Our holistic guide to exemption management

Avalara
Tax compliance done right

Disclaimer

While we hope you'll find this discussion helpful, this session is for informational purposes only and is not legal or tax advice.

Avalara
Safe harbor statement

Continuing Professional Education (CPE)

Qualifying for credit

- Respond to 3 of 4 poll questions
  - Questions display for a limited amount of time
  - Select you answer and click submit
- Attend the full duration of the webinar
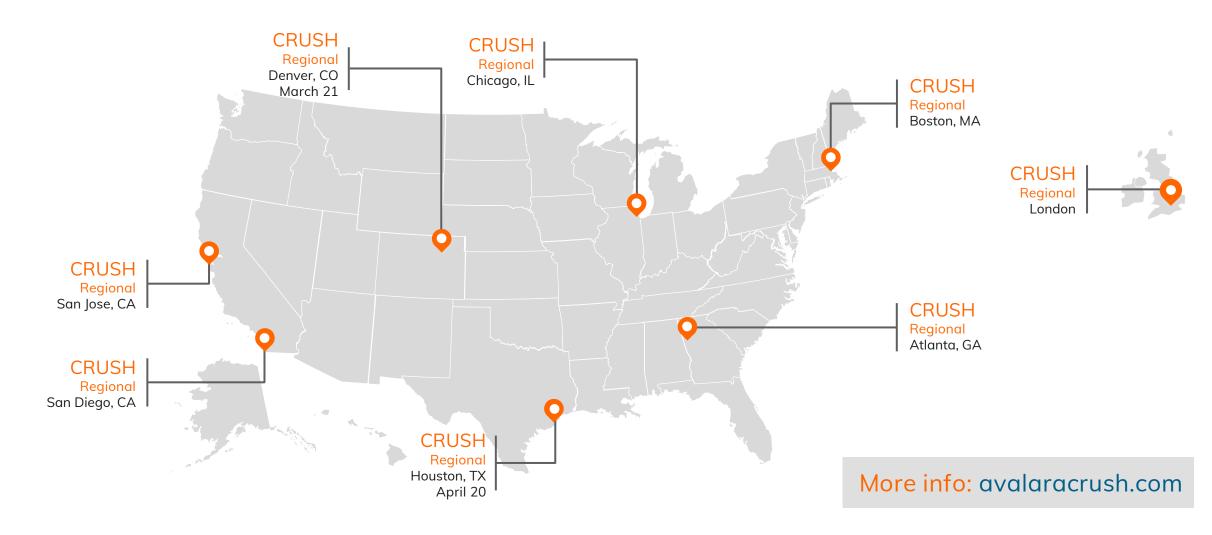 - Attend at least 50-minutes to qualify

Downloading Certificate

- Download the certificate once you qualify
  - Find the Earn Certification box
  - Click the icon to download
- Those that qualify will also receive their certificate in a post-event email

Meet your presenter

Silvia Aguirre

**Vice President,
Certificate Management**

Avalara

Silvia is the co-founder of Avalara CertCapture, now known as Avalara Exemption Certificate Management.

Before working for Avalara, Silvia was co-founder and principal of Tax Technology Services, LLC, where she oversaw the operational efficiency of the organization and the tax knowledge base. Silvia has also served as a tax manager for national companies in the manufacturing, retail, and technology industries and was an auditor for the state of Texas.

Agenda

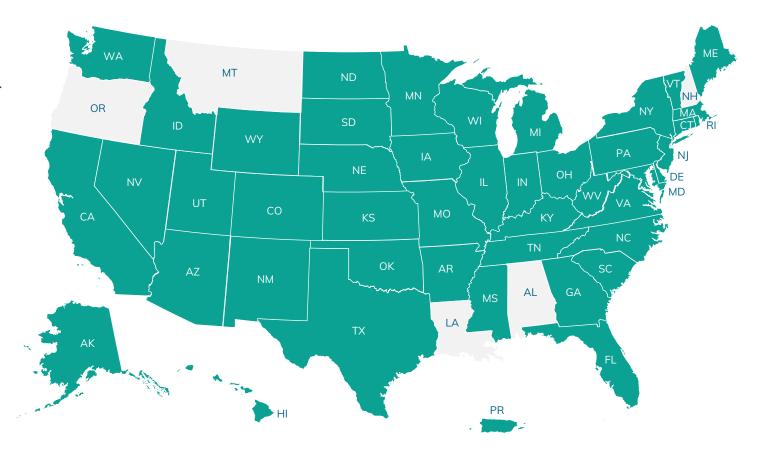|		
1	›	Why exemption certificate management matters
2	›	Exemption certificate management & drop-shipping
3	›	Exemption certificate management & audits
4	›	The best exemption certificate management solution for you
5	›	Q&A

Why exemption management matters

Sales tax overview

There are 45 states plus the District of Columbia that impose a state sales and use tax. In addition, some local jurisdictions either separately administer their sales tax or maintain a different tax base than the state (i.e., locals in Alabama, Arizona, Colorado and Louisiana).

