

Case Study:

Kelly-Moore Paint Company Partners with ADP and Tomax to Manage “Sell Side” Sales and Use Tax Compliance



At a Glance

ADP Products & Services Used

- ▶ Sales and Use Tax System
- ▶ TaxSolver

Kelly-Moore Paint Company is the largest employee-owned paint company in the United States with 2000 employees, nearly 200 retail stores, and three manufacturing facilities spread across nine different states. The company's sell-side sales tax compliance is complicated by the fact that each line item in each order may be taxed at a different rate and, in some cases, not taxed at all. It all depends upon the taxing jurisdictions involved, and whether the purchaser is an end user or a contractor who will, in effect, be reselling the paint. Kelly-Moore manages this complex sales tax situation by using the Sales and Use Tax System from ADP in combination with the Retail.net point-of-sale (POS) system from Tomax.

Complex Order and Fulfillment Process

Only a small portion of Kelly-Moore's sales go to walk-in customers at its 171 retail stores, all of which are located in the western United States. The majority of sales are made to contractors with a more complex sales tax model. Many contractors negotiate contract pricing that covers their needs for a period of time or over a series of jobs. Sometimes the contractor may pick up the paint from a store and other times items from the same order will be delivered or shipped directly to a job site. So the applicable jurisdiction for the sales or use tax could potentially be different for every line item on the order.

The task of determining whether or not sales tax should be charged on an order is complicated and it's possible for some line items in an order to be taxable while others are not. Generally, the party responsible for charging sales or use tax is the one that sells the product to the final user. So Kelly-Moore's retail customers are always responsible for paying the tax if the transaction is made in a jurisdiction where there is a tax. Whether contractors are responsible for paying tax, on the other hand, depends on the contractor's relationship with their

customer. If the contractor re-bills the customer for the paint, then the contractor charges their customer for the tax and Kelly-Moore does not charge the contractor. But if the contractor does not re-bill the customer for the paint, then the contractor must pay Kelly-Moore sales or use tax.

Previous Process Relied Upon Individual Sales Clerks

In the past, sales clerks at Kelly-Moore Paint stores were responsible for determining whether or not sales or use tax should be paid on each transaction and the amount of the tax. Management was concerned that sales clerks were spending too much time trying to research the sales tax rules. Management was also concerned about the potential for errors in calculating the sales tax rate as well as the difficulty in auditing a largely manual process.

Expertise in Sales Tax Plus Integration to Tomax POS System Led to Selection of ADP

Carl Sweetland, Chief Information Officer and Vice President of Information Systems for Kelly-Moore Paints, led a team that made the decision to replace the company's POS system with something more modern. "We looked at nearly every POS system on the market and selected Tomax Retail.net Store Solutions," Sweetland said. "We selected Tomax because it does a great job of handling all of our different shipping models and also gives management excellent visibility into what is happening throughout the organization."

“The decision to replace our POS system also gave us a golden opportunity to improve our sell-side sales and use tax process,” Sweetland said. “We selected the Sales and Use Tax System from ADP for two reasons. First, ADP’s tax research department demonstrated their ability to provide the correct tax rates in all of the jurisdictions in which we operate. Second, we determined that ADP does the best job of integrating with the Tomax Retail.net POS system. We spoke to a very large and well-known retailer and discovered that they had successfully integrated the Sales and Use Tax System with the Tomax POS system, and that made us feel pretty good about making the same decision. We were also pleased that ADP integrates very well with the Oracle Financials system that we are now in the process of implementing. Oracle Financials will work side by side with our Tomax POS solution.”

Integrating the Sales and Use Tax System with the Tomax Retail.net POS

ADP and Tomax worked together to deliver an integrated solution to Kelly-Moore. “We support all of the major sales tax solutions right out of the box, but we have chosen to partner closely with ADP because we believe that the Sales and Use Tax System is the most robust sales tax solution in that space,” said Steve Klingler, Senior Vice President for Tomax Corporation. “The integration process depended upon the two vendors working closely together and that’s exactly why happened. Everything went right by the numbers.”

The Sales and Use Tax System runs on a Sun server using the Redhat Linux operating system. The Tomax Retail.net POS currently runs on a Sun server but will be moved to a Dell Intel server. Everything is physically located at the Tomax Data Center located in Salt Lake City, Utah.

Each time a line item is delivered to a customer, the Tomax POS system makes a call to the Sales and Use Tax System, which calculates the sales tax. The Sales and Use Tax System first determines whether or not the purchase is subject to tax. The category ID code is mapped to the goods and services codes stored inside a taxability matrix to make the right tax decision. If the purchase is subject to tax, then the Sales and Use Tax System determines the correct tax rate, based upon where the transaction took place and on the way that the individual line item was fulfilled.

Improving Accuracy, Protecting Against Tax Audits

“Any retail operation has a lot of employee turnover, so it’s not realistic to depend upon the clerks in our retail stores to be experts,” Sweetland said. “With the old system, we could never be 100% certain that we were charging the right amount of tax. Now that we’re working with ADP, we have a proven system that makes certain that we are charging the correct amount of sales

tax to every customer throughout our retail operation. We now have a much greater certainty of tax compliance. We have reduced the chance that we will be selected for a tax audit, reduced the cost of complying with tax audits, and greatly reduced the potential that we will be subject to penalties.”

“In the beginning, our sales clerks sometimes questioned the results provided by our new automated system,” Sweetland said. “In nearly every case, further research demonstrated that ADP was correct. As a result, both the clerks and our internal financial staff have developed full faith in the system. Of the 9 million plus transactions to date where ADP has calculated the sales and use tax, there have been only a handful of times that we asked for more detail.”

“In one instance, we ran into a small jurisdiction that was not included in their database. We pointed it out and ADP added it immediately. This type of responsiveness is another major reason why we enthusiastically recommend ADP to others.”

Plan to Expand ADP Solution to Include Tax Returns and Buy-Side Taxes

“We are in the process of expanding our ADP solution,” Sweetland added. “We are implementing TaxSolver to generate sales and use tax returns for each division. TaxSolver will create the journal entries needed to account for tax payments. We expect to save considerable amounts of time in back office tax preparation. After implementing Oracle Financials, we will use the Sales and Use Tax System to calculate our buy-side sales and use taxes. Buy-side taxes are currently determined through a multi-step manual process that consumes a considerable amount of time. Applying the Sales and Use Tax System will make the process much faster and far more efficient.”

“ADP has changed sales tax compliance from a time-consuming and difficult process to one that is reliable and trouble-free, something that we barely have to think about any more,” Sweetland concluded. “With one solution providing the answers for sell-side and buy-side sales and use tax compliance, we will save time and money, increase accuracy, and provide an auditable process that verifies our compliance.”