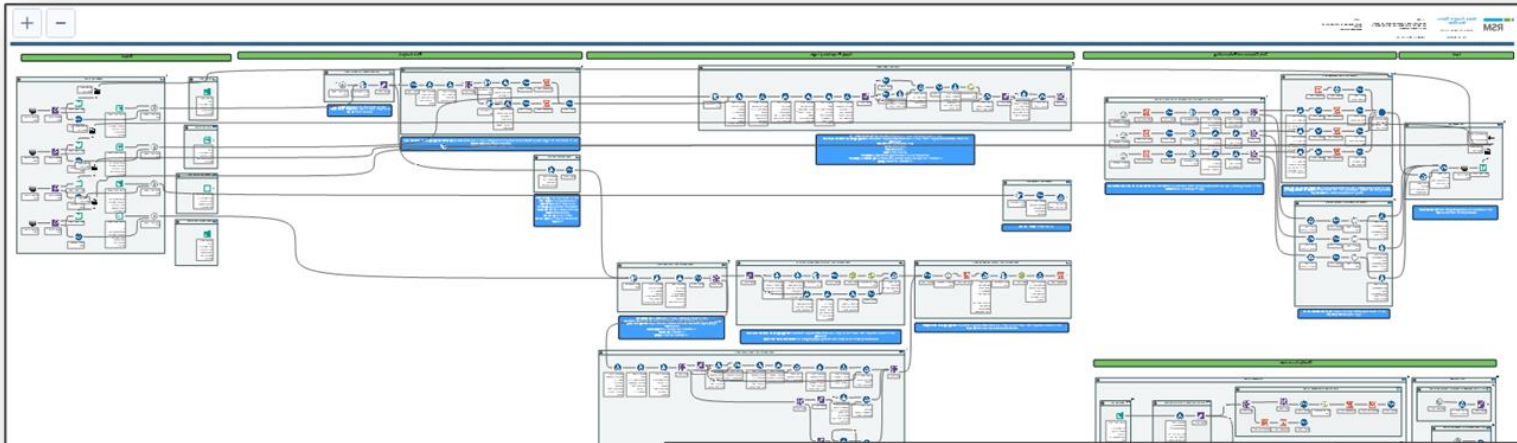
- Start with the end in mind (focus on areas of risk and exposure)
- Limited data set to identify material risk
- Use of templates and automated processes
- Reserve detailed analysis and technical support for those items deemed material by management

RSM Enterprise Nexus Solution



Client Name	RSM US LLP	1 PTE Percentage Own
Entity Name	Entity 1	Individual
Entity Type	Corporation	C Corporation
TY 1		2020 Partnership
TY 2		2021 S Corporation
TY 3		2022 Total
Designated Filer?	Yes	There can only be ONE D

State	TY 1 Currently Filing? (Yes/No)	TY 2 Currently Filing? (Yes/No)
AL	No	Yes
AK	No	Yes
AZ	No	Yes
AR	No	Yes
CA	No	Yes
CO	No	Yes
CT	No	Yes
DE	No	Yes
DC		
FL		
GA		
HI		
ID		
IL		
IN		
IA		
KS		
KY		
LA		
ME		
MD		
MA		



State	Tax Year	Separate Returns Generally Required?	Factor Presence Test? Sales	Factor Presence Test? Property	Factor Presence Test? Payroll	Apportionment Approach	Sales Factor Weight	Payroll Factor Weight	Property Factor Weight
AL	2022	Yes	Yes	500,000	50,000	One-factor sales formula	1.000000	0.000000	0.000000
AK	2022	NO	No			Evenly weighted three-factor formula	0.333333	0.333333	0.333333
AZ	2022	NO	No			Three-factor formula with double-weighted sales factor or one-factor sales formula	0.500000	0.250000	0.250000
AR	2022	Yes	No			One-factor sales formula	1.000000	0.000000	0.000000
CA	2022	NO	Yes	637,252	63,726	One-factor sales formula	1.000000	0.000000	0.000000
CO	2022	NO	Yes	500,000	50,000	One-factor sales formula	1.000000	0.000000	0.000000
CT	2022	NO	Yes	500,000	-	One-factor sales formula	1.000000	0.000000	0.000000
DE	2022	Yes	No			One-factor sales formula	1.000000	0.000000	0.000000
DC	2022	NO	No			One-factor sales formula	1.000000	0.000000	0.000000
FL	2022	Yes	No			Three-factor formula with double-weighted sales factor	0.500000	0.250000	0.250000
GA	2022	Yes	No			One-factor sales formula	1.000000	0.000000	0.000000