The states of New Hampshire, Oregon, Montana, Alaska, and Delaware do not impose a state level sales and use tax. Puerto Rico also imposes a sales and use tax.

2.9% – 7.25%
Most state sales tax rate

0.07% – 5.22%
Local taxes, which are often imposed in addition to the state sales

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

Economic nexus

WHAT IS IT?

Economic nexus is a tax collection obligation imposed on sellers based on their level of economic activity within a state.

Unlike physical presence, it is based entirely on sales revenue, transaction volume, or both.

Sales tax compliance is now like income tax, all businesses must address where and when they have an obligation

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*

V.

South Dakota

wayfair

Drop-shipping impact

Drop shipments defined

When a <u>manufacturer</u> accepts an order from a <u>retailer</u>, and the <u>manufacturer</u> delivers the goods to the <u>customer</u> on behalf of the <u>retailer</u> in a state where the <u>manufacturer</u> and <u>customer</u> have nexus.

Manufacturer (Third Party)

Manufacturer/originator/supplier of goods, the "Drop Shipper"
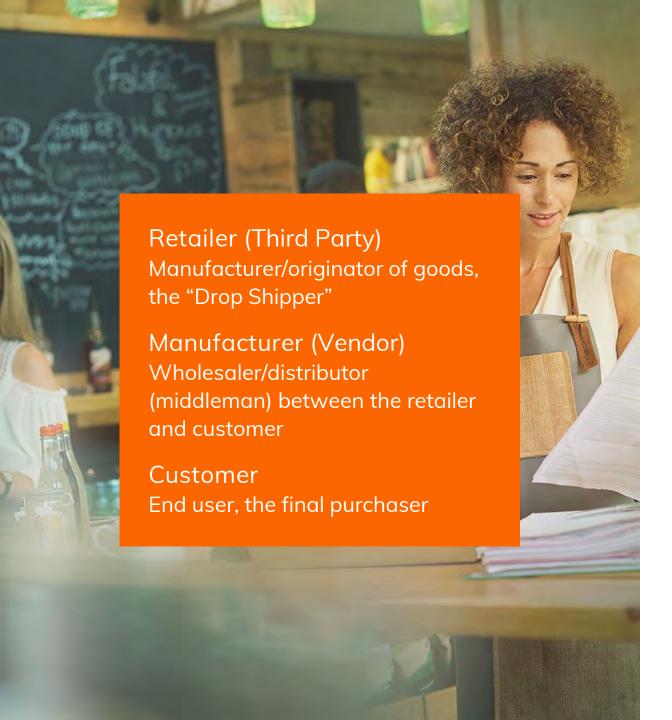
Retailer (Vendor)

The entity/seller who has the relationship with the customer

Customer

End user, the final purchaser

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Drop shipments defined

Retailer (Third Party)
Manufacturer/originator of goods, the "Drop Shipper"

Manufacturer (Vendor)
Wholesaler/distributor (middleman) between the retailer and customer

Customer
End user, the final purchaser

Retailer

Sale 1

Customer(s)

Delivery

NEXUS

Sale 2

Resale certificate

Manufacturer

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Drop shipping and new tax laws after Wayfair

If you [provide](#) drop shopping:

Does the seller have nexus?

YES → The seller collects sales tax, and you collect a valid resale exemption certificate from the seller

NO → Did your company deliver $100K+ or 200+ transactions into the state on behalf of the seller?

YES → Collect a valid resale exemption certificate from the seller

NO → Does your company have nexus?

YES → Collect sales tax or a valid resale exemption certificate from the seller

NO → The customer is responsible for paying use tax

Drop shipping and new tax laws after Wayfair

If you [use](#) drop shipping:

Does your company have nexus?

YES → Is your customer tax exempt?
- **YES** → Collect a valid resale exemption certificate from your customer.
- **NO** → Collect sales tax.

NO → Did your supplier deliver $100K+ or 200+ transactions into the state on your behalf?
- **YES** →
- **NO** → Does your supplier have nexus?
  - **YES** → Fill out a resale exemption certificate for your supplier.
  - **NO** → The customer is responsible for paying use tax

Audits

Questions to consider

› Who is going to be pulling the exemption certificates for the auditor? Do you have the staff and the resources?

