



Why Are Merchants Sales Tax Collectors?

Sales tax is typically applied to certain transactions for tangible goods that occur between a merchant and a consumer. Merchants act as an agent of the government, and collect sales tax from the consumer and remit payment to the proper taxing authority. Merchants are involuntarily conscripted by the taxing authorities, with no benefit afforded to the merchant to fulfill the role of a tax collector. In this role states require merchants to tax goods and services at the prescribed rates, segregate sales tax funds into a separate account, file a tax return, and pay all collected funds by a certain date. By shifting this responsibility, states put merchants completely at risk, due to potential incorrect and/or late filings and payments. Penalties for infractions can be severe and negatively affect the bottom line of the merchant's business. In the worst case scenario, these infractions may result in confiscation and closure of the merchant's business as well as criminal prosecution.

This cumbersome remittance method creates the weakest link in the chain between the collection of taxes and payment to the states. It is clear that the segregation of sales tax funds and the payment to the state should NOT be the responsibility of the merchant. With the use of technology, states now have the ability to directly cut out the middle man, the merchant, from the collection process. By limiting the merchant's role to booking and receiving the sales tax from the consumer, and then removing the merchant's requirement to remit payment to the states will increase revenue and compliance, the will let business owners focus on growing their businesses.

Technology can be used to limit the merchants' responsibility to the collection of sales tax from the consumer at their point of sale ("POS") only. From this point on, the segregation of sales tax funds and the payment to the state should be outsourced to third parties. Modern technology can allow this process to be outsourced and take place in an automated, seamless and secure process at little or no cost to the merchant. Furthermore, an automated process will guarantee near 100% compliance of payment of sales taxes collected, thus increasing revenue while reducing fraud.

Using the sales data directly from a merchant's POS system and the electronic funds transfer networks ("EFT networks"), which principally 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 business day) and impound these funds by splitting off the sales tax owed to the state during the settlement process. The segregated sales tax funds can be placed in escrow 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 day tax cycle to 24 hours increasing cash flow to the state.

The benefits to a system such as this are numerous:

1. Massive increase in compliance because the system is automated, passive and seamless.
2. Increased tax revenue paid to state governments due to the greater compliance.
3. Daily receipt of sales tax funds by the 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. Removal of the merchant from of the arduous task of filing and paying, as this is all done automatically, allowing the merchant to focus on his/her business.
6. Decreased expense for merchant compliance for filing and payment.

Outsourced, third party processing of sales tax is a win-win for both merchants and states. By streamlining the process and using modern technologies, sales tax funds can be moved from the merchant to the states in a 24 hour cycle instead of the traditional 30 day cycle in a passive, seamless, automated process at little or no cost to both merchants and States.

DAVO TECHNOLOGIES has developed this technological solution. DAVO's premier product, DAVO Sales Tax is the automated sales tax cash management solution for small to mid-sized merchants. DAVO's patented process automatically collects, files and pays sales tax for a merchant utilizing the ACH and card payments networks. This unique process integrates with a merchant's POS or back end accounting software, setting aside the total sales tax collected daily, which includes the cash component as well as credit and debit, holding it safe and secure. DAVO's goal is to do for sales tax what ADP and Paychex did for payroll.

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