

Think you've triggered nexus? Here's what to do



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Meet your presenter



Steven Cabrera

Tax Director, Avalara
Professional Services

Avalara

Steven Cabrera is a CPA and former California State Tax Auditor. He has over 20 years of sales and use tax experience both in state government and “Big 4” and national public accounting sectors. His experience is in voluntary disclosures, tax recovery, registration, audit representation, taxability research, refund reviews, due diligence, and more.

Agenda

- 1 > What is nexus?
- 2 > How do I know if I have nexus?
- 3 > Determining where you have nexus and how much you owe
- 4 > How to register to collect sales & use taxes
- 5 > Adding new states and jurisdictions
- 6 > How to prepare and file your sales tax returns
- 7 > Q&A

What is nexus?

All 45 states

with a state sales tax have adopted economic nexus.

Thresholds vary state-by-state.



South Dakota v. Wayfair changed sales tax for businesses

On June 21, 2018, the U.S. Supreme Court issued its decision in *South Dakota v. Wayfair*.

- › The Court ruled in favor of South Dakota and eviscerated the **physical presence standard** set forth in *Quill Corp. v. North Dakota* and *National Bellas Hess, Inc. v. Department of Revenue of Illinois*.
- › New economic nexus laws allow states to impose sales tax obligations on **out-of-state sellers** based on their level of economic activity in a state.

Nexus

Nexus describes the contacts you have with a given state and establishes whether that state can obligate your company to collect sales taxes.



Physical presence (old rules)

- > Employees in a state –register for payroll taxes
- > Locations in a state – paying property taxes
- > Sending employees into a state – deliveries, repairs, conferences
- > And more...



Economic nexus (new rules)

- > Click-through
- > Affiliate
- > Sales volumes exceed thresholds
- > Marketplace

Nexus – After Wayfair

Sales & tax evaluations

Volume of sales by state



Most states using total sales, not just taxable



Most states are using around \$100,000 in sales

Number of transactions by state



Most states are using 200 transactions

Note: every state is different and each needs to be evaluated independently



South Dakota



How do I know if
I have nexus?

How do I know if I have nexus?

There are several types of nexus that may create an obligation for you to register, then collect and remit sales or use tax, in a given state



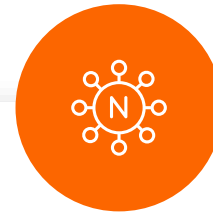
Affiliate nexus

Is having ties to affiliates, partners, or other businesses in a state



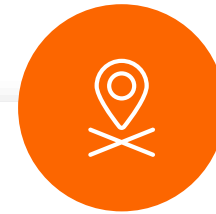
Click-through

Nexus is getting referrals from in state entities through links on a website



Economic nexus

Is having a certain amount of sales or number of transactions in a state



Physical presence

Is having employees, inventory, kiosks, offices, stores, trade show attendance, warehouses, or other physical ties

KEEPING UP WITH NEXUS REQUIREMENTS

Many businesses have gone from having nexus in 1 state to multiple states in a short period of time.



KEEPING UP WITH NEXUS REQUIREMENTS

Once you trigger nexus in a state, you must register for a sales tax permit and/or business license and begin collecting within the state's timeframe.

Grace periods vary by state.



