Tax Compliance Solutions

A review of existing tax compliance options and new technology-based solutions that offer efficiency, flexibility, and reduced IRS penalty risk.

View Solutions ⟶

Let's be honest, tax compliance is tedious and difficult. Filing taxes incorrectly, even unintentionally, can cost companies thousands—if not millions—of dollars. Outsourcing tax processing relieves companies of the burdens of tax compliance, facilitates form distribution, and allows companies to focus on their core business.

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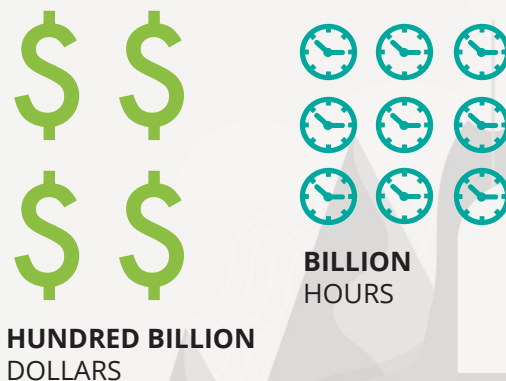
Tax preparation is costly and time-consuming. Businesses spend $400 billion and 9 billion hours each year complying with tax laws. (*Tax Foundation.*) This time includes researching and understanding new laws and regulations, gathering data, and supplying information to tax form recipients and to the appropriate taxing authority. Compliance activities continue long after taxes are actually filed, as organizations must answer time-sensitive tax form questions from recipients and issue document reprints upon request.

LOST COMPLYING WITH TAX LAWS:

$ $

$ $

HUNDRED BILLION DOLLARS

BILLION HOURS

Otter Tax

Tax Compliance:
The Current Landscape

Penalties for negligence or errors are severe. The IRS recently increased the penalties for failing to file returns or distribute statements to recipients or for errors on forms or statements. For tax year 2018, penalties start at $50 per return and can reach millions of dollars for organizations required to distribute multiple returns. The IRS can impose penalties exceeding $3.2 million, and there is no cap for organizations that intentionally fail to provide information to the IRS or to taxpayers, or that knowingly provide inaccurate information.

Tax compliance is complicated.
The IRS continually updates tax regulations and Congress regularly enacts new laws which affect taxes. Title 26 of the Code of Federal Regulations, the Internal Revenue Code, is currently almost 4,000 pages and grows longer every year. Important recent changes include requirements for electronic submission and the Affordable Care Act, which requires companies to provide health insurance to their employees and distribute health care-related tax forms annually.

Electronic submission requirements.
The IRS and Social Security Administration (SSA) increasingly require tax data to be submitted in electronic form. Both agencies are working to encourage or require filers to report their information electronically. The IRS recently changed the volume threshold for electronic filing by requiring entities that file 250 or more of a single type of tax form to submit data electronically. This number is likely to drop again in the future, thereby increasing the electronic filing requirement as a whole.

The Affordable Care Act (ACA).
The ACA generally requires organizations of fifty individuals or more to provide health insurance to their employees. Additionally, the law requires employers to provide information about health care coverage to their employees on an annual basis. The IRS introduced several new forms for the purpose of reporting health care information, among them form 1095-B for reporting health care coverage by an insurer or similar entity and 1095-C for businesses to report the availability of health care coverage to their employees. Information on both forms must also be furnished to the IRS, and organizations that distribute 250 or more copies of either form are required to submit the information to the IRS electronically.

Despite increasing complexity with tax compliance, many companies still continue to use outdated, manually intensive procedures for filing taxes as they have for decades.
They gather the data necessary to complete their tax obligations, provide the information to the appropriate taxing authority, and then mail forms to

their recipients. In recent years, several alternatives have become available to organizations who wish to outsource tax processing, including professional service providers, cloud-based platforms, and form processors. However, each of these potential solutions has certain limitations.

Professional service providers.

