



# Managing tax-exempt sales 101

## **Presented by:**

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Senior Solutions Consultant

Avalara

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Product Sales Specialist

Avalara

# Disclaimer

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



# Continuing Professional Education (CPE)



## Qualifying for credit

- › Respond to **3 of 4** poll questions
  - › Questions display for a limited amount of time
  - › Select your answer and click submit
- › Attend at least **50 minutes** of the webinar



## 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



## **Maria Tringali**

Senior Solutions Consultant

Avalara

- > Joined Avalara in 2014, and is focused on training, educating, and supporting customers, prospective customers, sales teams, and partners on tax compliance requirements for B2B sellers.
- > Passionate about improving the exempt customer experience and helping businesses improve upon and automate traditionally labor-intensive and risk-prone activities.



## **Andrew Quirk**

Product Sales Specialist

Avalara

- > Has been with Avalara for 9+ years and is focused on aligning our Exemption Management solutions to our customers' business needs
- > Has worked with thousands of Avara customers on their tax compliance requirements with exempt sales for B2B sellers

# Agenda

- Compliance landscape for tax-exempt sales
- 4 common compliance challenges for tax-exempt sellers
- Best practices for getting and staying compliant
- Q&A

# The tax-exempt landscape

# Understanding tax-exempt sales

- For any tax-exempt sale, a corresponding exemption certificate is required to prove exempt status if the company has nexus.
- The form is presented by an **exempt organization or individual** to the seller.

**UNIFORM SALES & USE TAX EXEMPTION/RESALE CERTIFICATE — MULTIJURISDICTION**

The below-listed states have indicated that this certificate is acceptable as a resale exemption certificate for sales and use tax, subject to the notes on pages 2-4. The issuer and the recipient have the responsibility to determine the proper use of this certificate under applicable laws in each state, as these may change from time to time.

Issued to Seller: \_\_\_\_\_

Address: \_\_\_\_\_

I certify that  
Name of Firm (Buyer): \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

and is registered with the below-listed states and cities within which your firm wholesales, retails, or (includes or comprises of a new product or service) in the business of wholesaling, retailing, manufacturing, leasing (renting) and \_\_\_\_\_

Description of Business: \_\_\_\_\_

General description of tangible property or intangible services to be purchased: \_\_\_\_\_

State	State Registration, Seller's Permit, or ID Number of Purchaser	1
AL		10
AK		10
AZ		10
CA		10
CO		10
CT		10
DC		10
FL		10
GA		10
HI		10
IA		10
IL		10
IN		10
KS		10
KY		10
LA		10
MA		10
MD		10
ME		10
MI		10
MN		10
MO		10

I further certify that if any property or service so purchased tax free is used or tax due directly to the proper taxing authority when state law so provides or if such order that we may hereafter give to you, unless otherwise specified, and ours.

Under penalty of perjury, I swear or affirm that the information on this form is true and correct.

Authorized Signature: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Revised 1/20/2010

Customer # \_\_\_\_\_

**Streamlined Sales and Use Tax Agreement** **Certificate of Exemption**

This is a multi-state form. Not all states allow all exemptions listed on this form. Purchasers are responsible for knowing if they qualify to claim exemption from tax in the state that would otherwise be due tax on this sale. The seller may be required to provide this exemption certificate (or the data elements required on the form) to a state that would otherwise be due tax on this sale.

The purchaser will be held liable for any tax and interest, and possibly civil and criminal penalties imposed by the member state, if the purchaser is not eligible to claim this exemption. A seller may not accept a certificate of exemption for an entry-based exemption on a sale made at a location operated by the seller within the designated state if the state does not allow such an entry-based exemption.

