



# OPERATIONAL BEST PRACTICES

*SETTING UP YOUR COMMUNICATIONS BUSINESS*

***The “Right” Way***

## WHAT YOU DON'T KNOW...CAN HURT YOU!



**Take our word for it. We are the lawyers companies hire to “clean up the mess.” Instead, we should be the lawyers and consultants they hire to do it right...straight out of the gates.**

Entering the “Communications Services” market is not for the faint of heart. Because of technological advancements (i.e., IP-based communications and software-enabled platforms), low market entry barriers, and “vendors/suppliers” who seek to grow their revenue (and who may not fully appreciate the burdens and risks imposed on their downstream resellers/retail partners), new entrants to the Communications Services industry often have a false sense of confidence that they can enter the market and, somehow, comply with the myriad of regulatory and tax obligations without making considerable investments of time and resources.

Too often, entrepreneurs try to shoehorn an entirely new and vastly different line of business (Communications Services) into their existing operations, which may have been developed around the sale of software or phones/PBXs or even just technology management services, i.e., Systems Integration. They fail to account for the incredibly unique, complex and challenging regulatory and tax compliance issues their new line of business has created for them. Still other entrepreneurs try to start a new Communications Service business from scratch without an understanding of the complexities associated with regulatory and tax compliance.

## COMPLIANCE IS NOT SIMPLE. COMPLIANCE CANNOT BE OUTSOURCED BLINDLY.

Compliance is not a simple, straight line. You cannot expect to add a Communications Service to your portfolio and believe that you’ll possess the ability to BILL, COLLECT, ACCOUNT FOR, AND REMIT regulatory fees (USF, TRS, PUC fees, etc.) and communications taxes (Sales, Utility Users Tax, Gross Receipts, etc.) in an accurate manner simply by hiring a couple of software companies for billing support and tax & fee calculation and an outsourced compliance vendor, and then closing your eyes.

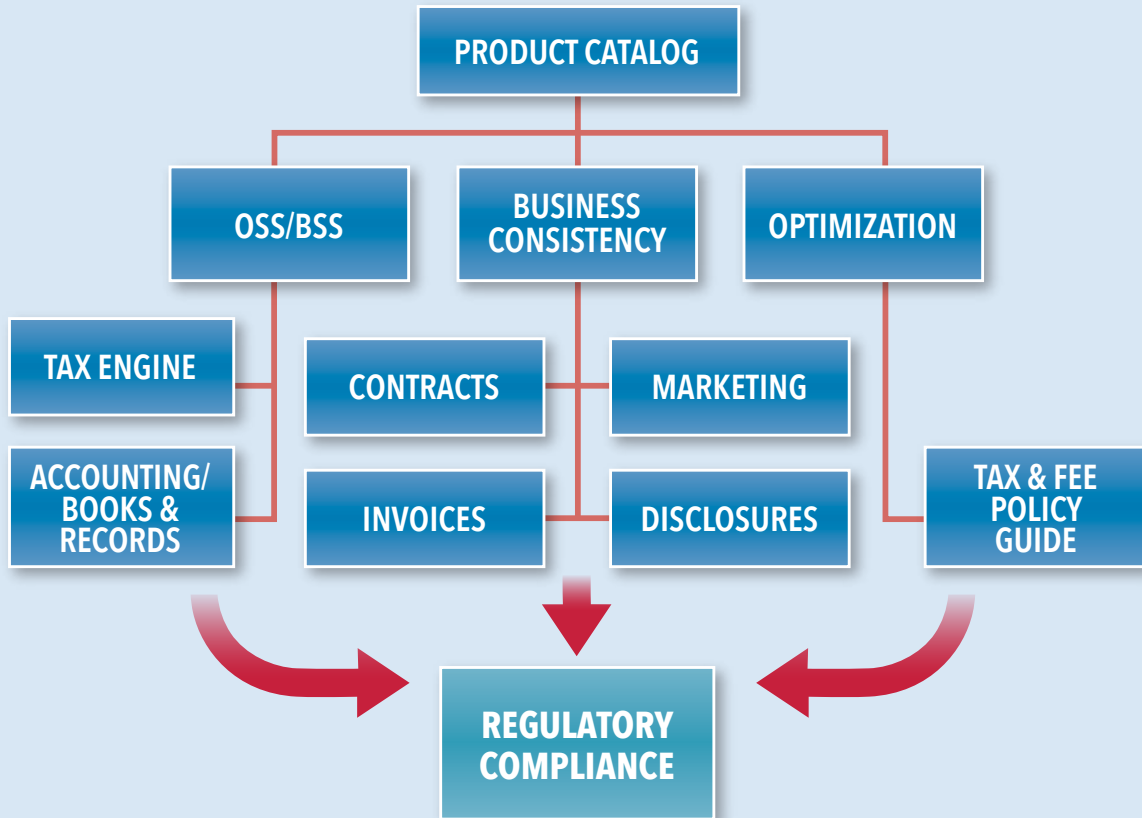
**Software helps, but it is NOT a panacea. In our line of work, we see the following issues all the time: “Garbage In, Garbage Out” and Neglectful Maintenance.**

