



LEGAL REVIEW

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Taxes and Accounting

"It has become increasingly complex out there for small businesses," said Charles B. Postal, managing director of Santos, Postal & Company, a firm that has provided traditional accounting, auditing and tax services to metropolitan area businesses for 30 years.

"Tax compliance has gone through the roof," said Postal, who focuses on small businesses. "It's not just federal, but also the states, which have become very intense in their efforts to collect sales and use taxes. There are a lot of audits, and businesses have to focus on complying with all the new federal and state tax regulations that are out there now."

Maryland is among states making a concerted effort to collect sales and use taxes, Postal said. State regulators "will take up to a week of your time, scouring your records for up to five years prior. They will find things that most people are at risk for, especially purchases over the Internet, when you often don't pay sales tax. They pick up on that right away. It's a cut-and-dried audit; you either paid the tax or you didn't. And they walk away with some big bucks. Businesses are shocked."

For an average small business with \$2 million to \$5 million in annual sales, "if the state audits them, they probably



Charles B. Postal
Director of Santos, Postal & Company

will have to come up with an average of about \$25,000 in sales tax at one time," Postal said.

"When business owners get hit with this, they are devastated. It consumes their lives. They don't ever conceive that they are doing anything wrong," he added.

The enforcement also applies to non-retailers, including law firms, Postal said. "They buy computers, and a lot of paper and other things, all over the Internet, and they're not paying sales tax on it. Maryland is going in there and enforcing it and charging penalties. It gets expensive real quick."

To avoid problems with the state, businesses and law firms should maintain detailed records on all their purchases, and "that takes accounting personnel," said Postal. But some small and medium-sized businesses are having a difficult time finding the professional accounting services they need, he continued, because the Sarbanes-Oxley Act has drawn many accountants into the larger corporate world.

"Sarbanes-Oxley has caused a big drain on accounting resources that small businesses used to depend on. It has created a tremendous need for accountants," he said.

Many small businesses are moving to technology to help them maintain records, but it costs money for computers, software programs, and training of personnel. "So the whole cost of doing business has increased," Postal said.

Some businesses are outsourcing their basic accounting needs to other countries, Postal said. "We're seeing a lot of them going to India and Malaysia. Through the Internet, they are having people in those countries track their transactions for them, because they can do it at a much cheaper cost there than here. It's typically write-up type of work—billing, collections, customer

support; anything that takes a lot of number-crunching.”

“And you’d be surprised by the quality that they are getting, especially from India, where they are well-trained and speak English and are focused on trying to get this type of business,” he added.

Outsourcing works well for credit card companies, banks, title companies, and “anybody who is doing a lot of heavy invoicing that they need to keep track of,” Postal said. “Businesses that have a lot of fixed assets, equipment-



type issues, inventory control issues are also outsourcing over there because they can't find enough qualified people here to do it.”

Meanwhile, businesses have other problems to be concerned about, particularly accountability if they have to

report to outside investors. “Business owners have to be worried whether somebody is stealing not just from them but from their investors,” said Postal. “They have to protect their assets. It’s a new field out there, especially with computers. You have people stealing personal information. Any business that gets a customer list together is at risk if somebody hacks into their computer system and steals their addresses.”

Postal added that tax identification numbers that businesses are required to get from their vendors also are sensitive information. “Small businesses never had to worry about that before, but now it’s in the forefront of what they have to deal with.”