1.  Check if you are attaching the Multi-state Supplemental form.  
 If not, enter the two-letter postal abbreviation for the state under whose laws you are claiming exemption: \_\_\_\_\_

2.  Check if this certificate is for a single purchase and enter the related invoice/purchase order #: \_\_\_\_\_

3. **Please print**  
Name of purchaser: \_\_\_\_\_  
Business Address: \_\_\_\_\_ City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_  
Purchaser's Tax ID Number: \_\_\_\_\_ State of Issue: \_\_\_\_\_ Country of Issue: \_\_\_\_\_  
If no Tax ID Number: FEIN: \_\_\_\_\_ Driver's License Number/State Issued ID Number: \_\_\_\_\_ Foreign diplomat number: \_\_\_\_\_  
Enter one of the following: \_\_\_\_\_ State of Issue: \_\_\_\_\_ Number: \_\_\_\_\_  
Name of seller from whom you are purchasing, leasing or renting: \_\_\_\_\_  
Seller's address: \_\_\_\_\_ City: \_\_\_\_\_ State: \_\_\_\_\_ Zip code: \_\_\_\_\_

4. **Type of business.** Circle the number that describes your business.

01 <input type="checkbox"/> Accommodation and food services	11 <input type="checkbox"/> Transportation and warehousing
02 <input type="checkbox"/> Agricultural, forestry, fishing, hunting	12 <input type="checkbox"/> Utilities
03 <input type="checkbox"/> Construction	13 <input type="checkbox"/> Wholesale trade
04 <input type="checkbox"/> Finance and insurance	14 <input type="checkbox"/> Business services
05 <input type="checkbox"/> Information, publishing and communications	15 <input type="checkbox"/> Professional services
06 <input type="checkbox"/> Manufacturing	16 <input type="checkbox"/> Education and health-care services
07 <input type="checkbox"/> Mining	17 <input type="checkbox"/> Nonprofit organization
08 <input type="checkbox"/> Real estate	18 <input type="checkbox"/> Government
09 <input type="checkbox"/> Rental and leasing	19 <input type="checkbox"/> Not a business
10 <input type="checkbox"/> Retail trade	20 <input type="checkbox"/> Other (explain): _____

5. **Reason for exemption.** Circle the letter that identifies the reason for the exemption.

A <input type="checkbox"/> Federal government (department): _____	H <input type="checkbox"/> Agricultural production # _____
B <input type="checkbox"/> State or local government (name): _____	I <input type="checkbox"/> Industrial production/manufacturing # _____
C <input type="checkbox"/> Tribal government (name): _____	J <input type="checkbox"/> Direct pay permit # _____
D <input type="checkbox"/> Foreign diplomat # _____	K <input type="checkbox"/> Direct mail # _____
E <input type="checkbox"/> Charitable organization # _____	L <input type="checkbox"/> Other (explain): _____
F <input type="checkbox"/> Religious or educational organization # _____	
G <input type="checkbox"/> Resale # _____	

6. **Sign here. I declare that the information on this certificate is correct and complete to the best of my knowledge and belief.**  
Signature of Authorized Purchaser: \_\_\_\_\_ Print Name Here: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_

SSTGB Form F0001 Exemption Certificate (3/00/11) Printed by www.Certificates.com



# When are transactions tax-exempt?

Form 1023-EZ Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code

Check this box to attest that you have completed the Form 1023-EZ Eligibility Worksheet in the current instructions, are eligible to apply for exemption using Form 1023-EZ, and have read and understand the requirements to be exempt under section 501(c)(3).

Have your annual gross receipts averaged \$50,000 or less in any of the past 3 years and/or do you project that your annual gross receipts will exceed \$50,000 in any of the next 3 years? If you check "No" on this question, you must file Form 1023-EZ. See instructions.

Do you have total assets the fair market value of which exceeds \$250,000? If you check "No" on this question, you must file Form 1023-EZ. See instructions.

**Part I Identification of Applicant**

Full Name of Organization: \_\_\_\_\_ Care Of Name of Applicant: \_\_\_\_\_

Street Address (number, street, and apartment, if applicable) \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip code + 4 \_\_\_\_\_

Employer identification number \_\_\_\_\_ Month (see Year-End 2008) \_\_\_\_\_ Permit to Contact if above information is needed \_\_\_\_\_

Contact Telephone Number \_\_\_\_\_ Fax Number (optional) \_\_\_\_\_ Use Free Submitted \_\_\_\_\_

List the names, titles, and mailing addresses of your officers, directors, and/or trustees (if you have none then file, see instructions).