Many professional organizations, for example accounting and tax firms, offer form preparation and distribution services. Such companies typically process W-2s and 1099s, and several make recipient statements available on line. Offerings from professional service firms primarily suffer from two drawbacks. First, they usually support only a limited number of forms. For example, few accounting firms offer support for Affordable Care Act (ACA) reporting and distribution, as ACA requirements are not directly related to accounting. Second, service providers often require a purchase of bundled services including accounting and payroll features, which may not be in the best interest of the customer. Often times, recipients must also access two or more systems to retrieve their statements – a less than optimal solution that can create confusion. Ultimately, service exclusivity makes it difficult for customers to change service providers, even as more appealing alternatives are made available in the marketplace.

Cloud-based platforms. Over the past

few years, a number of cloud-based human resources and administration solutions have appeared. These services provide infrastructure and support for HR-, payroll- and accounting-related tasks, typically offering a holistic model for outsourced business functions. While these services may be suitable for small businesses with less than 50 employees, they struggle to integrate with businesses that have advanced needs. For example, organizations with existing HR and accounting specialists can experience cost inefficiencies due to operational overlap. Additionally, they are often limited in flexibility and impose, at varying degrees, predefined business processes. In general, these services are designed to support businesses with limited capabilities, and are a poor match for organizations that need to supplement or enhance existing business functions.

Form processors. Several companies

with a more focused mission have dedicated themselves to providing form processing services for one or more tax forms. Typical service offerings include data processing, e-filing, and form distribution. Some companies also provide an online portal through which customers can administer their tax data and/or allow recipients to access their statements. These services are often sufficient for organizations with limited form types and low volume distribution requirements. Unfortunately, few of these companies offer solutions that scale to medium and large organizations that have more complex tax compliance requirements such as multiple form types, custom data validations, and high volume distribution. Those offering online portals also lack sufficient cyber security measures, and protocols and standards followed by these organizations are frequently difficult to find or unavailable.
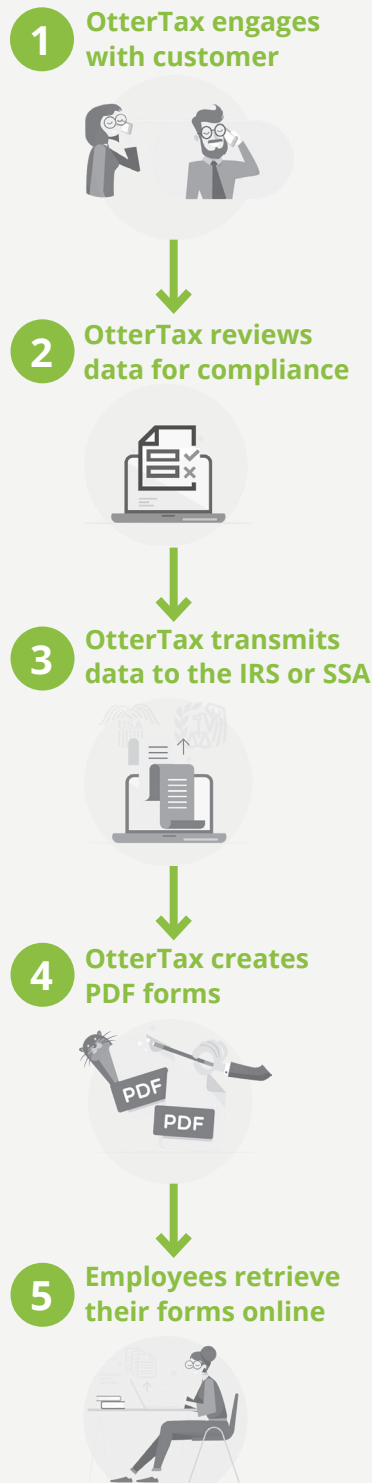
Tax Compliance: A Better Approach

