



## INTRODUCTION

### 01 WELCOME

Welcome to the WHAT DOES A TAX DEPARTMENT DO course.

In this course, you will learn what a tax department is, what it does, and how it should operate.

#### LEARNING OBJECTIVES:

By the end of this course, you will be able to:

- Identify the four basics steps of every tax department
- Understand and identify the most important step in the tax department process
- Identify the most important things to know about items bought or sold within a company

You'll learn the four steps of a tax department, and to how to recognize and identify the most important steps.

We will breakdown the tax process, and you'll see how it is done correctly to avoid costly audits.

The course also contains a lecture with answers to some of the most commonly asked questions about tax departments.

By the end of the course, you'll know what a tax department does, how it should work, and more importantly, you'll be able to explain it others so sound decisions can be made.

Each section contains a short review quiz covering what you should have learned.

These are not graded or recorded and can be taken as many times as needed.

The final exam IS graded, and you will need a 70% passing grade to qualify for the CPE credit and course certificate.

Below each lecture you'll find many common words defined, as well as the complete written text of each lecture.

You can use CONTROL-F in your browser to search this text should you need to find something.

Each lecture is close captioned, so you can click on the CC button to turn the captions on, and by clicking the arrow, follow along with the text of the lecture.



## WHAT DOES A TAX DEPARTMENT DO COURSE

Click in the caption text to jump to that part in the lecture or search the captions to find what you're looking for.

Finally, this full course script is included below this video in case you need it.

Simply click on the link and save the file to your computer, preferably on the desktop for easy access.

If you have any questions regarding your course, you can send an email to [TTRUniversity@ttrus.com](mailto:TTRUniversity@ttrus.com) and someone will respond promptly.

There's a lot to cover, so let's get started!



## SECTION 01. TAX DEPARTMENTS

### 01 DEFINITIONS

In this course we are going to cover the structure, organization, and process of a tax department.

All of this is greatly simplified by correctly answering the question: What does a tax department do?

To help clarify this, let's take a look at some definitions.

A TAX is a required payment to the government; state or federal.

A DEPARTMENT is a division of a larger organization.

A person working in a tax department within a company is part of a division of a larger organization.

The tax department handles required payments that need to go to the government.

If you're talking to someone in a tax department, you know their job is to ensure required payments get to the government and they're part of a larger organization.

There's no such physical thing as a company that is a "tax department company".

They're a piece of the whole.

Larger organizations like Nike, Walmart and Apple all have tax departments.

Their job is to make sure required payments get into the hands of the government.

It's a very important job with four very distinct steps, which we will cover in the following lectures.



### 02 THE FOUR STEPS

What does a tax department do?

When I was a tax director working at a large corporation, a senior executive asked me this very question.

He said, “Can you tell me exactly what you do here?”

He mentioned in his 30-year career as a senior executive, no tax professional had ever given him a clear answer of what a tax department actually does.

I eagerly began to list off all the things our department handled on a daily basis.

This senior executive interrupted and asked me to explain it as simply as one would explain baseball.

“Someone throws a ball and you hit it with a stick and you run around 4 bases: first base, first to second, second to third, and third back to home.”

“If you can explain it that simply, it’s sure to be understood.”

I left that day with a quest to figure out how to simply describe what a tax department does.

I organized all the information I had and drew it out as a diagram, breaking all the details down into four basic steps.

When I was finished, I gave a presentation to this senior executive.

His response was, “I now know what you do”.

Here’s the 4 Basic Steps of a Tax Department:

1. They keep track of things bought and sold
2. They store tax information
3. They send tax owed to governments
4. They get reviewed, or audited, by those governments to ensure the tax is accurate

The most important step is STEP ONE as you’ll find out in the next lecture.



## WHAT DOES A TAX DEPARTMENT DO COURSE

### 03 STEP ONE

Every company in the United States buys and sell things.

Tax, the required payment to the government, must be collected and paid each time a company buys or sells something.

A company's tax department makes sure that the correct tax gets to the government.

In order to do so, every tax department should know the following:

- WHAT the company buys and sells and if it's TAXABLE or not
- WHEN the company buys or sells something
- WHERE (what location) it was bought or sold
- HOW it buys and sells things

Here's an example.

A company buys a new server.

The tax department finds out the exact name and price of this server.

They discover the server was purchased on June 1<sup>st</sup>, 2018 in Austin, Texas.

They also note that although the server was purchased in Texas, it will be housed in a datacenter in Redwood City, California.

Through tax research, they conclude that tax does in fact need to be paid.

Finally, the tax department finds out the company purchased this server with their line of credit with a local bank.

They need to know these four things for every purchase and for every item or service sold.

The What/When/Where/How of items bought and sold make up STEP ONE, keeping track of things bought and sold.