First Name	Last Name	Title	Street Address	City	State	Zip code + 4

## BUYER'S BUSINESS STATUS

- **Not-for-profit:** Charities, religious organizations, educational institutions, hospitals
- **Government:** Federal, state agencies

STATE OF CALIFORNIA  
BOARD OF EQUALIZATION

California Resale Certificate

I HEREBY CERTIFY:

1. I hold valid seller's permit number \_\_\_\_\_
2. I am engaged in the business of selling the following type of tangible personal property: \_\_\_\_\_
3. This certificate is for the purchase from \_\_\_\_\_ (seller's name) of the item(s) I have listed in paragraph 5 below.
4. I will resell the item(s) listed in paragraph 5, which I am purchasing under this resale certificate in the form of tangible personal property in the regular course of my business operations, and I will do so prior to making any use of the item(s) other than demonstration and display while holding the item(s) for sale in the regular course of my business. I understand that if I use the item(s) purchased under this certificate in any manner other than as just described, I will owe use tax based on each item's purchase price or as otherwise provided by law.
5. Description of property to be purchased for resale: \_\_\_\_\_

## INTENDED USE OF GOODS SOLD

- Merchandise intended for resale
- Use in product that will be resold
- Agriculture
- Manufacturing
- Tangible personal property purchase to lease or rent

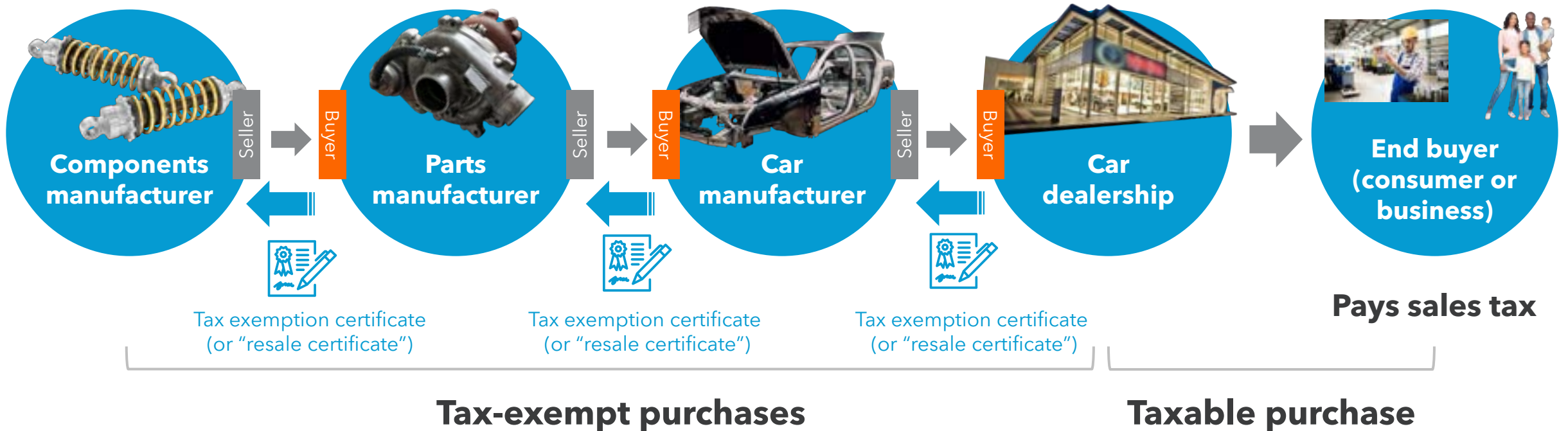
# Tax exemption resale example: Auto supply chain

