

**EFFECTIVE TAX RATES AND RELATED METHODS  
OF SALES AND USE TAX COMPLIANCE THROUGH ESTIMATION**

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I. BACKGROUND & OVERVIEW

- A. What is “effective tax rate” reporting
- B. How does ETR compare with other terms often used such as “managed compliance reporting” and “single rate reporting”
- C. Evolution of these programs
- D. Limitations—feel free to use your imaginations: purchases/sales/capital

II. TYPICAL ATTRIBUTES

- A. What businesses are best suited for ETR
  - High volume and mixed taxable transactions
  - Direct pay permit holders
  - Computerized transactional records
  - Personnel turnover in AP and tax depts.
- B. Benefits
  - Tax decisions are controlled by persons best suited
  - Tax decisions are based upon up-front tests controlled by persons with knowledge and experience
  - Compliance predictability/audit accuracy
  - Reduces monthly compliance effort
  - Allows for easier test checks/percentage revisions

- C. Downside
  - Higher up-front/implementation costs
- D. Transactions covered; not covered
  - ETR usually limited to operating expense transactions excluding inventory, telecommunications, employee reimbursements. Start with AP only then address asset account separately.
  - ETR usually does not cover capital assets and construction contracts, but use your imagination (*e.g.*, forklifts)

### III. IMPLEMENTATION

- A. Work with state tax officials/agents
- B. Review standard procedural agreements with great care
- C. Identify goals, project scope and determine analysis method
- D. Obtain acceptance and approval of method—document agreements
- E. Conduct analysis and evaluate findings
- F. Use results to report liability going forward

### IV. HEART AND SOUL OF ETR

- A. Sampling → projection → estimate
- B. Document results and procedures as proof and to aid in evaluation of future adjustments

### V. OTHER FACTORS AND CHALLENGES TO CONSIDER

- A. AP or GL activity to sample and report
  - Electronic download of transactional information
  - Sample and reporting simplest with AP
  - But, consider...

prepaid/accrual accounts

intercompany transactions

stores accounts

procurement cards

- Apples to oranges

B. Chart of Accounts

- Verify past; check future plans
- Legacy system tracking
- Apples to oranges

C. Sample method

- Full download for audit period
- Partial download; selection

D. Other methods sometimes considered

- Block sample
- Multiple samples for single taxpayer
- Percentage by account or bundled accounts

E. Precision vs. efficiency: 90% confidence/10% precision

VI. TAX OVERPAYMENTS

A. Taxpayer concerns

- Method for calculating underpayment vs. method for calculating overpayment
- Offsets outside audited period
- Get it in writing

B. Concerns of Taxing Authorities

- Tracking to avoid “double-dipping”
- Unrepresentative samples

VII. SAMPLE DOCUMENTS

- A. Statistical methodology/letter of agreement—full download
- B. Statistical methodology/letter of agreement—partial download
- C. Audit Agreement
- D. Audit project plan

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**Appendix of Documents and Useful Information**

1. Ohio Department of Taxation: Statistical Methodology Letter of Agreement – Purchase Audit (Full Download and Partial Download)
2. Sample Participatory Audit Agreement
3. Statistical Sampling Overview Letter
4. Ohio Department of Taxation – Full List Summaries