Software is only as good as the inputs and the people responsible for managing it. We also see the limitations of relying on third parties to do the hard work for our clients. You must do the legwork to ensure your Business Operations – ALL OF THEM – are geared to the complex, challenging and highly regulated and taxed Communications Services industry.



Through our vast experience helping our clients enter the market in compliance (and even greater experience helping clients through the painful process of “fixing” areas of their operations that were not well-conceived at the outset), we prepared this Operational Best Practices presentation to help educate companies thinking about entering or already in the Communications Services industry, and eager to do things the right way!

## THE ONBOARDING PROCESS



### OVERVIEW

**Optimized Product Catalog and Tax & Fee Policy Guide**

- Centralized documentation as universal Company resource

**Operational System Support/Billing System Support**

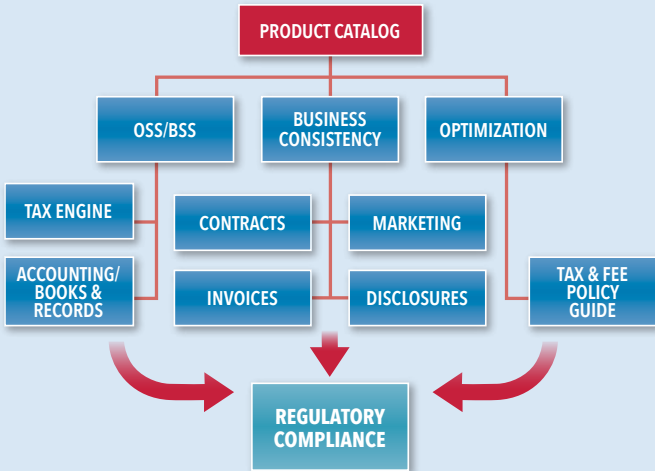
- Establishing a healthy and integrated system for all tax, fee, and billing functions

**Business Language Consistency**

- Developing unified company terminology to appease regulators, employees, contractors (compliance vendor(s)) and customers

**GOAL: Frictionless Regulatory Compliance**

## THE ONBOARDING PROCESS (CONT.)



## PRODUCT CATALOG

- A Product Catalog is a comprehensive spreadsheet that lists all products and services which will be sold to the Customer as separate line items on an invoice
- Communications Service providers must develop a Product Catalog prior to integrating billable line items into a Billing Platform or Tax Engine
- An optimized Product Catalog is the foundation on which the Company’s regulatory compliance is built
- *What you sell, how you sell it, and how you describe it – all play significant roles in how your revenue will be taxed and subject to regulatory assessments and taxes*
- *“Optimization” - shaping the presentation of products and services in order to reduce Company regulatory obligations*

## OPTIMIZATION

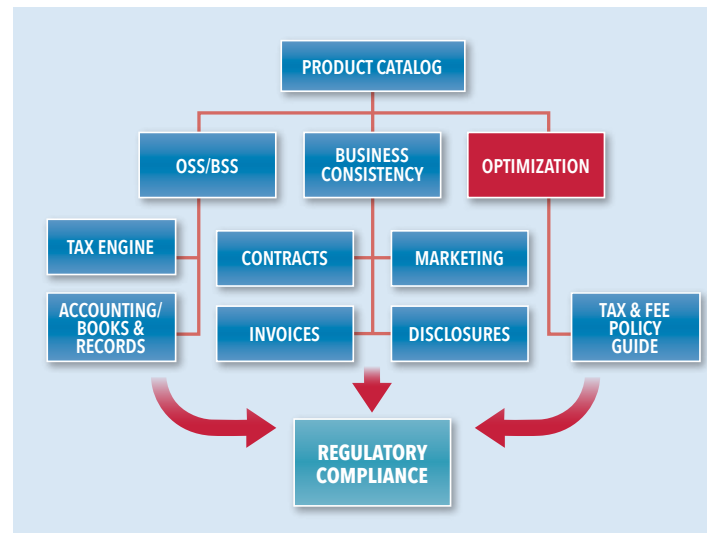
- Optimization is the thoughtful use of lawful methods to maximize regulatory compliance while minimizing exposure of revenue to taxes and regulatory fees
- Makes use of permissible revenue allocation strategies, such as unbundling of services, applied both business and client-side
- Considers optimal breakdowns for revenue among the three jurisdictions for communications traffic – intrastate, interstate and international