› Do you know what you are lacking? Who is going to reach out to your customers to get missing, invalid certificates, or XYZ letters?

› Have you made improvements since your last audit? Have things gotten worse?

› Are you going to rebill your customers the tax? Do you know which customers you need to rebill?

Audit preparation is crucial

Headaches

Financial Exposure

› Scrambling to gather documentation at the last minute

› Customers have gone out of business, can't collect tax retroactively

› Projected audit results: One missing certificate could result in large assessment

› Eat the tax: Tax that your customer should have paid is now yours to pay

› Rebill the customer: Requesting tax after the fact can negatively impact customer relations

More important than audits

Customer service problems

Charging tax when you shouldn't

Have customers given you the proper document-tation and is there a disconnect to billing?

Not charging tax when you should

Ultimately, this will probably hit you under audit

Impact on Accounts Receivable (AR)

Customers short-paying tax leads to headaches in AR department

Real-time billing issues

Customers relations can get strained

How to manage exemptions for your business

What should you ask yourself

> How many states are you / do you need to register in for sales tax compliance?

> What % of your customers/business are exempt?

> How do you plan to collect/update documentation?

> What does that customer experience look like?

> Is your current process scalable?

> Do you have or are you planning to create or improve your online B2B experience?

> What is the quality of the documents you have now?

> Can you afford to delay orders or lose business?

> Do you have the tax compliance expertise to insure what is collect is accurate and valid?

Customer Exemptions

Managing INCOMING compliance documents while minimizing audit risk

Reduces risk of exposure

Streamlines management across the document life cycle

Supports modern APIs and business applications

Collect

Store

Track

Report

Analyze

Utilize

Customer Exemptions

Vendor exemptions

Managing OUTGOING compliance documents while minimizing audit risk

Adds control to procurement process
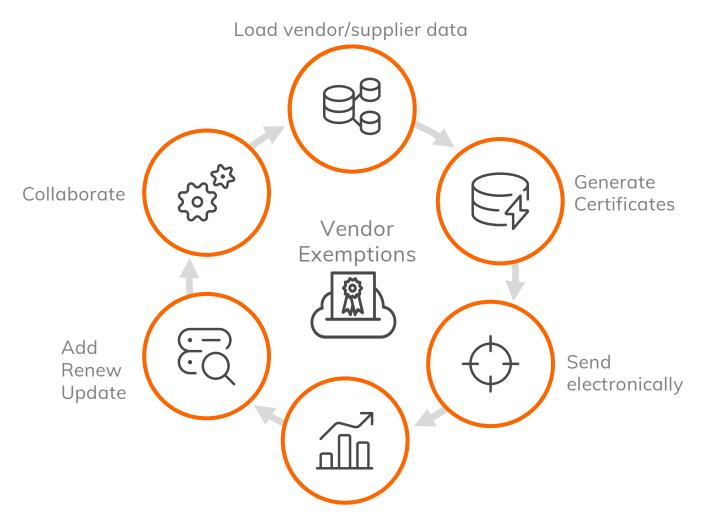
Minimizes time and need for tax expertise

Web-based automation and process centralization

Creates pre-populated certificates (includes signature)

Improves vendor/supplier relationship, creates efficient buying process

Load vendor/supplier data

Generate Certificates

Send electronically

Digitally store and track

Add Renew Update

Collaborate

Vendor Exemptions

The best exemption management solution for you

What can you expect with ECM Pro?

Front-end UX

› Simplified and streamlined user interface integrated within the Avalara platform

› Customer Exemption & Vendor Exemption certificate management

› Automated certificate review and validation (OCR)

› Automated tax ID validation

› Integrated TTR tax law and exemption content

Back-end Platform

› Additional certificates and forms supported

› Deeper integration with AvaTax (for customers with AvaTax accounts)