Seller

**CUSTOMER exemptions** scenario ("I need to collect exemption certificates from my tax-exempt customers.")

Buyer

**VENDOR exemptions** scenario ("I need to make sure all my suppliers have my tax exemption certificate(s).")



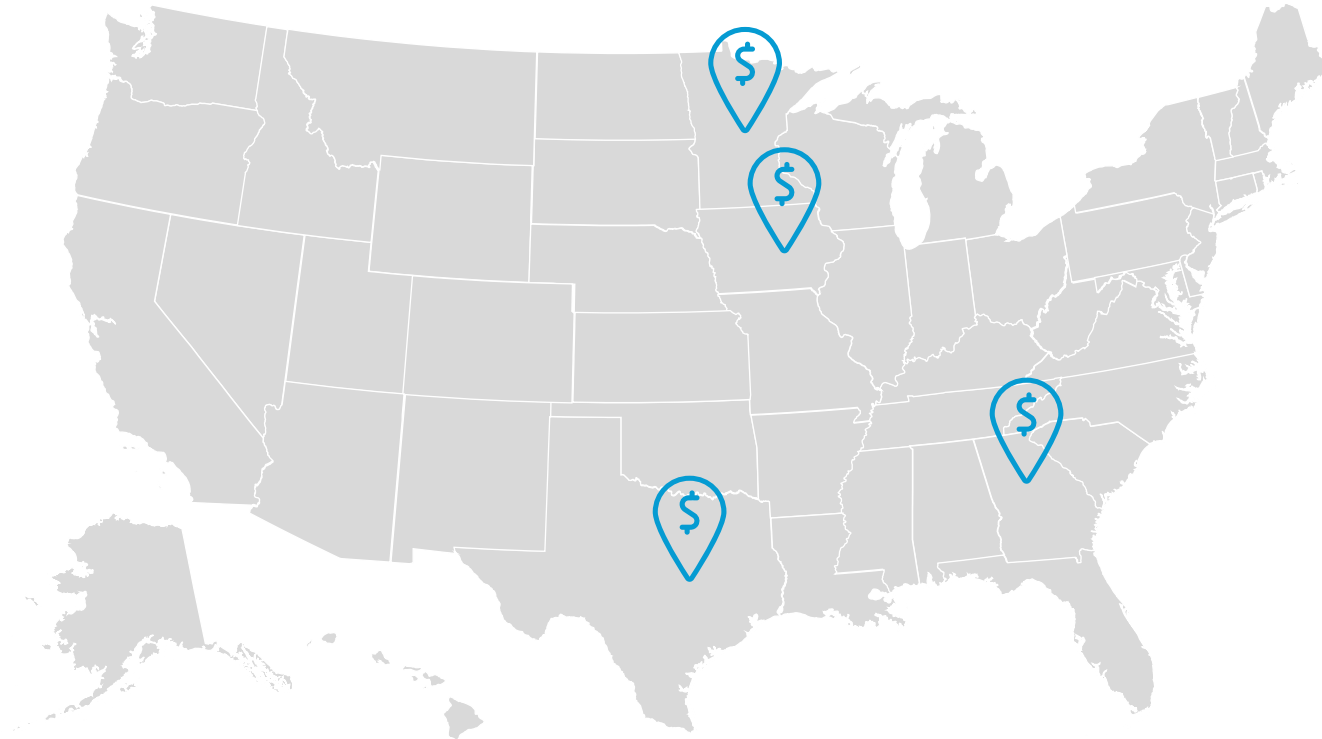


4 common compliance challenges for tax-exempt sellers

A man in a yellow short-sleeved work shirt and safety glasses is wearing large black headphones. He is holding a black tablet computer with both hands and looking at the screen. He is standing in a factory or industrial setting. In the foreground, there is a large, curved, yellow and white flexible duct. The background is a large industrial space with a high ceiling, metal beams, and bright lights. The overall scene suggests a worker using mobile technology in a manufacturing environment.