The steps of a tax department are:

1. Tracking items bought or sold and determining if they are taxable
2. Storing the tax information
3. Sending the tax owed to governments



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4. Reviewing, or getting audited, by those governments to ensure the tax paid is accurate.

How can this process go wrong?

It can go wrong if STEP ONE is not done correctly, such as having incorrect information regarding what was bought or sold.

When STEP ONE is incorrect, then incorrect information is stored in STEP TWO.

If incorrect information is stored in STEP TWO, incorrect information is reported in STEP THREE, meaning an over or under payment of required tax.

If STEP THREE is incorrect, the company will be found in STEP FOUR to have violated the law when audited by a state and this can cost the company both in reputation and financially with penalties.

They will have to pay for the mistakes missed in STEP ONE.

STEP ONE, tracking items bought or sold and determining if they are taxable, is the most important step in a tax department.

If things bought and sold are not identified correctly as being taxable, it throws everything else off, all the remaining steps, which is the most common reason for things going badly in an audit.

The most important part of a tax professional's job should be having the correct yes or no answer to, "Is this item or service that was bought or sold taxable?"

If it's taxable, the most important piece now becomes the correct tax rate, which is the percentage of tax applied to the thing being bought or sold.

You could have the correct rate of tax but it won't matter if you have an incorrect tax answer.

The single most important step is STEP ONE, tracking items bought or sold and determining if they are taxable.

If this step is not done correctly, all the other steps will be incorrect.



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### 04 STEP TWO

We covered STEP ONE, keeping track of things bought and sold, and how correctly determining the taxability of those things is the most critical part for a tax department or professional.

STEP TWO is storing the tax information.

These days, all the information regarding the things a company buys and sells gets stored on a computer and that information gets into storage by the accounting group.

To account for something means to keep track of it.

The accounting group's job is to accurately organize and store the company's financial information.

A tax department sends its tax information to the accounting group, who in turn, stores this information on a computer.

So, you have one group, the tax department, handing information over to another group – the accounting group.

The accounting group doesn't do the tax stuff and the tax group doesn't do the accounting stuff.

Since these two groups who do separate things depend upon one another, mistakes can occur.

The tax group determines there is tax in STEP 1, and this information gets organized and stored in STEP 2 by the accounting group.

In STEP THREE, the tax group needs to send tax owed to governments.

They go back to the accounting group to get the previously stored tax information so they can fill out the tax forms and send a check to the government.

STEP 3 can happen anywhere from 30 days to one year later, and that opens the door for errors to happen in the in-between time of storing the data and retrieving it later.

How can this happen?

One of the biggest issues companies run into is tax professionals and accounting professionals using different words to describe things.



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Accounting speaks a different language than tax, and some tax professionals aren't aware of what their accounting department does.

Some may assume accounting professionals only deal with the numbers, play with numbers, use numbers, analyze numbers, and make decisions on numbers.

That's someone else's job.

The accounting group's job is STEP TWO, organizing, storing and retrieving financial information.

And they use terms that apply to doing that.

Accounting may use the term "word system," which is a process or a way to organize.

They may use the term "general ledger", which is a book that keeps track of everything that happens financially in the company.

These and many more words, abbreviations and acronyms are used within the accounting group.

Issues occur when the tax group doesn't completely understand those terms.

The tax professional asks the accountant where they stored the tax, and the accountant may respond that "it's in the G/L," which stands for the general ledger, but the tax professional may not know the meaning of a G/L.

The accountant may refer to an account number, which is an accounting term for a number used for storing financial information, but the tax person may think "account number" means bank account number.

Two different groups with different names for things, and that's one-way things can get mixed up.

Let's get back to the accounting group for a moment.

If you had write down in a notebook every sale that was made at a Wal-Mart, there would be too many notebooks to store in a single building.

More importantly, you would not be able to find the answer to, "How many television sets were sold on Tuesday?"

That's why things are stored on computers by accounting and organized using a system of numbers and categories.



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One of these categories is tax.

As the tax information gets sent to accounting for storage, it is assigned a grouping and account identification number.

When the tax department comes back for its tax information, accounting can retrieve it based on the grouping and number.

Then they hand it back to the tax department so they can put the correct information on the tax forms, and send the check to the government, who may review it later for accuracy.

So how does one know for sure that the numbers retrieved from accounting are correct?

If the number system is not correctly tied to the tax information that was to be stored, the accounting team could supply incorrect information back to the tax department.

That means the tax returns and checks prepared by the tax department will be wrong.

This is where reconciliation comes in.

To reconcile something is to take two things that are not together, compare them, and make sure they are correct.

Reconciliation ensures that all the numbers are accurate and connected to the proper stored information.

That's STEP TWO, where accounting accurately stores the tax information collected by the tax department so it can be retrieved.

