



# Automated Exemption Management Strengthens Compliance and Customer Experience

Vertex's cloud-based certificate management platform drives efficiency gains and improves audit defence

While efficiency gains are often the most visible byproducts of new automation investments, they may not be the most valuable benefit. This is certainly the case with sales tax exemption management automation, which enhances tax compliance accuracy, simplifies reporting, and elevates customer experience—as organizations look to modernize how they manage exemption certificates across the lifecycle.

Many Vertex customers manage high volumes of sales and use tax exemption certificates—a group of companies that typically includes retailers, resellers, wholesalers, manufacturers, and many B2B companies. As these companies assess their capabilities, it helps to evaluate exemption management improvement opportunities that extend beyond efficiency gains, while considering the following points:

- There is limited tax department staff for data entry and tracking down certificate issues—and manual exemption certificate management processes are prone to errors and oversights.
- Exemption certificate management errors can put a company at risk of non-compliance and incur penalties.
- Exemption certificate management processes are a primary focal point of state or local tax auditors—and why validating exemption authenticity against regulatory requirements is important.
- Ineffective exemption certificate management can cause tax compliance errors, degrade customer experience, and hinder audit preparation activities.

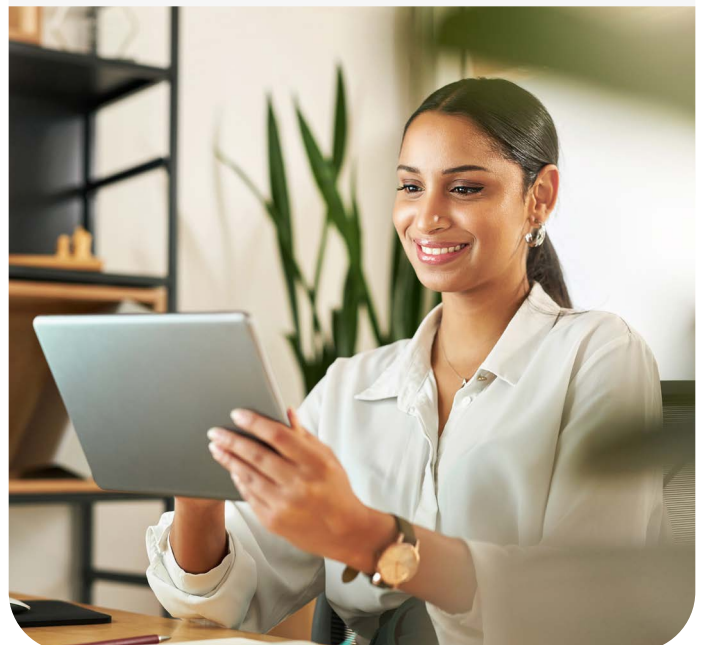
It is useful to keep in mind that “exemption certificate management” activities differ from an exemption management capability. The former refers to a document management process to collect, track, store, and report on certificates for audit defense; the latter describes the capability to seamlessly link and sync customer exemption data with a tax calculation engine so that up-to-date exemption certificate information is reflected in the tax determination and calculation of that customer’s transactions.

The final point is especially relevant to Vertex O Series customers, given that Vertex Certificate Center automatically shares updated certificate information with the O Series tax engine.<sup>1</sup> Improving exemption management entails asking the right questions (*see Self-Assessment Questions side bar*), recognizing risks associated with manual approaches, understanding what solutions are available, and targeting an expansive collection of automation benefits. And Certificate Center resides in Vertex’s trusted cloud platform so you can securely access the system anytime, from anywhere, without burdening IT resources.

## Self-Assessment Questions

- Have you had audit penalties related to missing or incorrect certificates?
- How confident are you that you have the correct exemption certificates to support your tax-exempt transactions?
- Do you manually collect, validate, and store your exemption certificates?
- How much time do you spend collecting certificates from your customers?
- Do you have trouble finding exemption certificate data for audit defense?
- Does the upkeep and maintenance of exemption certificates challenge your team?
- Do you have the time, resources, and expertise to collect and validate your current and future exemption certificates, especially if you have fast-growing customer base?
- If you could, would you like to outsource the collection process?
- How do you ensure your tax engine is up to date with your customer exemptions?

