

# ZIP Code Inaccuracy in Sales Tax Management:

Best-Practice Assessment for Rate and  
Jurisdiction Identification

sage



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## How It All Started: Mr. ZIP

In the 1960s, a cartoon character named Mr. ZIP introduced the American public to the Zone Improvement Plan (ZIP) code, commonly referred to as the ZIP code. This numeric system for categorizing geographic regions expanded on an older system of postal zones to include all of the United States instead of just large cities. Since then, the system has become so common that the numbers have become almost synonymous for the areas they represent. For example, the series of numbers “90210” is rooted in the American psyche as Beverly Hills, California.

ZIP codes are such an integral part of the national lexicon that their use has crept into a wide variety of applications. They can tell hungry residents whether their favorite pizzeria will deliver or not. With them, businesses can track their customers’ purchasing patterns. Insurance adjusters assign rates by them. Real estate agents use them to help value houses. Some people even use ZIP codes to determine tax rates. This practice, however, is unreliable at best and can seriously risk audit assessments and exposure due to inaccuracies in tax rate application.

ZIP codes were developed by the U.S. Postal Service for the sole purpose of accurately and efficiently delivering the mail. Zones can overlap, be a subset of other ZIP codes, or represent no geographic region at all. Due to the thousands of letters addressed to Smokey Bear (up to 13,000 a week), the U.S. Postal Service gave him his own unique ZIP code: 20252.

## ZIP Codes Do Not Equal Sales Tax Jurisdictions

A common misunderstanding is that the Post Office designated ZIP codes for specific cities. According to the U.S.P.S., Centennial, Colorado shares ZIP codes with Aurora, Englewood, and Littleton. Other sources are not consistent with how the ZIP codes are applied or used with each city.

So how would you apply sales tax by using a ZIP code when ZIP codes by themselves don’t identify which tax region an address is in? Basing sales tax rates on a ZIP code risks applying not only an incorrect rate, but remitting it to the incorrect jurisdiction. This can increase your risk of an audit and its associated penalties and fees.

Because of some of the great inaccuracies in how ZIP codes are applied for residential and business addresses, problems can arise when solely using ZIP codes to determine taxability as well as sales tax rates. The residents of Matanuska-Susitna County, Alaska, who live outside the Wasilla city limits, learned that the hard way. For two years, they were being incorrectly charged the city sales tax rate of 2% on telephone, Internet, and cell services because the unincorporated addresses shared a ZIP code with the incorporated addresses. Nearby Houston has the same sales tax rate as Wasilla, but because some Houston residents use the Wasilla ZIP code, their taxes were being incorrectly remitted to the city of Wasilla, despite Houston’s pending bankruptcy.

The U.S. Census Bureau stopped using ZIP codes in 2000 for their data collection purposes. The reason for this is that ZIP codes are not required to be a fixed shape. They are a tangled network of streets and postal routes. ZIP codes are not static, either. They are divided and changed as areas become more densely populated. Their boundaries can be redefined. The U.S. Postal Service reports that one out of every 20 ZIP codes changes each year. In today’s economy, the

- **ZIP code on the waterways:**

The JW Westcott is a 45-foot contract mail boat out of Detroit, MI that delivers mail to passing ships in the Detroit River. The JW Westcott has its own ZIP code: 48222.

- **Easiest ZIP code to**

**memorize:** The easiest ZIP Code to remember is 12345, a unique ZIP Code for General Electric in Schenectady, NY.

Postal Service must run its business efficiently and will soon be closing several thousand locations and possibly encouraging the increase in locally contracted postal locations. All this adds up to dynamically changing ZIP codes that do not relate to sales tax jurisdiction lines.

Attributing a sales tax rate to a specific ZIP code can be very risky. Sales tax rates consist of several layers of tax: state, county, city, local, and special district taxes. The number referred to as the total sales tax rate is really the sum of those jurisdictional rates. Each jurisdiction is defined by a variety of criteria and at times can vary from one address to the next. Layering the applicable tax jurisdictions quickly becomes so granular that within a given ZIP code, it is not unusual to have multiple sales tax rates. Sales tax rates and jurisdictions for a location are not static; they are changed and updated regularly. If your business has more than one location or sells throughout a state over the Internet, you will need to track all the jurisdictions where you have potential liability in order to ensure accuracy. Not all jurisdictions have rate changes at the same time of the year, so tax research becomes an immense burden to a growing business.

## ZIP Means Zip to Accuracy

The most accurate way to identify a correct tax rate is by pinpointing the precise location where a transaction occurs, which will identify the corresponding tax jurisdictions. In addition, rather than focus on the ZIP code, it is imperative to focus on the specific location of the street address itself. Address-based taxation services offer much more precision than a single five-digit ZIP code; therefore, it is necessary to ensure that the address is correct through address validation prior to applying the tax rate.

Sage Sales Tax automated sales tax calculation service, Sage Sales Tax Calc, employs proprietary geocoding technology to validate an address and match it to our nationwide database of tax regions. Sage Sales Tax tax data is researched and maintained by our compliance team, so the rates and boundaries are always up to date. In addition, our solutions easily manage complex tax issues such as nexus, exemptions, product taxability, sourcing rules, split rates, sales tax holidays, tax caps/thresholds, and more.

When a transaction is made, a business' ability to calculate the correct sales tax rate for the correct jurisdictions will protect it from risks and hassles such as audits, penalties, return reconciliation, and reimbursements. The Sage Sales Tax service supports the common business goals of efficiency, compliance, and success. Sage Sales Tax transactional tax solutions ensure accuracy with full end-to-end sales tax automation, including returns filing and payment remittance.

**Learn more about Sage Sales Tax today.  
Sage Sales Tax—making sales tax less taxing.**

**For more information please call 866-530-7243.**

- **Post Office Duality:**  
Bristol, Tennessee, and Bristol, Virginia, share a Post Office. The office sits on the border between Tennessee and Virginia and has two different ZIP codes.
- There are more than 42,000 ZIP codes in the country.