File Export Share Get insights

Corp. Income Tax Nexus Analysis

8/9/2023 7:57:10 PM Date Last Refreshed

Entity Name: All Tax Year: All State: All Nexus Observati...: All

Top 5 Cumulative State Underpayments

- 4N: \$0
- WY: \$0
- WY: \$0
- WY: \$0
- WY: \$0

States Filing

Number of Filings: 217

States Filing: ● No ● Yes

Nexus Observations

Nexus Observations: ● Nexus Observed ● No Nexus Observed

Sales, Property, and Payroll by State

● Total Sales ● Total Property ● Total Payroll






Entity Sales: \$7bn

Entity Property: \$5bn

Entity Payroll: \$6bn

Entity Name	Entity Type	State	Tax Year	Currently Filing	Economic Presence
Entity 1	Corporation	4N	2020	No	✗
Entity 4	Corporation	4N	2020	No	✗
Entity 1	Corporation	4N	2021	No	✗
Entity 4	Corporation	4N	2021	No	✗
Entity 1	Corporation	AK	2020	No	✗
Entity 4	Corporation	AK	2020	No	✗
Entity 1	Corporation	AK	2021	Yes	✗
Entity 4	Corporation	AK	2021	Yes	✗
Entity 1	Corporation	AK	2022	Yes	✗
Entity 4	Corporation	AK	2022	Yes	✗
Total					

Takeaways

-  Nexus is ever-evolving through changes in business and tax law
-  A routine review of nexus can limit exposure (and identify opportunities)
-  If your business has not conducted a recent nexus study, now may be the time
-  A traditional nexus study can be a time and cost intensive effort
-  By utilizing technology, a Nexus review enables taxpayers to
 - Efficiently identify material nexus exposure, and
 - Provide actionable information,
 - Through reduced costs in time, fees and resources.

Partnership SALT compliance

Partnership state income tax process and technology

Current state for many taxpayers:

- Not a focus for company
- Always at the end
- Updates every time Federal changes
- Manually input everything
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• Where do we want to be:

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- APIs & data feeds to update federal items opposed to manual
- Automate as much as possible
- Limited excel workpapers or even web based workpapers
- Comprehensive management platform to visually see where everything is at all times
- Review points everyone can access
- Visual records of opportunities, risks, and plans on how to address

Partnership state tax overview

Data management

1. Gather

Gather source data including state apportionment, state depreciation, state payment details, and flow-through K1s.

On the investor level, we're gathering investor demographics, composite elections, and nonresident withholding waivers.