If more than one or two answer raise concerns, [talk to a Vertex representative](#).



## Sizing Up Exemption Management

Managing the documentation of tax-exempt sales is a crucial driver of accuracy in sales and use tax reporting. Ineffective exemption management can result in liability for the tax amounts that should have been collected and added audit penalties. It's widely known that a large percentage of audit penalties can be attributed to substandard management of exemption certificates.

Research analysis conducted by BDO indicates that "states are becoming stricter on both form and use, taking the position that where certificates are incomplete, invalid or misused, taxpayers may not avail themselves of the benefits the certificates offer."<sup>2</sup> As indirect tax groups assess and, when needed, mitigate audit risks associated with poor exemption certificate management processes, they can zero in on six areas the BDO research identifies as particularly risk-laden:

1. **Sales to the government and agencies:** While sales to the U.S. federal government are tax-exempt, some states impose sales tax on government institutions that are not owned by the U.S. This includes federal credit unions and federal home loan banks. Sales to state governments and agencies are also subject to sales tax in certain states.
2. **Sales to non-profits:** Not all sales to non-profit organizations are tax-exempt. Many of these transactions are generally taxable unless used for charitable purposes, or another exemption applies. Additionally, certain tax jurisdictions require the institution to prove that it is a "purely public charity."
3. **Multi-entity purchasers:** If one legal entity within an organization makes a purchase, but another entity issues the exemption certificate, auditors may deem the certificate invalid.
4. **Timely acceptance:** Most states require exemption certificates to be issued at the time of sale or shortly after. If they are not obtained within the prescribed period or (in some states) retroactively or during an audit, tax authorities may regard them as invalid.
5. **Renewal period:** In most states, certificates do not expire; however, some states require renewal within periods varying from one year to 10 years.
6. **Multi-jurisdiction certificates:** Intergovernmental organizations such as the Multistate Tax Commission (MTC) have created uniform exemption certificates.<sup>3</sup> However, some states require use of their own unique forms, and not all states allow the exemptions listed on the forms. Before accepting a multi-jurisdiction certificate, it helps to check state-specific rules about their limitations.

In response to those audit risks, the BDO research lays out the following game plan for improving exemption management:

1. Establish a process and procedure to collect, review, validate, and store exemption certificates at a central location. Request exemption certificates from customers as part of the onboarding process or contemporaneously with the purchase order.
2. If exemption certificates were not previously collected, collect them as soon as possible.
3. Validate all certificates by undertaking a comprehensive review for completeness, accuracy, and expiration.
4. Monitor and ensure the timely update of expiring certificates.
5. Leverage technology to automate collection requests, track expiration dates, and generate reports for audit requests, increasingly enhanced by AI-assisted data extraction and validation.<sup>4</sup>

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## Two-Way Synchronicity: Vertex Certificate Center

A modern, cloud-based platform that centralizes and streamlines exemption certificate management, Vertex Certificate Center makes it possible to streamline sales tax exemption certificate management to improve calculation accuracy, compliance, and audit performance.

While Certificate Center excels at document management, it offers greater value via its seamless integration into the tax engine. In addition, automatic synchronization with Vertex O Series helps ensure current customer exemption status is part of your tax determination (including special condition certificates, limited use certificates, drop-shipment reciprocity, and more). This integration helps ensure your exemptions are valid and up-to-date with automated collection, validation, and maintenance—including comprehensive customer correspondence. Furthermore, Certificate Center helps reduce audit risk and penalties by proactively managing your tax exemption certificates—helping ensure your tax determination is accurate, and you are confident and ready to respond to audits.