If the information is not stored correctly, or there is no way to verify everything is OK by reconciliation, STEPS THREE and FOUR will fail, no matter how well STEP ONE was done.

The accuracy of the forms and tax returns filled out by tax professionals depends on whether or not this storage system is correct.



### 05 STEP THREE

STEP THREE is where the correct tax owed is sent in to the government.

Companies in the United States buy things and pay tax on things to other companies,

They also sell things to other companies, and that makes them responsible for collecting correct tax.

These companies are collecting the tax FOR the government and need to return those taxes TO the government.

The tax collected is not their money, it's the governments.

Here's an example of paying tax to other companies:

Company A buys APPLES from Company B so Company B is responsible for charging Company A the correct amount of tax.

Company B holds the tax paid by Company A so they can later return it to the government.

The process of returning that tax to the government is called "filling out" or "filing" a tax return.

Filing means to send something in.

That's why it's called a tax RETURN - you're returning the tax collected back to the government.

This step, STEP THREE, is where the tax form is filled out with what tax was collected, and then sent to the government with a check.

From the government's point of view, they want to know what happened – that Company A bought something, paid the tax due to Company B, company B collected the tax, and has returned it to the government.

The government wants to know if Company B is doing this right.

Are they being compliant?

Compliant means you are doing what you are supposed to do.

If you ask a child to clean their room, and the child does it, he or she is being compliant.



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Although this is STEP THREE - send tax forms and tax to the government - many tax departments call this step COMPLIANCE.

As in, “that’s our compliance group” or “they handle compliance.”

Even though this step is the tax return step, it regularly gets called compliance.

If you’re on the phone with someone and they say, “Our biggest issue is compliance,” you’ll know what they are referring to.

The legal research and tax rate analysis are done prior to this step, whereas this step takes the information stored in the computer, puts it on a piece of paper, and sends that to the government.

Next is STEP FOUR, where these actions get reviewed by the government to ensure the correct tax was collected and returned to them.



### 06 STEP FOUR

In STEP FOUR, the government wants to ensure you are collecting and paying the tax due correctly.

This is referred to as an AUDIT.

AUDIT comes from the Latin word AUDITUS, which means TO LISTEN, and has come to be defined in modern day English to mean “make sure it was done right.”

The government sends one or more people, called AUDITORS, to a company to check this company over – to make sure they are in compliance.

They don’t ask for the tax forms – they already have these.

The auditors ask the tax department for information - the data stored by accounting in STEP TWO.

They want a list of EVERYTHING bought and sold by the company, usually 2-3 years’ worth.

They require it all to be listed out, with each item marked whether tax was paid – Yes or No.

On any that are a YES, they delete these from the file.

Now they look at what’s left and ask, “Should tax have been paid on these?”

This review by the auditors can take several months as these files can be huge.

Just reorganizing the file to identify the things that tax wasn’t paid on can take weeks.

The auditors look at WHAT was sold, WHERE it was sold, and HOW it was sold.

Those were the original questions that were answered in STEP ONE, and the auditor asks those questions every time the company did not pay tax.

The auditor does not look at tax that was paid or possibly overpaid – they look at where the company didn’t pay or where they underpaid.

At the end of the audit, the company receives something similar to a report card.



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If the tax department team got it wrong on any of the items, the company pays the tax, plus penalties, plus interest.

If the auditors find no issues, that means the rest of the steps were done perfectly, specifically STEP ONE, and then auditors rarely look at the other steps.

That's why the most important step is STEP ONE.



## 02 Q&A

### 01 COMMONLY ASKED QUESTIONS

We've covered what a tax department does, what all tax professionals need to know about all items bought and sold, and the four basic tax department steps as it applies to a company.

After delivering these lectures live over a period of years, a number of commonly asked questions come up which will be answered here.

**QUESTION: IF A COMPANY PAYS TAX TO ANOTHER COMPANY, ARE THEY GOING TO INDICATE A YES FOR TAX PAID?**

Yes, they physically paid tax so the answer to "Was tax paid?" is YES.

This is done on an individual basis, transaction by transaction.

It isn't lumped together.

It's ALL the individual purchases, and in some cases this list can be millions of rows.

**QUESTION: WHAT DOES THIS TERM NEXUS MEAN?**

Nexus is a word used to describe a connection.

A company that is located and operates in a certain state has nexus with that state – it has a physical connection, the building, with that state.

**QUESTION: CAN A COMPANY THAT OPERATES IN ALL 50 STATES, BE AUDITED IN ALL 50 STATES?**

Yes, it can, including all the local jurisdictions, such as counties and cities, which are allowed to audit the company too.

For example, companies that distribute medical supplies, may have between 160 to 400 open audits at any given time.

They've got that many agencies or government auditors asking for information.

That's a rare example.