KEEPING UP WITH NEXUS REQUIREMENTS

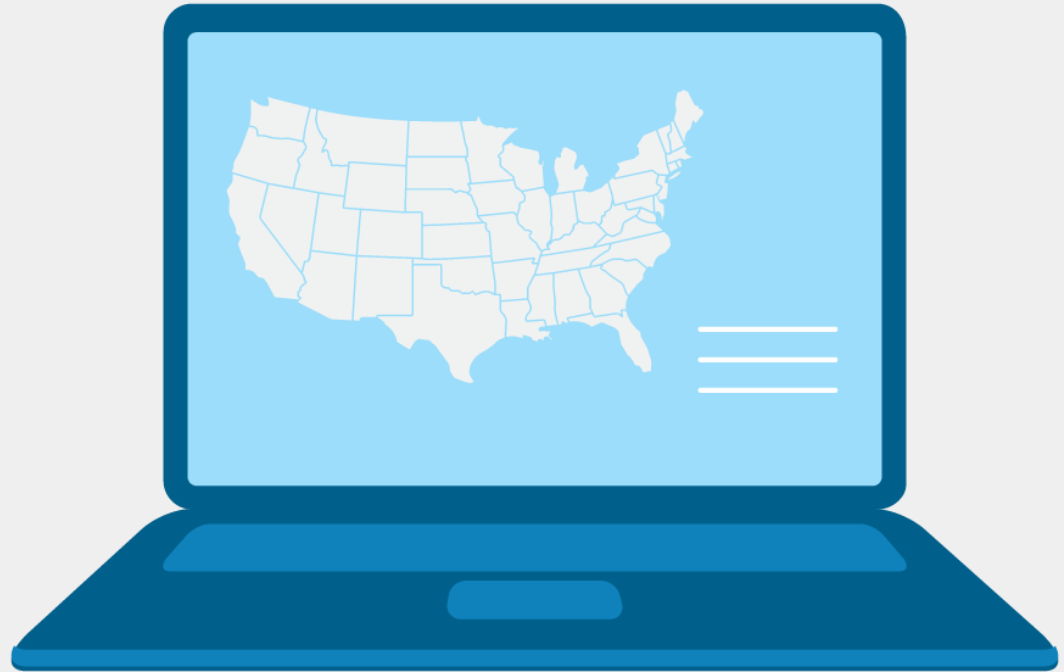
To comply, you must know the sales tax laws in every state you sell into, including each local jurisdiction.

12,000+ sales tax jurisdictions
in the U.S



KEEPING UP WITH NEXUS REQUIREMENTS

Technology is no longer a luxury,
but a requirement to help
businesses comply at scale.



KEEPING UP WITH NEXUS REQUIREMENTS

You have two options:

- Follow state and local sales tax laws in every state you sell into
- Automate your sales tax compliance process.



Determining how much
you owe

Hitting a threshold doesn't mean you're non-compliant

Hitting an economic or physical threshold means that you must register. Lots of states have grace periods, so even if you're a little late to register the grace periods will protect you.

Knowing you have triggered nexus should initiate the following questions:

QUESTIONS:
Is there a financial risk involved? Is there a compliance obligation?

Determine how much a financial risk was triggered

It's important to examine your financial risk

- Do you have a \$5,000 a day problem? Or do you have a \$100 a year problem?
 - Your reaction should be measured by the amount you owe. If you owe little to nothing, you do not need to respond quickly – or even at all.
 - If you have a \$5,000 a day problem – react quickly.
- Depending on how much you owe, you may want to consider taking advantage of a voluntary disclosure agreement (VDA).

QUICK TIP:

You can use your sales data and the tax rate for the jurisdiction where you've made sales to estimate how much you owe.

The post-nexus trigger process

Registering to collect sales and use tax

Once you've determined how much you owe (if at all), it's time to register your business.

- Registration applications and paperwork vary by state, and sometimes even by jurisdiction



Adding new states & jurisdictions

Once you've registered, you need to set up processes to start calculating the correct sales and use tax in every applicable state and jurisdiction.



Preparing & filing your sales tax returns

Now that you're registered and set up to collect tax in a new state, you're ready to determine your filing schedule and begin filing sales tax returns.



