

State Tax Spotlight on Carolynn Kranz

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It takes a special person, say the friends and colleagues of Carolynn Kranz, to bring the cloud down to earth.

Kranz, a longtime state tax attorney who lives and works in Washington, D.C., has become increasingly specialized in more than two decades in the business. A native of Philadelphia, she started working there as a generalist. She then started focusing almost exclusively on sales tax, and from there she moved into the highly technical area she now occupies — an expert on the taxation of software as a service (SaaS) and other forms of cloud computing. The topics are critical for most of the state tax world to understand, but many professionals are still mastering the basics.

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“It’s people like Carolynn who have really educated us all,” said Joe Huddleston, executive director of the Multi-state Tax Commission. “That absolutely includes me.”

“I may have a fair amount of notoriety,” said Scott Peterson, former executive director of the Streamlined Sales Tax Governing Board (SSTGB) and now with Avalara Inc. “But when it comes to expertise, Carolynn is much more highly regarded than I.”

“What’s unique about Carolynn,” said Chris Sullivan of Rath, Young and Pignatelli PC of Concord, New Hampshire, “is her incredibly accessible intelligence. We’ve all met those people who just want to prove how smart they are and don’t much care if the audience understands. Carolynn really wants her audience to be able to understand and apply what she’s presenting. It’s not like she wants to hold on to it so everyone has to call her. And as a result, she is incredibly well respected by the business community, tax practitioners, and government officials as well.”

Michael Sontag of Bass, Berry & Sims PLC in Nashville agreed. “You never feel like you’re being overwhelmed,” even though the subject is complex, Sontag said. “That’s whether the audience has in-depth knowledge or zero knowledge.”

An Expert on Taxing Technology

For the last 12 years, Kranz has been her own boss. She has two businesses — Industry Sales Tax Solutions LLC, which offers a subscription database containing the sales and use taxability of software-related transactions, digital con-



Carolynn lafrate Kranz

tent, and cloud services; and Kranz & Associates PLLC, her boutique SALT law firm. Before that she worked mostly for Big Four firms (she is a CPA as well as a lawyer), and it was during her time at Deloitte that she began specializing.

“The joke among some of my mentors at the time was that I ultimately moved into sales tax full time, but they claimed I moved into it kicking and screaming, that I didn’t want to give up my income tax background,” Kranz said in an interview. “Frankly, it was probably the best decision I ever made, especially now that I have a boutique practice — there are so many issues, so much work. It’s so specialized, and unique, and the rules are different in every state.”

Al Babbitt, a former partner with Deloitte who now operates his own firm, State Tax Services LLC in Las Vegas, was the mentor who helped to convince her. And while Kranz calls him “one of the best technical sales tax people I know,” Babbitt, who is involved with several businesses, calls on her for both technical and communications help.

One of those times, Babbitt said, was to have her explain SaaS taxation, in a multistate environment, to his colleagues in a gaming business. “These were engineers and Silicon Valley guys with zero tax background,” Babbitt said. “She did an

excellent job explaining. One of the things I really like about Carolynn is she is very good about communicating concepts to people who may not deal with this stuff every day.”

But Dean Henderson of Intuit said Kranz is equally good at educating informed people like him. Henderson said he views Kranz’s database, called ezMatrix, as a gold standard for explaining and interpreting state laws regarding all software-related transactions. He said understanding more-established procedures, such as the taxability of software vs. downloads, “is not really an issue anymore,” but cloud computing is different.

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“What does cloud computing mean? It seems every state has their own definition,” and that is where Kranz and the database come in, Henderson said. “We want to make sure her interpretation agrees with our interpretation.”

Kranz said it took a year to establish the database — a year of exhaustively researching state laws and regulations. She and the two other attorneys that work with her on both her businesses continue to maintain it.

“The difficulty in the database was building the content,” Kranz said. “It took a year of my life to build the content and do it properly. Maintaining it can be a challenge, but because we’ve done it for so long, some days it takes very little time. Other days if legislation passes in a state it can take more time.”

The content is subscription only, but visitors to Kranz’s website can see the type of information it provides. For example, a highlighted map will tell you that in North Carolina, “optional software maintenance agreements are exempt from sales tax even when the updates are transferred in tangible form.” Kranz can also recite from memory the states that provide exemptions for software-related transactions, the types of products and services that are exempt, and the types of exemptions taxpayers can claim.

“Some people joke that I’m a bit of an encyclopedia,” Kranz said. “I tell them I’m not. Don’t expect that.”

What her clients can expect, though, is that she has the contacts to get them whatever answers are possible. Through years of participation on the SSTGB and the many presentations she gives to professional groups, Kranz has a vast network of state officials she can turn to.

“When something passes and it’s not really clear what it means, I can call and speak to them,” Kranz said. “Part of our goal with the database is to really let our subscribers know what the state’s policy is. We may not agree with it, but we want to let them know what the policy is.”

Peterson said that often it was Kranz educating the states as a streamlined sales tax presenter and participant. “No state had any idea what in the world this new thing was, and she did,” Peterson said.