In addition to supporting tax compliance accuracy, Certificate Center provides automated document management. Modern exemption management approaches also support integration with broader business systems, enabling certificate workflows to connect with upstream ERP and commerce processes. These capabilities include:

- Efficient digital workflows:** Certificate Center's user-friendly interface helps users capture customer exemption certificate data and images, validates the certificate data as it is entered, and stores all relevant exemption certificate data for convenient retrieval. These capabilities often represent a substantial improvement compared to manual, time-consuming processes that can be prone to errors. And with automatic exempt reason assignment, it's possible to ensure O Series transaction data properly assigns the right exemption code to expedite returns preparation and filing—streamlining calc and compliance before it becomes an issue.
- Proactive monitoring & collection:** The solution's reporting capabilities identify missing certificates and certificates with looming expiration dates. These alerts enable Vertex customers to proactively request additional and/or updated certificate information from their customers. Certificate Center users can initiate individual and batch email correspondence using custom or canned templates to collect updated certificates while monitoring status (sent, read, submitted, approved). They also have the option to outsource that ongoing collection to the Vertex Certificate Service (*see the Vertex Certificate Service side bar*).
- Support for audit activities:** Exemption certificates are one of the leading causes of audit penalties—and yet many companies aren't aware of missing or invalid certificates until after the audit. At the same time, staying on top of certificates can be time-consuming and labor-intensive, and can leave your business focusing on paperwork, not more strategic, business-building activities. Vertex Certificate Center offers an out-of-the-box integration with Vertex calc solutions that simplifies deployment and provides faster time to value. The two-way synchronization between O Series and Certificate Center, along with the tool's proactive certificate monitoring, helps reduce compliance errors and, by extension, audit risk. Plus, its reporting features allow users to create certificate reports using filters to pinpoint precise data and date ranges. These outputs are delivered in an auditor-friendly file format, one that includes the option of attaching files of certificate images. These capabilities strengthen audit preparation and response.

Together, these capabilities support the end-to-end management of exemption certificates across the lifecycle.

## Outsourced Collection: Vertex Certificate Service

After implementation, Vertex Certificate Center customers can outsource the ongoing collection, loading, and renewal of exemption certificates to Vertex. The customers' own Certificate Center tools are used to validate new certificates and conduct ongoing certificate collection/renewal campaigns. This work keeps certificates up to date and audit ready. This outsourcing service enables Certificate Center users to focus on their indirect tax lifecycle management priorities.

## Beyond Efficiency: Compliance Accuracy and Customer Experience Benefits

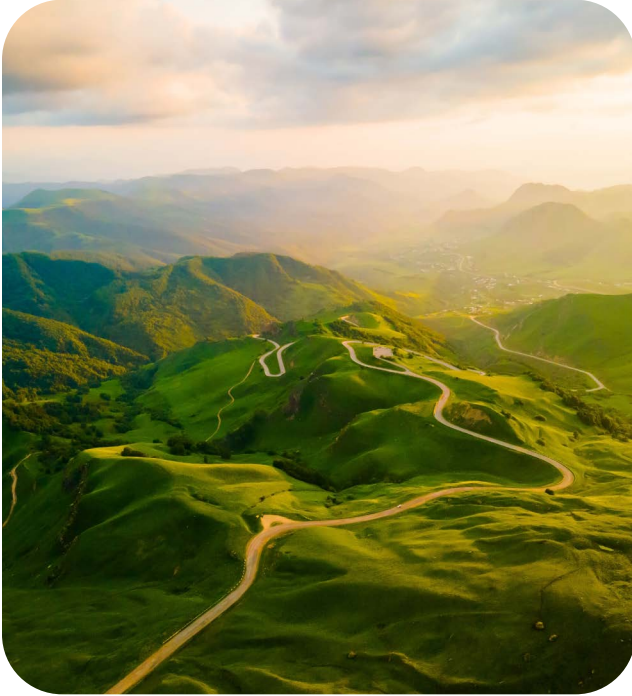
Risk managers tend to emphasize the importance of “trust but verify,” an approach that resonates with indirect tax groups’ focus on compliance, accuracy, and reconciliation. Tax groups that deploy a centralized exemption management capability will discover that verifying can also engender higher levels of trust – among auditors, tax jurisdictions, and even customers.