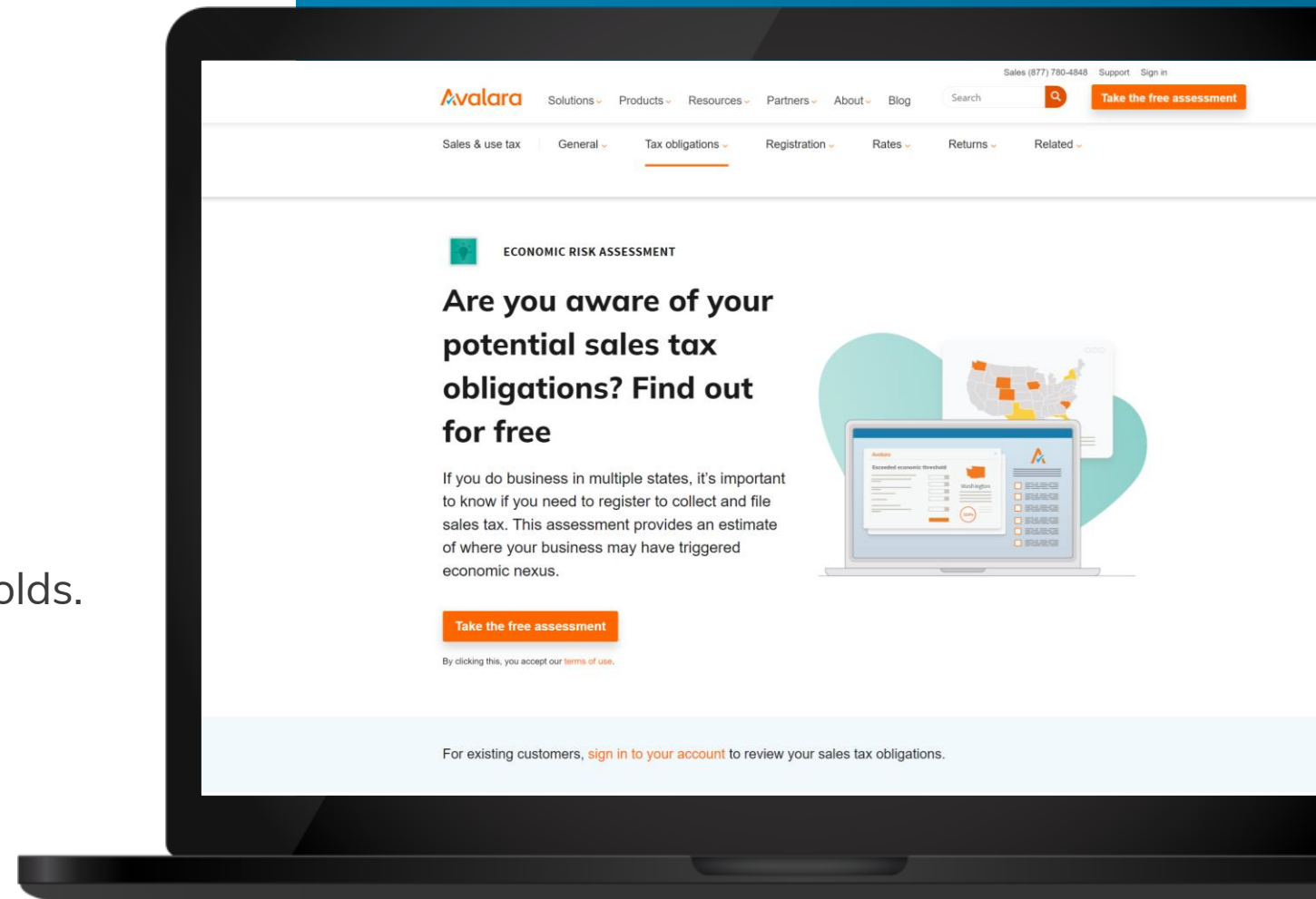
How Avalara can help

Automation is key to keeping up with nexus

[Avalara's free nexus tool](#) determines where you have nexus.