Kranz’s facility with state officials has helped clients in her law practice as well. One of her clients, Expert Global Solutions Inc. (EGS), called on her last year to resolve a variety of liability issues in several states in what both Kranz and Cathey Barry-Notarfrancesco of EGS described as a highly expedited time frame. In two months, Kranz resolved multiple voluntary disclosures and two audits for the client.

“It was millions and millions of records,” Kranz said. “We had extraordinary circumstances and we had to know who [in the states] to go to. I told the client it was a lot of fun. But I don’t want to have that much fun again for a long time.”

“She has connections with all the states,” Barry-Notarfrancesco said. “The company has been very happy with her and the results we got. I put her in as one of the top sales tax people in the country.”

Kranz said one of her goals is always to resolve at the audit level and to minimize appeals. “Where I am different than many lawyers is I firmly believe you should never appeal something that is not really a question of law,” Kranz said. “I am not a litigator, I have a different practice than that. I believe in being very proactive in the early stages.”

‘Clients come to me because they want a lawyer that understands numbers,’ Kranz said.

Kranz’s colleagues say her ability to comb through data to find the relevant points and put them to work for her clients is impressive. “She is extremely organized, and she has a depth of understanding in the way audits work and the way work papers are put together that I have not seen in anyone else,” said Jordan Goodman of Horwood Marcus & Berk Chtd. in Chicago.

“Clients come to me because they want a lawyer that understands numbers,” Kranz said. “My CPA status is inactive now because I don’t practice as a CPA, but I have that background. I took Calc 3 for fun in college. I love math.”

A Field Important to All Types of Business

Kranz said even she has been surprised by how quickly the demand for what she does has exploded. “I’m seeing businesses changing their models,” she said. “I had a company call me recently — they are a restaurant — and they told me their view of the company now is that they are no longer a restaurant but a technology company that sells food. I was shocked. I said, ‘Do you sell anything technology-related?’ But I think it is because they’ve employed so much technology into their delivery method — they have apps if you want to order online, apps to say if you like them. Everybody seems to be getting into the apps these days.”

Another client, Kranz said, provides services that have nothing to do with the cloud or even technology, but must purchase those services. Her role is to help clients like those navigate multiple issues including how such transactions are taxed, how they are sourced, and how to deal with conflicts of law.

“And how do we deal with system limitations that many sellers have because they set up a system that was based on traditional sales and use tax rules, which sourced sales of tangible personal property to one location, and now they have a sale that has to be sourced to 20 locations?” Kranz said. “They don’t have the ability to do it, and many states have accommodated that by enacting unique exemptions.”

Kranz wryly described the situation as “job security,” adding that “it’s going to be an issue that plagues both sellers and purchasers until the states gain some consistency on what they’re doing.”

Huddleston indicated that could be awhile. “States are largely behind the curve in cloud issues,” he said.

Mr. and Mrs. Kranz

Like many state tax practitioners, Kranz counts as some of her closest friends those in her own field. And for her, that includes her husband. Carolynn and Stephen Kranz, the latter of McDermott Will & Emery in Washington, have been married for four years. They are parents of a 3-year-old son, Colton.

As they both tell it, the SSTGB is more than a place to work on sales tax policy — it can also be a place to fall in love. And that goes for the Council On State Taxation too. “Steve and I met mostly through Streamlined,” although they had been acquainted before working on the project, Kranz said. “And then I got to know him through COST — I was a practitioner connection member.”

Both of them say they try to talk about more than state taxation, especially when hosting one of the many dinners Kranz enjoys cooking for friends — who usually end up being fellow practitioners. But Stephen Kranz notes that

they didn’t try too hard — they even had a joke about tax inserted into their wedding vows.

“I love what I do, and she loves what she does, and I love her,” Stephen Kranz said. “It’s great to have somebody you can share your professional life with on a personal level.”

Kranz said escaping work is difficult, especially with the number of hours both put into their jobs. “I have to admit it’s kind of handy to have a husband who understands what I do for a living, who appreciates it, and who isn’t jealous of my career success — he’s proud of it,” she said. “We do have a lot of hobbies outside of state tax, but I will tell you we have a lot of discussions over state tax.”

Kranz, who was both a high school and college athlete, has taken up tennis. The daughter of a musician — as a baby she lived above the bar where her father’s band played — she enjoys playing piano and guitar. She cooks all the time, letting her son help where he can. Both the Kranzes are proud that they recently took a real family vacation, spending a week in Jamaica.

And to really get away, they escape a few times a year to North Dakota, where Stephen is from and where his family still has a farm. There, Kranz said she has learned some new skills.

“We were there two or three weeks ago, and I see one cow walk out of the fence, followed by another, followed by another,” Kranz said. “I try to call Steve and his dad but nobody is answering so I grabbed a set of keys, went out to the pickup truck, and I just start driving over and honking the horn. I got all those cows back in, 15 of them.”

“I have taken a Philly girl out to the prairies of North Dakota,” Stephen Kranz said, “and given her a chance to experience what most Philly girls will never get a chance to.” ☆