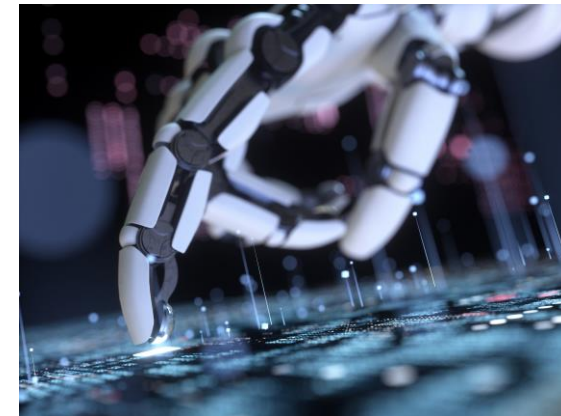


Data transformation

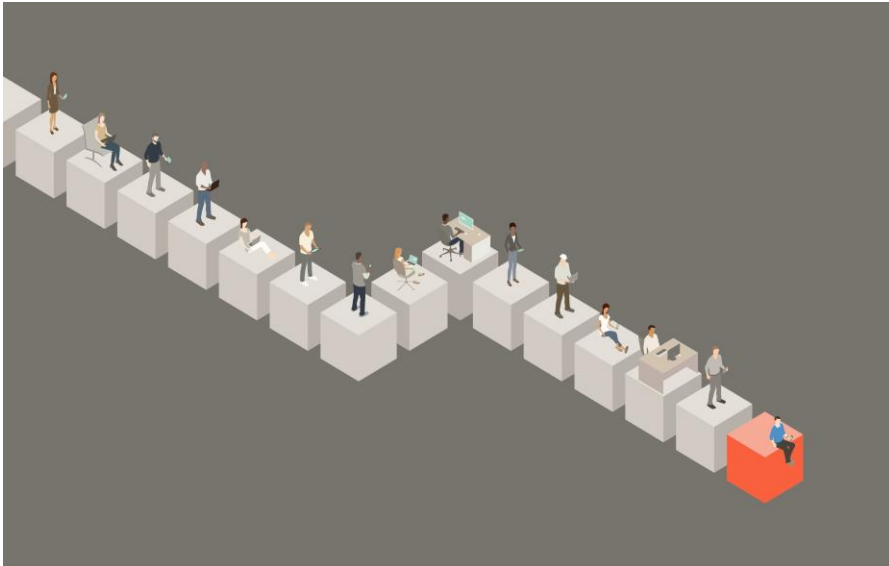
2. Transform

Utilize **data transformation tools** to analyze source data and transform it into a format to import into calculation engines and/or tax software.

Tools such as Alteryx can consolidate data sources and apply repeatable business rules.



Partnership state tax overview



Tax calculation and reporting engines

3. Calculate

Calculate state modifications and state apportionment information on a state-by-state filing basis. Calculate state source income at the entity level as well as the allocations of each line of income/expense out to the investor level.

Partnership K1, and especially state K1, reporting out to investors is voluminous and typically very manual. Automating this reporting is an area where great efficiencies can be gained.

Tax analytics

4. Analyze

Use data analytics to highlight state tax return changes between tax return versions.

Import state tax details into a dashboard and compare and analyze differences between prior year and current year.

Tax compliance process – Digitally transformed

PartnerSight - PE Fund Demo 2021

Allocating Entity filter

Home / OTM Team / PE Fund Demo 2021 / Dashboard

10 Allocating Entities | 122 Investors | 137 Investor Relationships | 2,081 Investor Allocations

Business Entities

Flowthrough Type: All

Entity Name	Entity Type	Client ID
Flowthrough Type: Allocating Entity		
Blocker, LLC	Corporation	
GP Entity	LLC As Partnership	
Main Fund 1 LP	LLC As Partnership	
Main Fund 2 LP	LLC As Partnership	
Main Fund 3 LP	LLC As Partnership	
Main Fund 4 LP	LLC As Partnership	

Investor Relationships

Allocating Entity: All

Investor	Allocating Entity - Investor Relationship ID	In Plugging Investor
Allocating Entity: Blocker, LLC		
Foreign Partner 16	Blocker, LLC	<input type="checkbox"/>
Foreign Partner 05	Blocker, LLC	<input type="checkbox"/>
Foreign Partner 12	Blocker, LLC	<input type="checkbox"/>
Foreign Partner 02	Blocker, LLC	<input type="checkbox"/>
Foreign Partner 08	Blocker, LLC	<input type="checkbox"/>
Foreign Partner 17	Blocker, LLC	<input type="checkbox"/>