What if a solution existed that enabled businesses to outsource their complex tax compliance obligations, while maintaining operational agility, budget and security confidence, as well as delivering additional value to employees? OtterTax entered the tax compliance space, offering a compelling solution that ticks all the right boxes. OtterTax is founded on IRS-regulation expertise matched with automation technology, a combination that enables it to offer scalable solutions for medium and large organizations. Specifically, services include end-to-end tax data validation against a plethora of IRS rules and regulations, e-file preparation and submission to government agencies (IRS and SSA), and digital form distribution to employees via a secure online portal. Uniquely, OtterTax's service model does not require a subscription commitment, which is refreshing differentiator versus the competition. An added benefit of its specialization in tax compliance is that it eliminates the risk of conflict with existing internal accounting and HR staff functions. OtterTax's infrastructure is hosted and managed within Amazon's secure data centers utilizing Amazon Web Service (AWS) technology. Additionally, a pending security attestation from Veracode, an industry leader in application security, demonstrates a commitment to customer data protection.
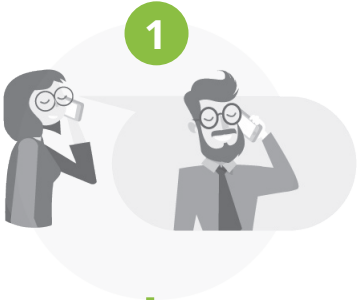
Re-evaluation of solutions. Given the current tax compliance landscape, it's evident that many organizations stand to benefit substantially by re-evaluating their existing tax processes and seeing how they stack up against new solutions available in the market. As observed in many industries, the advent of automation technology and digital services have potential to drive significant value by enabling businesses to re-focus their efforts on core competencies.

1 **OtterTax engages with customer**

2 **OtterTax reviews data for compliance**

3 **OtterTax transmits data to the IRS or SSA**

4 **OtterTax creates PDF forms**

5 **Employees retrieve their forms online**

OtterTax
Solution Overview

1

Customer engagement. Ottertax starts the process by understanding each customer's business model and operational requirements with an eye toward establishing a partnership of equals. We understand taxes, but will never understand our customers' business as well as they do, and our collective expertise is what makes us successful. During this phase of the process, OtterTax determines the number and types of forms filed by a customer, any problems they've encountered in the past, and any special challenges they face going forward. A deeper understanding of our customers allows us, for example, to better design validation rules which can reduce filing errors and penalties.

2

Compliance Review. Companies send their data to OtterTax in any of a number of formats, including most popular payroll and accounting packages, spreadsheets, or CSV files. For larger companies who prefer to submit data themselves, we can also accept data in the submission formats defined by the Internal Revenue Service (IRS) and Social Security Administration (SSA). OtterTax then reviews customer data using our validation engine, which consists of thousands of rules, based on IRS and SSA requirements, all written to ensure compliance and reduce filing errors. These rules begin by validating all data is in the correct format. OtterTax also performs more complex validations by ensuring data combinations are valid. For example, the OtterTax validation rules ensure that an account number is present if it is required as part of the Foreign Account Tax Compliance Act (FATCA) or that a given combination of distribution codes is valid. Finally, OtterTax validations can be tailored to suit a customer's particular situation. Our custom rules are flexible and can test one or many fields for any condition defined by the customer.

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Solution Overview

3

IRS e-file. OtterTax transmits the customer's data to the appropriate taxing authority, either the SSA or the IRS. OtterTax is authorized by these agencies to submit tax forms, including W-2s, 1098s, 1099s, Affordable Care Act (ACA) forms and others. We securely transmit data to the appropriate government agency and monitor the submission. When the receiving agency indicates that the data has been successfully received and processed, we then forward written acknowledgment to our customers.

4

Form creation. OtterTax creates digital PDF versions of the tax forms that are fully compliant with government specifications and ready for distribution to recipients, either electronically or by US mail. OtterTax forms can be printed on plain paper, eliminating the need for preprinted forms.

