



Ever stay up nights worried about a risky deal? In sales, every deal carries risk and as the initiator of the deal, you try to mitigate your risk as much as possible. We are all familiar with the credit process required to close most deals whether it's a business loan or lease, a mortgage or car payment or merchant processing. The credit approval process has two goals, to make sure the borrower is trustworthy and limit the lenders risk.

Beyond a credit check, lenders mitigate risk with insurance. They may require a borrower to carry additional insurance to guarantee a loan or simply require insurance with certain limits in the event of a fire or slip and fall or my favorite, the "act of god" such as a flood or a lightning strike. Yes, insurance can mitigate risks, but what about the hidden uninsured risks lurking just below the surface that can send a loan into default before you even know about it? There is an axiom for measuring risk that says the longer a lender waits for a payment, the greater the risk. Utility companies routinely build risk into their rates because they cannot repossess electricity once it is used. The longer the lender waits for their payment, the higher the risk and rate. (illustrated below)

Non-payment of taxes is a potential risk for lenders and is not covered by insurance. If property, payroll or sales taxes go unpaid and become delinquent, lenders are often the last to find out and usually with dire consequences. It's not all doom and gloom however. Non-payment of property tax is somewhat mitigated because it is often included as part of a business's lease or mortgage payment, meaning it is managed by a third party. When it comes to payroll taxes, there are many payroll companies merchants can outsource with the task. These companies efficiently collect payroll taxes every pay period and file and pay for the merchant.

But Sales tax is different and the risks of non-payment are often overlooked and misunderstood by lenders. Sales tax is a consumption tax paid by consumers to merchants as a part of each transaction. Sales tax does not come out of the merchant's pocket; it is simply a pass-through tax from the consumer to the state with the merchant acting as the conduit. Once collected, states require merchants to hold sales tax harmless and secure until it is remitted to the state, city and/or county governments monthly or quarterly. However, sales tax gets co-mingled in merchant's bank account and many businesses are tempted to use sales tax revenues as working capital. Using sales tax to run a business becomes a slippery slope resulting in the merchants coming up short when it is time to remit. Missing a sales tax payment deadline or making a short payment results in excessive fines and penalties that can easily devastate a business and leave a lender with a bad debt. Keep in mind approximately 20% of businesses in the US are behind on sales tax representing a huge unknown risk to lenders. A lender would only know a business is behind on sales tax if they research the State's delinquent tax payer

reports or if the State levies the merchant's bank account for back taxes. By this time it is probably too late to help the merchant and the loan is headed to default. When the state closes a business for sales tax, they get their money first and everyone else gets in line and receives pennies on the dollar.

There is a way for lenders to reduce the potential risks sales tax poses to near zero percent. DAVO Technologies has developed the DAVO Sales Tax app that makes sales tax automatic and seamless. DAVO does for sales tax, what ADP does for payroll. DAVO uses data from the merchant's POS or accounting system to automatically set aside the sales tax collected by a merchant daily and then automatically files and pays the sales tax on-time and in full. The merchant does not have to do anything; the entire process is seamless and automatic. DAVO removes the merchant from the sales tax process, virtually eliminating the risk of non-payment of sales tax through mismanagement of sales tax funds. Making DAVO a part of a loan, credit line or lease deal can help a lender reduce the risk of non-payment of sales tax by a merchant to virtually 0%. DAVO shines a light in the dark corner of sales tax acting as an insurance policy making sure a borrower is sales tax compliant.

Find more information on DAVO Technologies and the DAVO Sales Tax App at www.davotechnologies or www.davosalestax



