

Sales Tax Solution for Merchants that Automatically Impounds, Files and Pays the Sales Tax



Owen Brown
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“DAVO Technologies’ premier product, DAVO Sales Tax is the automated sales tax solution for the more than 6 million small to mid-sized brick and mortar merchants in the U.S. and the States alike. Sales tax accounts for on average, up to 50% of most State budgets, yet nobody before DAVO has developed a process to collect it in an automatic, seamless and secure process. DAVO Sales Tax automatically collects, files and pays a merchant’s sales tax using the merchant’s point of sale and the electronic payments networks, reducing the risks and liabilities for merchants and states. DAVO’s goal is to do for sales tax what ADP and Paychex did for payroll.”

- Owen Brown

CEOCFO: Mr. Brown, what is the concept at DAVO Technologies?

Mr. Brown: Many small merchants experience multiple pain points when it comes to paying and filing their sales tax. There are over 6 million small merchants in the United States yet no one before DAVO has really offered them any assistance or has provided them with an automated process to relieve them of the burden of paying and filing sales tax. DAVO Technologies developed a patented application that automatically impounds, files and pays merchant sales tax. Boarding is simple; it takes a couple of minutes, and once they do that, they are essentially done with their sales tax problems forever. Our goal is to do for sales tax what ADP and Paychex have done for payroll.

CEOCFO: Why has this not been done before—what are the challenges and how have you been able to overcome them?

Mr. Brown: There are a limited number of companies in the accounting space that offer somewhat of a technological solution on the filing and tax complexity side for generally, mid-sized to large merchants. DAVO Technologies focuses on the problem of the payment of the sales tax — having the funds available; cash management. Many small and mid-sized merchants are challenged by having the funds available come time

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to pay. DAVO Technologies is really a technology company in the payment space with a sales tax solution for small and mid-sized merchants. Our approach comes from the payments side as opposed to the accounting and tax complexity side. We basically automated the manual process that small and mid-sized merchants go through in paying and filing their sales tax.

CEOCFO: *Why is paying sales tax so difficult?*

Mr. Brown: The expression that we use is, “Merchants collect pennies, and then they have to pay dollars.” For example, let’s say you are a coffee shop owner and you are selling cups of coffee at \$2 a pop. You are collecting in the state of New York not just \$2.00 but \$2.18. The 18 cents is the sales tax. Well, you sell hundreds of cups a day collecting pennies all the time. All of a sudden comes tax payment time and you owe the state of New York something like six or seven thousand dollars. Again, the merchants were collecting pennies, now they are paying dollars. Many just do not have the funds available because they used the money for other operating expenses; for example, in a restaurant they may end up using those funds to repair a refrigerator. They are going to prioritize that rather than close down their business. They are going to use the money they have available. However, some of that money is not theirs, and therein lies the problem: because the states deem the sales tax money to always be theirs, meaning you are not allowed to legally use it for anything other than earning interest. When a merchant is late with their payment, they generally incur a state imposed penalty which often averages around 10% of what they owe, and that is immediate. If the merchant does not follow up with payment in a timely fashion that could lead to closure of the business, inventory confiscation and in some cases even jail time.

Our patented solution ties together all the moving parts of the payments ecosystem, from the point of sale, to the acquirer or processor, to the ACH platforms and to the States’ Department of Revenue. We integrate with the merchant’s point of sale or back end accounting package and automatically collect summary data on a daily basis and then orchestrate an automated impound of the exact amount of sales tax that a merchant collects on a daily basis. We impound the sales tax money daily, setting it aside in a safe and secure tax holding account for further credit to the state. Therefore, this leads to optimal merchant cash management. We remove the risk from the merchant of inadvertently using the state’s money for operating expenses.

CEOCFO: *Are there any protections for companies’ funds?*

Mr. Brown: It is very much like payroll. There are many small payroll companies in this country in addition to the larger ones like ADP and Paychex. They impound the payroll money and they are safe holding the funds for the benefit of the government. They safeguard these accounts through insurance and through their own self-regulation and reputation. DAVO Technologies has multiple layers of insurance of course and there are safeguards on the account as to where those funds are actually credited and we have also registered ourselves with various states.

CEOCFO: *How are you able to account for local taxes?*

Mr. Brown: We collect the sales tax that is dictated to us—that comes out of the merchant’s point of sale or back end accounting packages. It is all built in. For example, a merchant’s sales tax in New York City is 8.85% and that is broken down between city tax and state tax. We take

the total tax amount into the system that point of sale tells us to collect, which has all the components in it, and each state has their own mechanism to actually divvy up those funds, trickling down into the different localities. We make one payment to the state and it is the state's responsibility to divide that money to the various locals. DAVO accounts for and collects the total amount of sales tax due from the state level down to its localities.