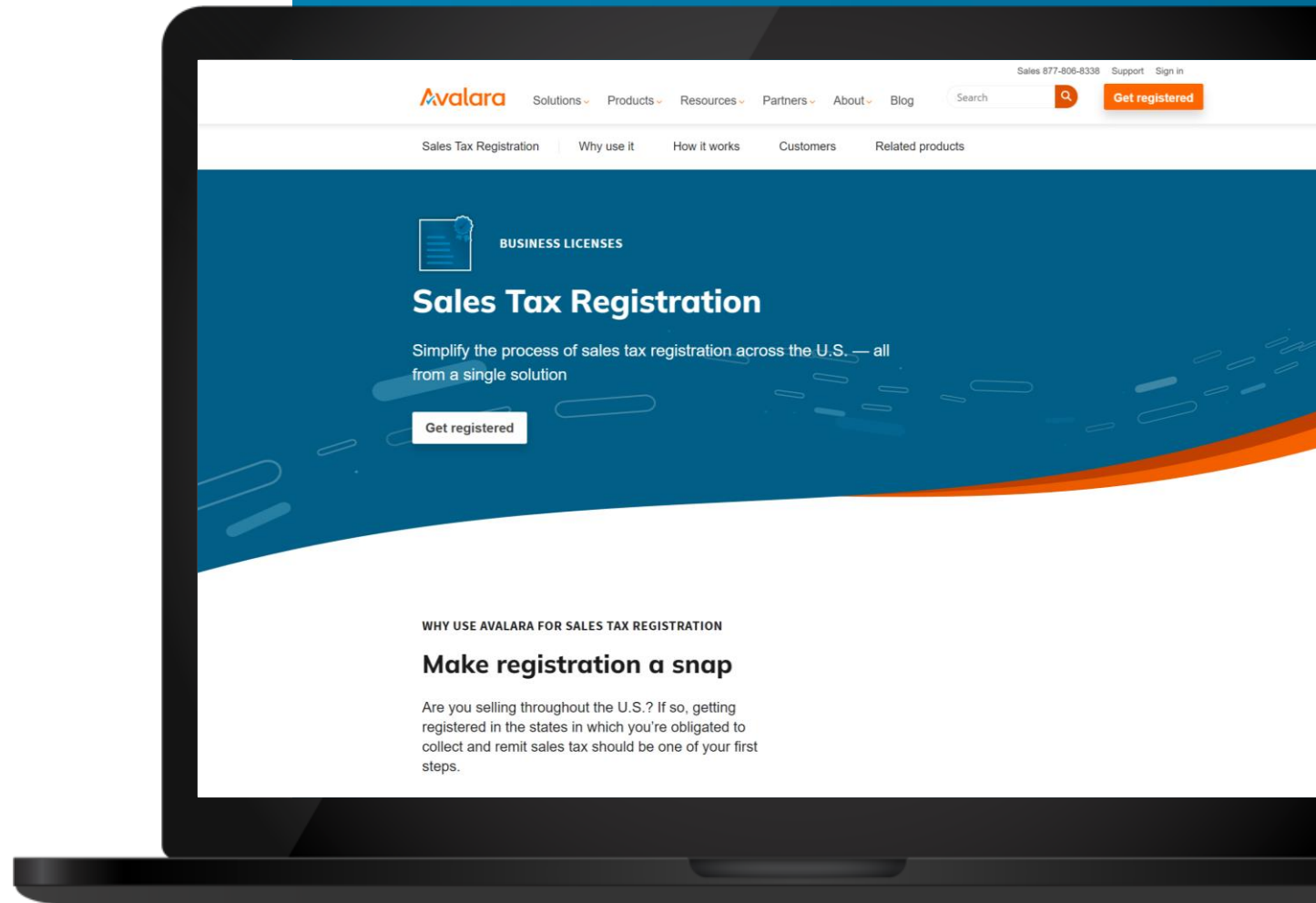
- > This assessment provides an estimate of where your business may have triggered economic nexus

Avalara AvaTax can also help monitor new sales tax obligations and new nexus thresholds.