Deploying solutions like Vertex Certificate Center and Vertex Certificate Service produces an immediate clarifying effect among tax professionals. Cleaning up, validating, updating, and organizing exemption certificates that were scattered throughout multiple locations can feel like decluttering a closet, organizing a messy desk or pruning an overgrown garden. These efficiency improvements are immediate. They can also be substantial: One company leveraged Vertex certificate management automation and reduced the number of people entering certificates by 90% (from 250 to 25 people), while increasing processing efficiency and accuracy.<sup>5</sup> In addition, Certificate Center resides in Vertex’s trusted cloud platform so users can securely access the system anytime, from anywhere, without burdening IT resources.



Exemption management automation can also contribute to more trusting relationships with customers and even sales and use tax auditors. As tax managers and leaders consider automating their exemption certificate management process, they should assess all potential benefits including:

- Tax compliance accuracy improvements:** Manually storing and retrieving exemption certificates and manually monitoring expiration dates increases the risks of tax determination errors. These errors, in turn, increase the likelihood of penalties and fines arising from sales and use tax audits. While a modern exemption management approach increases processing efficiency, its improvements to tax determination and calculation accuracy represent a higher-level benefit.
- A better customer experience:** Tax compliance errors stemming from the mismanagement of exemption certificates can have negative impacts on customer experience. These errors raise questions among customers as to whether they can trust your company’s tax calculation and billing processes. A leading, automated exemption management capability can foster higher levels of customer trust. When a company proactively reaches out to a customer to alert them that their exemption certificate is approaching its expiration date and needs to be renewed, that assistance enhances the customer experience.
- Stronger audit preparation and heightened credibility with auditors:** When an auditor walks into a tax group to conduct an audit, the presence of Vertex O Series combined with Vertex Certificate Center sends a clear message: *We’re ready for the audit and can quickly provide you with any information you need in the format you want.* This sets a collaborative, positive tone for the audit. Having this automation in place also sends a subtler yet just as meaningful signal to auditors: *We care about tax compliance accuracy and audit documentation, and we support these priorities by investing in tax automation.* When auditors request information related to exemption certificates, tax professionals can respond by providing them images of the certificate, expiration and renewal dates, and tax reporting records that document what tax was charged and why.
- Greater process efficiency:** Exemption management automation eliminates time-consuming and labor-intensive activities involving exemption certificates. And, while tax leaders have no doubt heard this before, it remains true: indirect tax professionals previously responsible for storing, tracking, retrieving, and troubleshooting exemption certificates can replace that portion of their jobs with higher value activities related to tax compliance accuracy, customer experience management and tax planning.



## Conclusion: Exemption Management can be a Higher-Value Activity

Given the stiff competition for automation investments in most organizations, CFOs and CIOs can be understandably reluctant to prioritize efficiency plays over new technology solutions that drive business value.

Vertex customers crafting a business case for a more modern approach to exemption certificate management should keep this in mind. While Vertex Certificate Center improves process efficiency, its greater value lies in strengthening tax compliance, enhancing customer experience, and improving audit defense. Together, these benefits help transform ad hoc, manual processes into a centralized, scalable exemption management capability.

See how Vertex Certificate Center helps organizations centralize and manage exemption certificates across the lifecycle—visit the [Vertex Certificate Center product page](#).

### End Notes

<sup>1</sup> <https://www.vertexinc.com/solutions/products/vertex-certificate-center>.

<sup>2</sup> <https://www.bdo.global/en-gb/insights/tax/indirect-tax/united-states-without-an-exemption-certificate-your-sales-may-not-be-exempt>.

<sup>3</sup> <https://www.mtc.gov/resources/uniform-sales-use-tax-exemption-certificate/>.

<sup>4</sup> <https://www.bdo.global/en-gb/insights/tax/indirect-tax/united-states-without-an-exemption-certificate-your-sales-may-not-be-exempt>.

<sup>5</sup> <https://www.vertexinc.com/resources/resource-library/how-graybar-improved-audit-defense-vertex-exemption-certificate-manager>.

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