CEOCFO: *Have businesses been looking for a better way; are they excited when they find out that DAVO Technologies exists?*

Mr. Brown: They are excited when they find out it exists because no one has given them the option of having that solution before. They had to pay their sales tax on monthly or quarterly basis and it was a pain point for them for all different reasons—for some it is the filing but for many it is having the funds available. When our sales reps tell their merchants that we have a sales tax solution for them that takes 2 to 3 minutes to board with a cost of only \$40 a month or less, which is less than the cost of an accountant or a bookkeeper, they get excited. We have received some great testimonials. Merchants have offered to be spokespeople for DAVO for free because they love the product so much—being able to wipe their hands of this problem and not having to think of sales tax ever again.

CEOCFO: *How else do you reach out?*

Mr. Brown: Right now, we have two go to market strategies. Our initial strategy is via subscription, so 90% of our sales effort is being done by channel partners. We initially launched with First Data in February. We are an app on the Clover Marketplace and we are also an app on Revel Systems, another very strong POS platform. Our plan is to be on multiple POS systems. The sales effort is from the acquirers or processors, POS companies, and small to mid-sized payroll companies that have a great cross-selling synergy with DAVO. Our direct selling effort is 10% of our sales effort where we direct our efforts towards verticals that we think are proven to need the DAVO solution. It is interesting, you would imagine that food and beverage would be a large component of our business leads, and they are. However, certain merchant groups keep signing up on a daily basis. We get an inordinate amount of BBQ restaurants and also VAPE lounge and storefronts because they have sales tax challenges. Our go to market strategy in the future is our state white labeling effort. We would have states white-label our product as a small merchant sales tax solution. They would roll the product out voluntarily to all the small merchants in the state free of charge; the states would become our clients. Merchants would no longer have to file or execute payment of their sales tax ever again because DAVO would do that for them. In return, the states would take their sales tax dollars on a daily basis. This is the key. The same way that DAVO impounds the sales tax daily, we can pay the states their money daily. This is a very powerful proposition for states to help strengthen their fiscal situations. For most states, sales tax is on average, up to 50% of their state budget, so we believe that it would be a very strong proposition for them to be able to receive that money daily. In addition, of course, any merchant that is on the DAVO platform, the compliance rate would go way up. I think it is 28 out of 46 states in this country that collect sales tax offer a discount for on-time filing and payment. This is not a very high hurdle. Any merchant on DAVO would automatically become compliant and would receive their discount because they would always file and pay on time.

CEOCFO: *What is your plan for getting there?*

Mr. Brown: There are two ways. One is from the top down. We are cultivating relationships with certain governors or lieutenant governors or heads of the budget committee of the legislature—those that could take credit for either earning money for the state or saving money for the state. At the same time, we are having conversations with certain merchants who are already having problems and are in arrears. We can help them work out an arrangement with the state department of revenue; a plan where they would go on the DAVO platform and DAVO would not only collect their current sales tax for the state but also their back tax in exactly the same seamless, automatic fashion. We would impound three to five percent of their gross revenue on a daily basis and remove that the same way we would with current sales tax impound. That would be placed in a separate account for the state—the state would always know that they are getting their money. This way, you are making good citizens out of merchants who were in arrears and it is a very politically palatable solution because there is no need for collection agencies, closing businesses down or putting people in jail. It is a win-win, and it is our way of going in from the bottom up; getting a few states involved in our automated back tax collection solution. We are members of the National Association of State Treasurers. We are in contact with various state treasurers and we have cultivated some relationships at the top. All you really need is one state. One who recognizes the value of DAVO's solution to advocate the process. We would start with a beta. Here are 50 merchants that are in arrears—let's show you what we can do. You gain their confidence by helping them with back tax. And ultimately if you can get one state to advocate and white label voluntarily, no legislation involved, it is successful. The compliance rates go up and they are getting their money on a daily basis. You do not have to get 46 states; you have to get 2 states. The rest would most probably want the same. We are highly confident that we can accomplish this. We would like to think that we will be in beta by 2017.

CEOCFO: *We noticed that DAVO Technologies participated at Finovate; what was the reception?*

Mr. Brown: We really liked the conference. We thought it was very professionally run and the participants are world-class startups so we were quite honored to have been chosen to present with that group. The audience was of the highest caliber. After the presentation we had a number of individuals approach us who really impressed us. We were also impressed with the quality of the reception and the questions we received at our booth. We believe some good partnerships may come from this event.

CEOCFO: *What would people remember when they are reading about DAVO Technologies?*

Mr. Brown: We are a solutions company. DAVO Sales Tax is just one such solution. However, DAVO is so much more than just the sales tax solution. We actually optimize any recurring payment cycle of 30, 60, 90 days, reducing it to only one day, compressing time. Multiple iterations and uses for this solution include franchise royalty and advertising fee payments, merchant utility bills and even facilitating the merchant loan process, given our access to robust, granular daily sales data that lenders can utilize for credit decisions.