› No data migration necessary for AvaTax Exemption or CertCapture customers

Risk & Security

› Avalara Identity

› SOC 2 Type 1 & 2 compliant

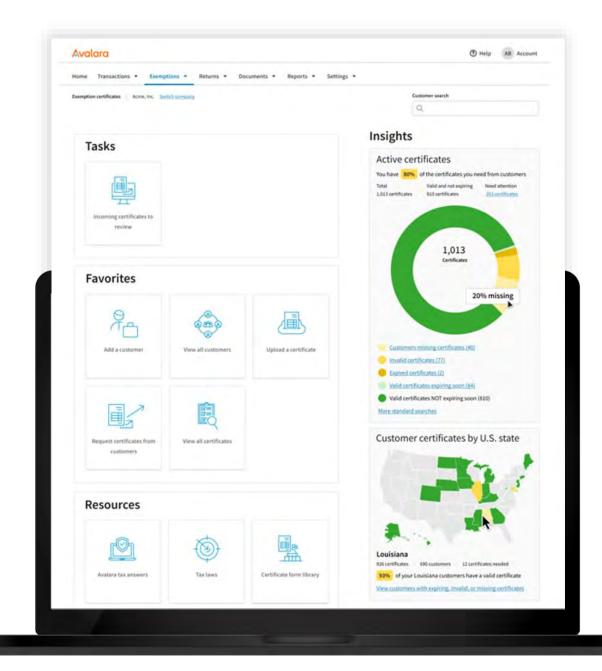| ECM FEATURES	ESSENTIALS	PRO	ENTERPRISE	
SOC 2, Type 1 compliance (Type 2 Q4 2022)	☑	☑	☑	**ECM Essentials moved to GA in Q4 2021**
Customer Exemptions & Certificate Storage	☑	☑	☑	
Basic Reports	✗	☑	☑	
Automated Certificate Review & Validation via OCR	✗	☑	☑	
Campaign Management	✗	☑	☑	**ECM Pro moving to GA in July 2022, with Vendor Exemptions releasing at the early Q4**
Enhanced State Tax ID validation	✗	☑	☑	
Integrated TTR certificate rules and help	✗	☑	☑	
eComm Module	✗	☑	☑	
API & Connectors	✗	☑	☑	
Vendor Exemptions	✗	☑	☑	
Advanced Search with Custom Data Fields	✗	✗	☑	
Advanced Customizable Reports	✗	✗	☑	
Customizable Exemption Matrix	✗	✗	☑	**ECM Enterprise moving to GA in Jan 2023, with iterative enhancements through 2023**
Customizable Exemption Regions & Reasons	✗	✗	☑	
Co-brandable emails and custom templates	✗	✗	☑	
Retail Module	✗	✗	☑	

How we're differentiating ECM within the market

Reducing time consuming and error prone manual tasks through automation

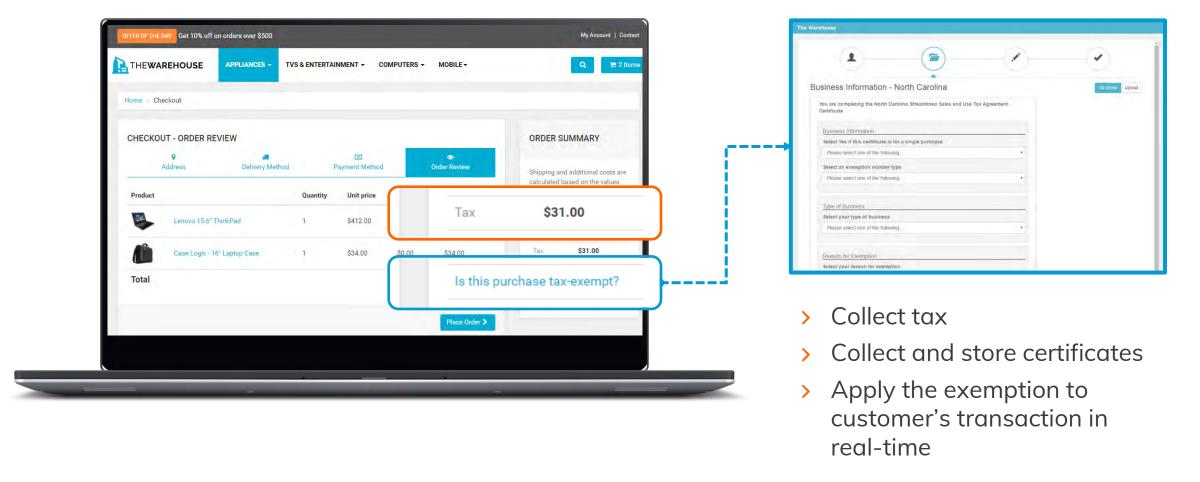|	MONITORING	REQUESTING	VALIDATING
COMPETITORS	*Manually* run reports to determine their compliance status	*Manually* send, monitor, and follow-up on requests	*Manually* review every certificate to determine its validity
ECM PRO & ENTERPRISE	*Automatically* monitors their certificates and customer ship-to locations, calculates compliance percentage, and details which tasks to complete to improve compliance	*Automatically* requests replacements for expiring, expired, invalid and missing certificates, and automatically sends follow-up requests	*Automatically* captures certificate data and determines validity