### MODEST CATALOG OPTIMIZATION

- Segregates Telecom and Non-Telecom products and services into distinct offerings “on the books” but presents Customer with unified invoice
- Non-Telecom offerings include software (hosted or otherwise), professional services, information processing intelligence, and hardware, among others
- Produces some regulatory savings, but minimal tax reduction

### MAXIMUM CATALOG OPTIMIZATION

- Segregates Telecom and Non-Telecom service offerings and products both Company-side and on the Customer’s invoice
- Results in both tax savings and regulatory fee reduction

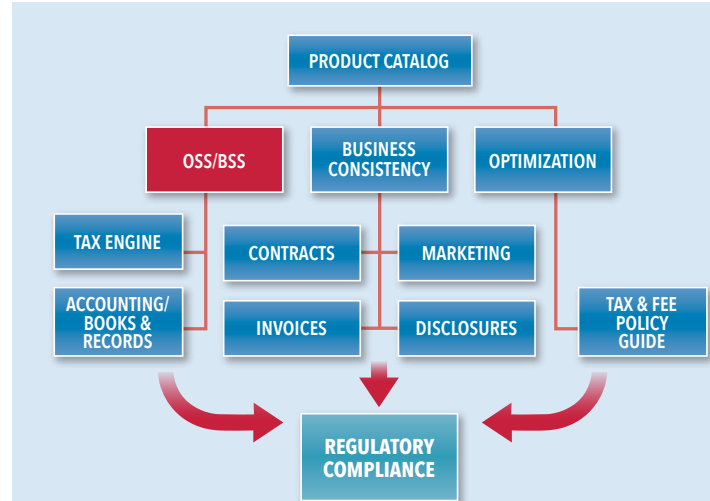
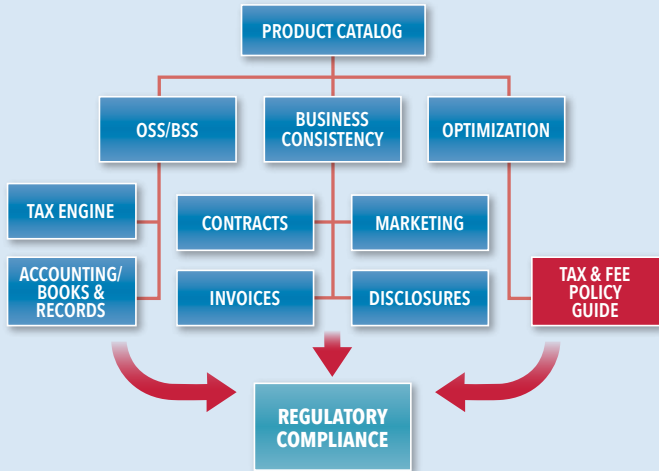


### OPTIMIZED PRODUCT CATALOG

- An optimized product catalog is supported by:
  - Clear and reproducible accounting books & records
  - Consistent marketing materials and contract language
  - Appropriate invoice presentation of both the services offered and applicable taxes and regulatory fees
- An optimized product catalog also details discretionary pass-through surcharges, including “Cost Recovery Fee” surcharge and its equivalents



## THE ONBOARDING PROCESS (CONT.)



### TAX & FEE POLICY GUIDE

- Optional, but important step in Tax Engine integration and future maintenance
- Centralizes management of Tax & Fee process
- Documents development of Company’s Tax & Fee decision-making over time
- Policy Guide tracks “Nexus”
  - Whether the Company has sufficient contacts (physical or economic) with a state/local jurisdiction to be subject to that jurisdiction’s tax authority
- Also documents the Company’s policies & procedures regarding tax/fee exemptions
  - Retail (End User) exemptions
  - Supply-chain (Wholesale/Supplier pass-through) exemptions
- Policy Guide should outline internal Company procedures for:
  - When to begin billing for taxes and fees
  - When to begin remitting those payments to State, Federal, and Local governments
- Policy Guide must consider whether, and the extent to which, cost of compliance outweighs the Communications Service Provider’s exposure to liability, as well as Management’s appetite for risk

### OSS/BSS

(Operations Support System/Billing Support System)