5

Digital distribution. Once the tax forms are generated, recipients are notified and provided access to a secure portal where they can retrieve their documents. Forms are stored on the portal site indefinitely so that recipients can retrieve them months or even years after they've been distributed. Customers who've chosen to distribute their tax forms through the US mail can elect to have OtterTax mail the forms or mail the forms themselves. OtterTax always provides customers with PDF versions of all forms for their archives. We can deliver the documents as a single PDF or as separate documents. When delivered as separate documents, we include an index file so forms can be loaded into an enterprise content management (ECM) system or other document repository.

OtterTax

OtterTax offers a number of advantages both for those who produce forms (employers) and for those who receive them (recipients).

Secure documents.
The OtterTax online portal was designed from the ground up to be secure. The application is hosted in a secure facility that meets all important industry security standards, including ISO 27001, SOC 1, SOC 2, PCI Level 1, Sarbanes-Oxley, and FISMA (moderate). All of the data stored in the database is encrypted (encrypted at rest), and the tax documents themselves are encrypted a second time. The data stored in the portal is kept to a minimum by design; most confidential data is secured in a private database that is inaccessible to the portal. The hosting facility is regularly monitored by a third party to ensure security. In addition, the OtterTax application is regularly scanned and pending certification by Veracode, an industry leader in web security.

Outsource form distribution. Distributing forms to recipients is time consuming and error prone. Responding to individual requests for reprints of forms originally distributed several years ago can be quite difficult due to the logistical requirement of matching data with both the correct forms and envelopes. Organizations that outsource this task to OtterTax save time and frustration. Recipients who access their forms through the OtterTax portal can serve themselves without any involvement from the form producer. Even for recipients who do not use the portal, the process for form producers is considerably easier as OtterTax statements do not require preprinted forms and can be mailed in one of a small set of standard envelopes.

Reduce filing errors and penalties by validating information. OtterTax has implemented a series of extensive validation rules to meet the requirements of the IRS and SSA, which serves to greatly reduce the likelihood that organizations will submit data with errors and incur penalties. Penalty for errors can be substantial, ranging from $50 per tax form for unintentional errors, up to millions of dollars for more serious reporting errors.

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Electronically distribute all tax forms to a single location. OtterTax offers a single, centralized repository for all tax forms. This provides for much easier administration than using multiple services and storage locations for different types of forms. Using one service to process W-2s and another to process 1099s, for example, creates confusion for both form producers and form recipients.

Archive all forms in existing document management system. OtterTax always provides form producers with a full set of tax forms in PDF format. These documents can be loaded into an enterprise content management (ECM) system for digital archival and future retrieval. For organizations that do not use an ECM, OtterTax distributes all forms in a single, fully searchable PDF which can be stored in a private or shared location.

Eliminate the need for preprinted forms and custom envelopes. All OtterTax forms print on blank, US letter-sized paper so there is no need to purchase or store preprinted forms. The only forms that require special paper are W-2 and 1099-R. These forms print four per page, and regulations require that printed copies be distributed on perforated paper. However, there is no such requirement for forms distributed electronically.

All OtterTax forms are designed to be mailed in one of three commercially available envelopes. For organizations that choose to mail forms to recipients, using standardized paper and envelopes streamlines the distribution process, reduces the variety of envelopes to store, and completely eliminates the requirement to save multiple versions of various tax forms so they can be reprinted for years after initial distribution.

View, download, and print documents anytime, anywhere. Form recipients who use the OtterTax portal can view, download, and print forms at their convenience. The portal is accessible from any device and always available. Procrastinators can easily retrieve copies of their tax forms on the weekend before April 15th without needing to involve the organization that distributed the forms.

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Solution Overview

ADVANTAGES

Securely email documents to your tax preparer or accountant. The portal is integrated with an encrypted email service. This makes it easy for form recipients to securely send copies of their tax forms to their accountant, tax preparer, or mortgage lender.

Access documents for months or years after they're issued. Documents distributed through the portal remain available indefinitely. This means that recipients can access them long after they're distributed and never need to involve the original form creator to request a reprint.

Contact us to simplify business tax compliance with IRS e-file automation and secure digital forms.

We're happy to provide a free demo and answer any questions.

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