Registering to collect sales and use tax

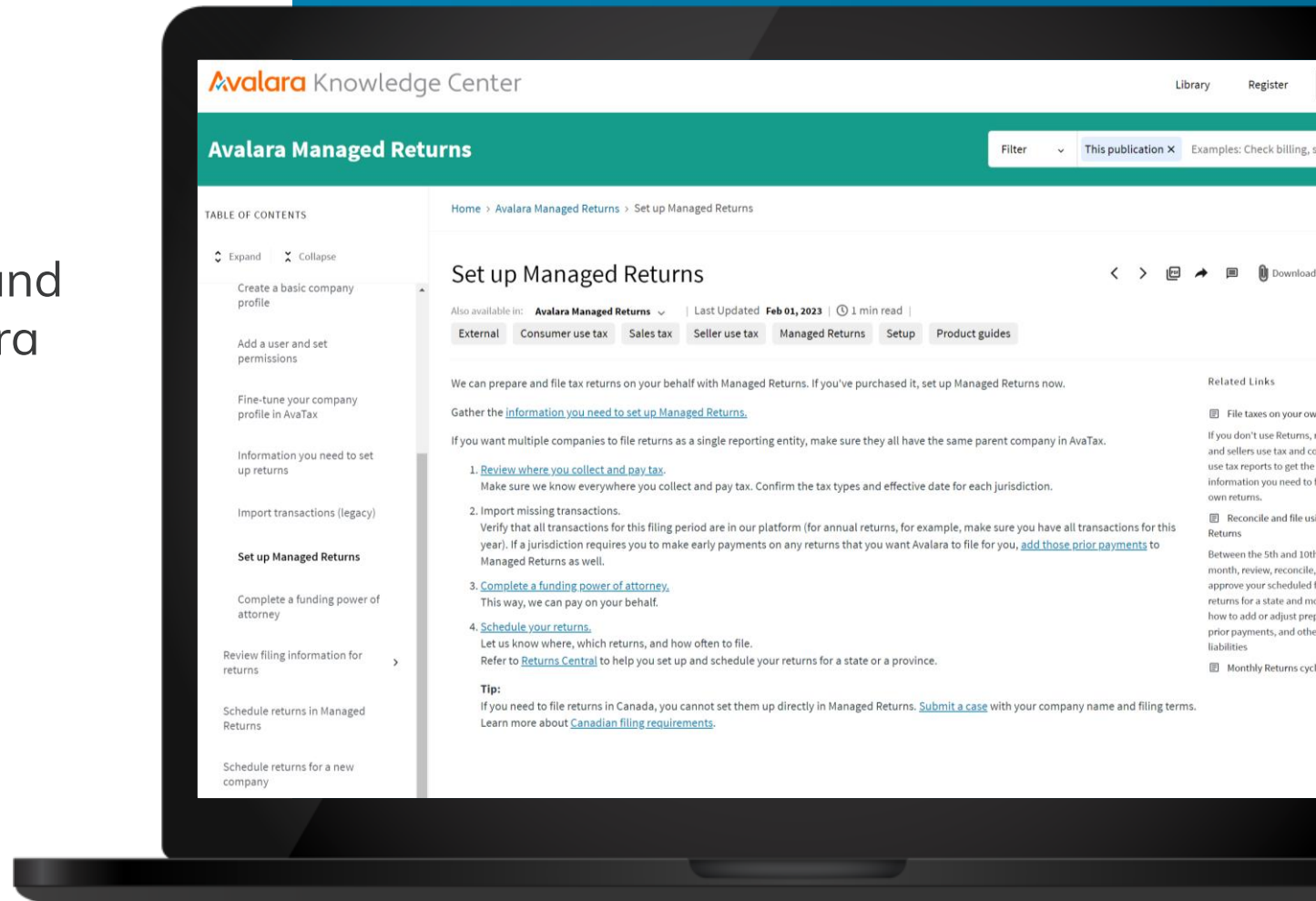
If you owe little or no sales tax in the state, then you can use [Avalara Sales Tax Registration](#) to fill out one form to register for multiple jurisdictions where you own. Avalara can handle the applications for you.



Preparing & filing your sales tax returns

To help determine your filing schedule and begin filing sales tax returns, use Avalara Returns

- > Use the tool to [set up and schedule your returns](#) or the new jurisdiction so that you file on time.



Questions



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