- Communications Service Provisioning and Billing requires a system that is:
  - Highly specialized for complex and industry specific tax and regulation functions
  - Able to handle high task volume
- Outsourcing some of these processes makes sense for most companies



### TAX ENGINE

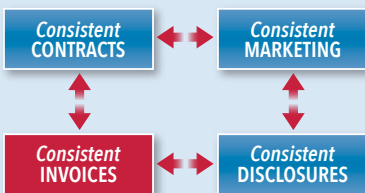
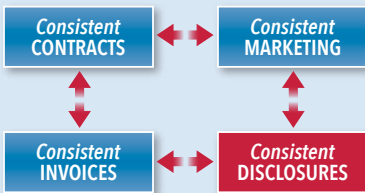
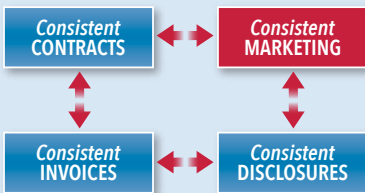
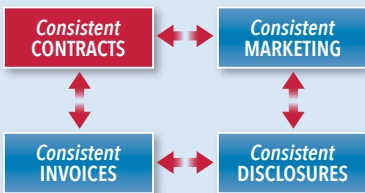
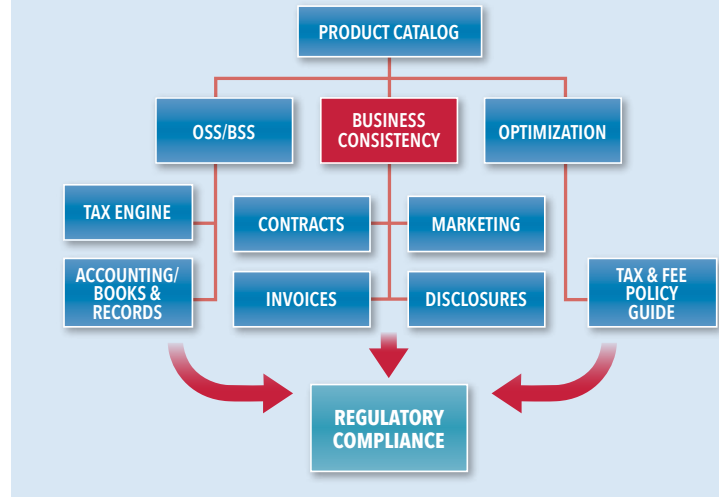
- A cloud-based tax calculator (“Tax Engine”) integrated with the Company’s billing system through existing APIs offers best combination of durability and adaptability
- Industry leaders in cloud tax services:
  - Avalara
  - CCH SureTax
  - Vertex

### ACCOUNTING AS DECISION SPACE

- Tax and fee decisions from other elements of the onboarding process are implemented in the Provider’s accounting system once it is linked up to a Tax Engine
- The transition to integrated billing/tax calculation system requires precision and hands-on management

## THE ONBOARDING PROCESS (CONT.)

### BUSINESS CONSISTENCY: INTERDEPENDENT TASKS



#### CONSISTENT CONTRACT CONSTRUCTION

- Contract language must align with the Product Guide, which must align with the Tax & Fee Policy Guide
- Contracts should be separable, with straightforward general commercial provisions and room to insert unique and client-specific language
- A properly framed Contract will accommodate non-complex, unregulated services as easily as more sophisticated and bespoke providers

#### CONSISTENT MARKETING LANGUAGE

- Marketing material should align with the language of the Product Catalog; The Product Catalog should align with the Tax & Fee Policy Guide
- Every term has specific regulatory meaning
- Incorrect terminology may lead Regulators and Auditors to incorrect conclusions, which are difficult and expensive to correct