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Normally, if a company has nexus, or is operating all over the United States, they would have an average of 4-5, maybe upwards of 8-10 audits going on at any given time.

### **QUESTION: WHAT'S AN EXAMPLE OF A BAD AUDIT BILL FOR A COMPANY?**

Let's take a billion-dollar company.

If an audit does not go well, the audit bill could be in the hundreds of thousand dollars.

### **QUESTION: WHAT'S THE BEST WAY TO FIX BAD AUDITS?**

Either your tax department has the staff and researchers to read all the laws and make tax determinations, or you use a service which supplies tax answers – a solid yes or no – for the things you buy and sell.

That way you're always sure the most important step, STEP ONE, is done correctly, and you won't have problems with STEP FOUR, audits.

### **QUESTION: WHAT ESSENTIALLY IS A TAX DEPARTMENT'S JOB?**

A tax professional working in a tax department has a pretty simple job if they understand this simple rule:

Their job is to make sure the correct tax is collected and that tax is sent to the government – to be in compliance.

If they get audited and things are really bad, you know something is wrong in STEP ONE and it need to be fixed, as their tax answers are wrong, or, the amount collected is incorrect.

There can be other problems a tax department runs into, such as having trouble getting the information out of accounting, but the usual problem is incorrect YES or NO tax answers or collecting the incorrect amount.

Incorrect tax answers are almost always the problem.

### **QUESTION: IS THERE SUCH A THING AS A PARTIAL AUDIT?**

Yes.

Sometimes a state will come in and do a partial audit for a certain set of purchases.



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### QUESTION: WHAT IS THE REGISTRY?

A tax department is regularly asked, “Are you comfortable you are getting this right?” by upper management and executives.

The big concern is that the required payment is getting to the government, and that’s because of this thing called THE REGISTRY.

At the state level, when these giant companies like Walmart let the state know that they’re doing business there, the officers of the company have to put their personal, social security, and financial information on a form, which is the registry.

If the state decides to send out auditors to “kick the tires” regarding tax, and they don’t get as quick a response as they want, they’ll send personal notices out to these officer’s homes.

Every major company like Apple, Walmart, Netflix, Nike, AT&T and so on – its officers, of which there are usually about a dozen or so, have to provide all their personal information to the state, any state, which they do business in.

Therefore, the top executives of the company are quite concerned that the correct tax is being collected and sent to the government correctly.

Remember that the company is collecting sales tax for the government and holding THEIR money in a bank account for at least 30 days.

That money is the state’s property.

If the state’s money isn’t returned to the state, this can be considered theft, and if the money was never returned, people can go to jail.

For these Executives, it’s no joking matter, which is why that question is constantly being asked, “Are you getting this right?”

That’s how the registry comes into play with a tax department.

### QUESTION: WHAT IS A REVERSE AUDIT?

An audit is the act of looking at something and making sure it’s right.

It’s not the act of getting money taken from you by a state, nor is a reverse audit the act of the state paying you.



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The term “REVERSE AUDIT” is not actually correct – in fact, this term was invented by outside consultants.

It would be better to call it “tax recovery”, which would be looking at all the financial records of a company to ensure they didn’t overpay or underpay tax to a government.

The next step in tax recovery would be getting the overpaid tax back to the company or getting the underpaid tax back to the government.

### **QUESTION: WHAT ARE AUDITORS AND STATE AGENCIES LIKE?**

I’ve worked with many state agencies and tax auditors.

I can honestly say that auditors are great people who genuinely don’t want companies to overpay tax.

Their job is to make sure the company is doing things right and are in compliance.

Once you understand that an audit is a collaborative effort, with everyone making sure things are in compliance, these audits usually go smoothly.



### 03 CONCLUSION

#### 01 WHAT'S NEXT?

Congratulations!

You've reached the end of the WHAT DOES A TAX DEPARTMENT DO course.

Let's review what we've covered before the final exam.

You've learned,

- The basic definitions a tax department uses
- An overview of the Four Basic Steps of a Tax Department which are:
  - Step One – Keeping track of things bought and sold, how to do that properly, how it can go wrong, and how to correct it
  - Step Two – Storing tax information, what the Accounting Group does, and how the interact with the Tax Department
  - Step Three – Sending tax owed to governments by filing, and what the entails
  - Step Four – Audits and reviews, how they could go wrong and how to have a smooth audit
- And finally, a series of commonly asked questions and answers regarding tax, nexus, audits, partial audits, the registry, a reverse audit and state agencies are like.

Next is the course final exam.

You are able to take the final exam up to 3 times, and with a passing grade of 70 percent, you will be sent an email with your certificate of completion, along with a LinkedIn badge from TTR University to add to your education profile.

TTR University offers many more basic, intermediate and advanced courses, so please check them out.

Thank you, and good luck on the exam.