Highest Taxable Income Allocating Entities

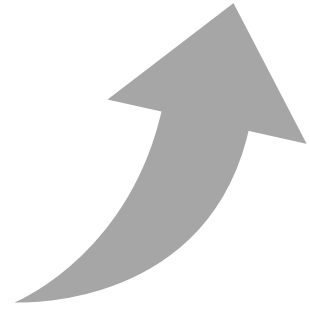
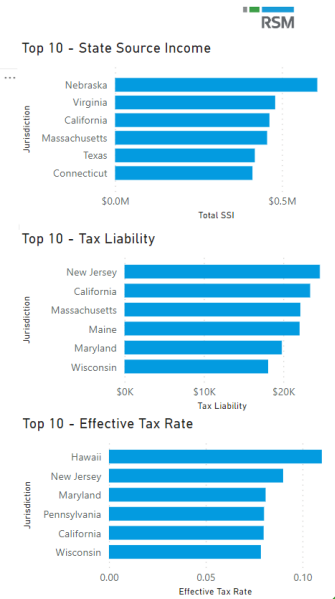
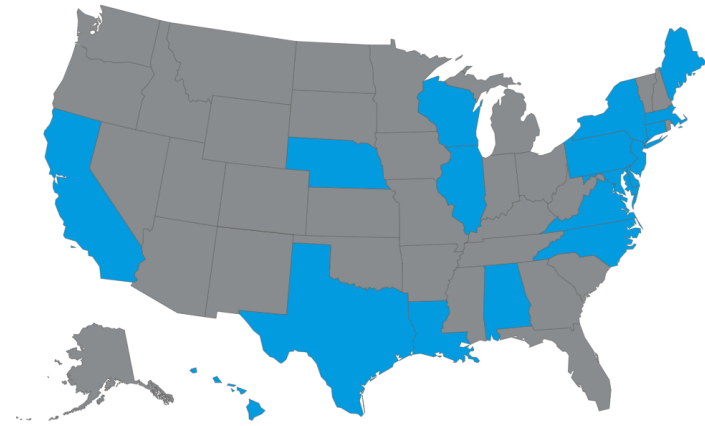
Highest Ending Tax Capital Investors



Business Entity | **Jurisdiction** | **State Source Income** | **Tax Liability**

All | All | \$3,373 | \$147,761 | \$0 | \$10,088

Filing Footprint



Investor Dashboard – State Manager – Composites & Nonresident Withholding Waivers

The investor wishes to change the state selection for the current year, so they select to choose specific states.

InvestorPortal JD

Welcome, Matt Smith
Today: May 1, 2023 05/31/2023
Cutoff Date

← State Manager (Working Title)

Welcome to the State Manager (Working Title). Begin by selecting your state of residency using the 'General' tab, completion of this section will enable you to perform your composite and withholding elections. For your convenience, your elections for this client from the previous year have been automatically populated on the Composites and Withholding tabs. If these election options are still valid please review and save the elections to continue to submit your elections for the current year.

General **Composites** Withholdings

Select your States for Composite Elections ⓘ

Select all of the available States Select none of the available States Select specific States

State Selection

- Select All
- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut

Selected States

Alabama × Arizona × Arkansas × California × Colorado × Florida × Idaho × Illinois × Indiana × Iowa × Kentucky × Louisiana × Maine × Maryland × Massachusetts × Michigan × Missouri × Montana × Nebraska × Nevada × New Hampshire × New Jersey × New York × Oregon × Pennsylvania ×

Ineligible States

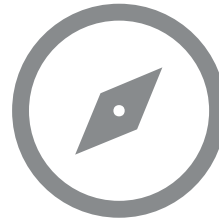
Delaware Georgia Hawaii Kansas Minnesota Mississippi New Mexico North Carolina North Dakota Ohio Oklahoma Rhode Island Tennessee

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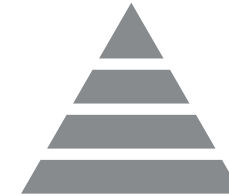
Tax technology and stakeholder access



Access to real-time data is important for stakeholders. Allows for tax to be less looking back and reporting.



Data can be used to make more proactive, informed decisions and shape strategy.



Dashboards and read-only access to tax technology systems provide more transparency with high-level summaries and granular data as needed.



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