ECM Experience

> Streamlined design – easier to get your work done

> Automated certificate validation

> Automated certificate requests
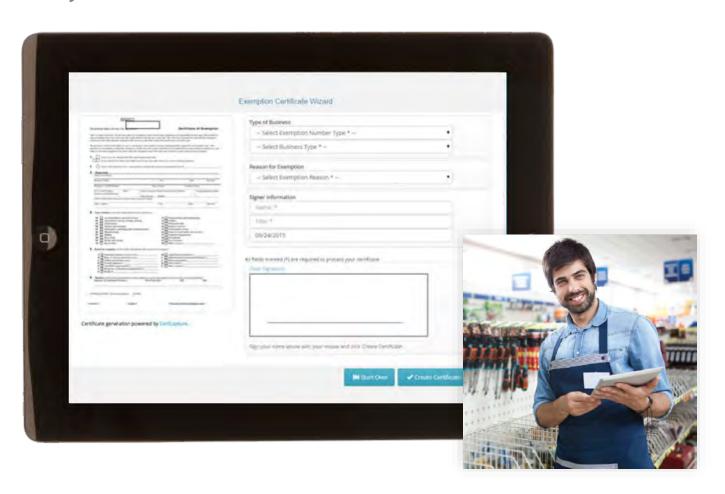
> Automated "exposure" reporting

> Tax law help content

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API integration to eComm Systems

Collect exemption certificates within your existing on-line buy workflows

> Collect tax

> Collect and store certificates

> Apply the exemption to customer's transaction in real-time

Integrations to Retail Systems

In-store capability to utilize customers existing stored exemption certificates or easily collect new ones

- In-store or field employees' access via a phone or tablet, or via a POS with internet access

- Quickly check to see if an existing certificate is on-file

- If not, collect it with just a few simple clicks

- Directly populates and/or displays existing certificate from CertCapture

Questions

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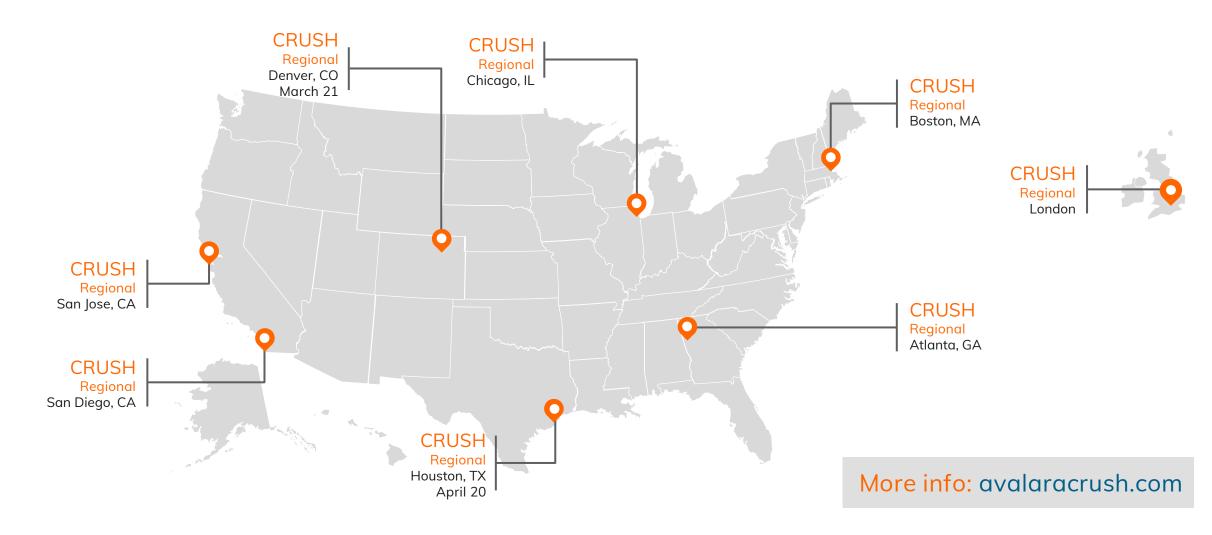
Upcoming events

avalara.com/webinars

Webinars

> 3/9 Pop quiz! Test your tax knowledge!

> 3/15 How to attack an audit. 1 CPE credit.

> 3/23 The 2023 tax trends and changes that retail customers should know. 1 CPE credit

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