#### CONSISTENT DISCLOSURES

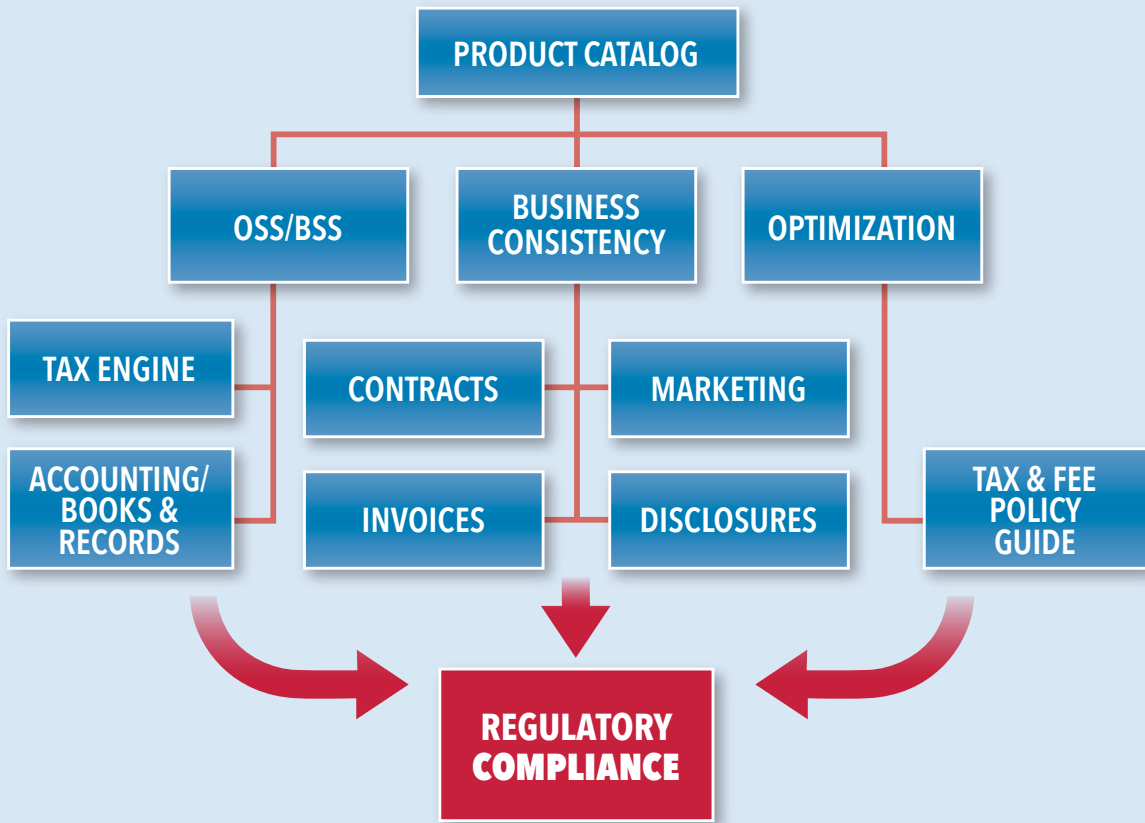
- Providers should clearly disclose tax & fee policy decisions online and in materials provided to Sales and Customer Service Representatives
- Such disclosures should be consistent with the Company's Product Catalog (in particular, any Cost Recovery Fee surcharge or other "discretionary" pass-throughs) and Tax & Fee Policy Guide

#### CONSISTENT INVOICE PRESENTATION

- Customer invoices require careful and thoughtful design
- Clear and effective Invoices should be developed in coordination with optimizing the Product Catalog or implementing Tax Mapping
- The names and descriptions of services provided may have material implications for Provider and Client tax revenue, fees, and assessments

### CONSISTENCY SUMMARY

- The consistency of a Communications Provider's language affects customer experience through marketing, invoicing, contracting, disclosure of and tax and regulatory compliance
- All four areas impact each other, and all four require a Provider to use language that complies with the Product Catalog and Tax & Fee Policy Guide



**HARMONIZED INPUTS, ACCOUNTING & OPERATIONS = PERFECTED DATA OUTPUTS = CONFIDENT COMPLIANCE!**

- The objective of this presentation is to highlight the complexity of setting up a Communications Service business in a manner that can deliver sustainable and predictable compliance with regulatory and tax obligations.
- When your business’ operations are harmonized around a defined compliance strategy, you can develop greater confidence that your data inputs (to your BSS/Tax Engine), the tax & fee outputs on customer invoices, and your internal accounting are set up to produce Compliance Reporting Output data that is accurate, reproducible, reconcilable, audit resistant, and capable of fulfilling your monthly, quarterly and annual compliance reporting and fee/tax remittance obligations at the FCC, USAC, State Utility Commissions and Departments of Revenue, nationwide.



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- Experienced in virtually all aspects of federal and state laws and regulation affecting the telecommunications, information services, Software as a Service (“SaaS”) and digital & traditional broadcast media industries, The CommLaw Group is the “go to” law firm for businesses ranging from start-ups to Fortune 100 corporations from around the globe and was recently featured in the **Wall Street Journal as one of the Capital Region’s Premier Law Firms**. In an unprecedented era of change in the legal profession, The CommLaw Group is also well-recognized as an innovator and thought leader – **The Lawyer Who Connected The Dots A Decade Before Anyone Else**.

## CONTACT US!

WE WANT TO HEAR FROM YOU!

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