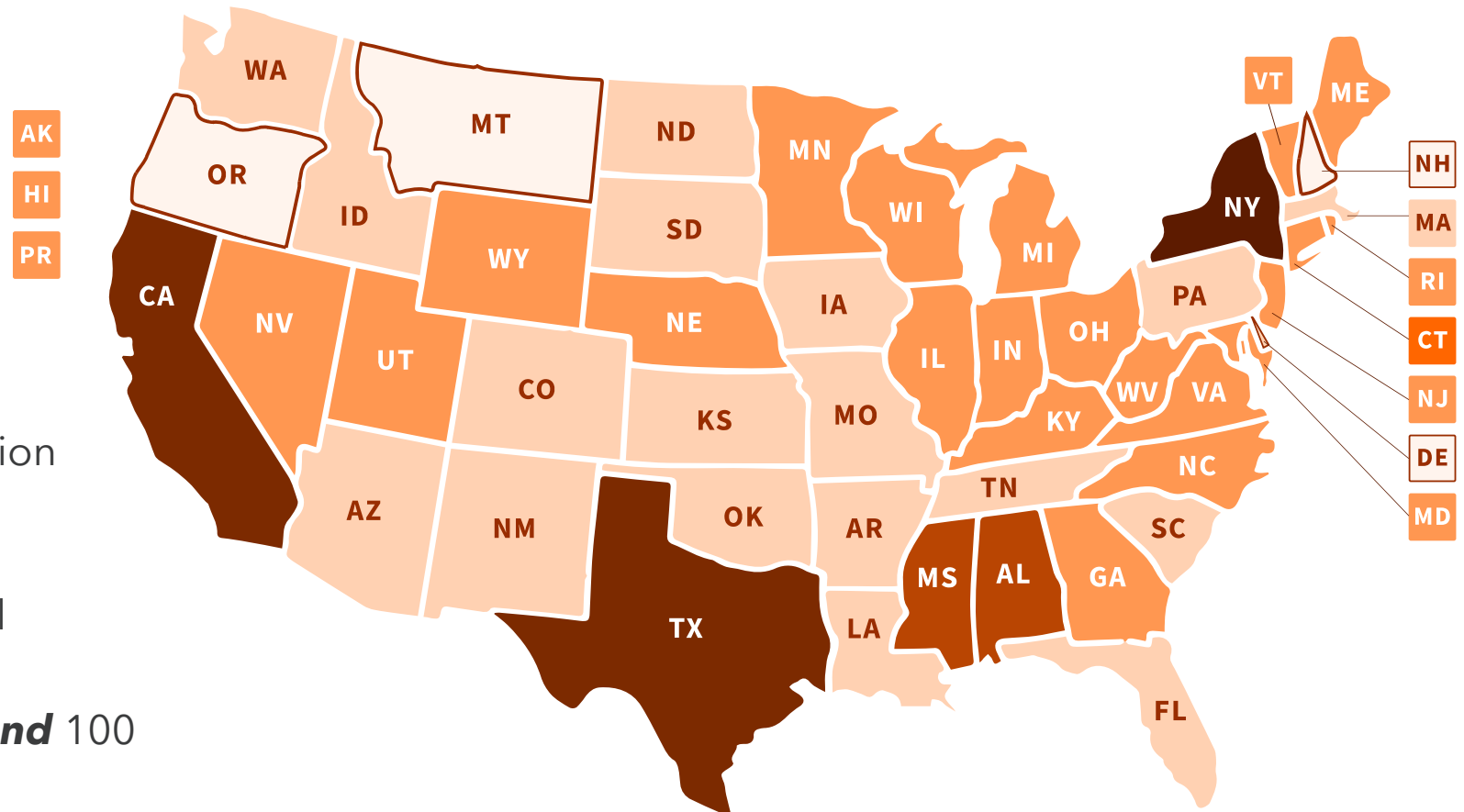
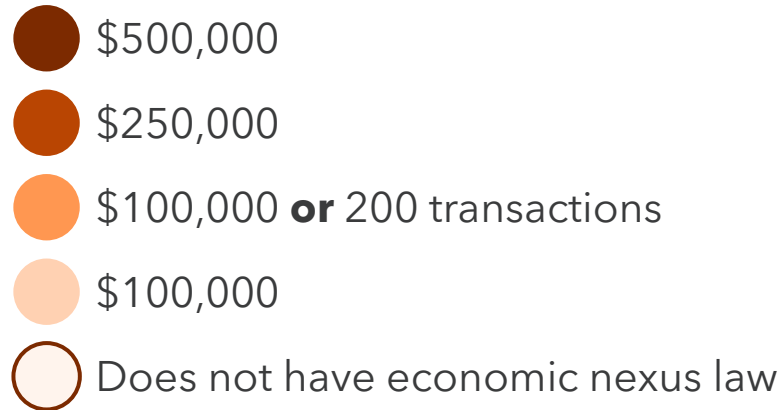
**Challenge #1:**  
Nexus

# In the beginning, there was physical nexus ...



**Example:** A distributor selling nationwide but with only four locations usually only had a to worry about tax compliance in those four states.

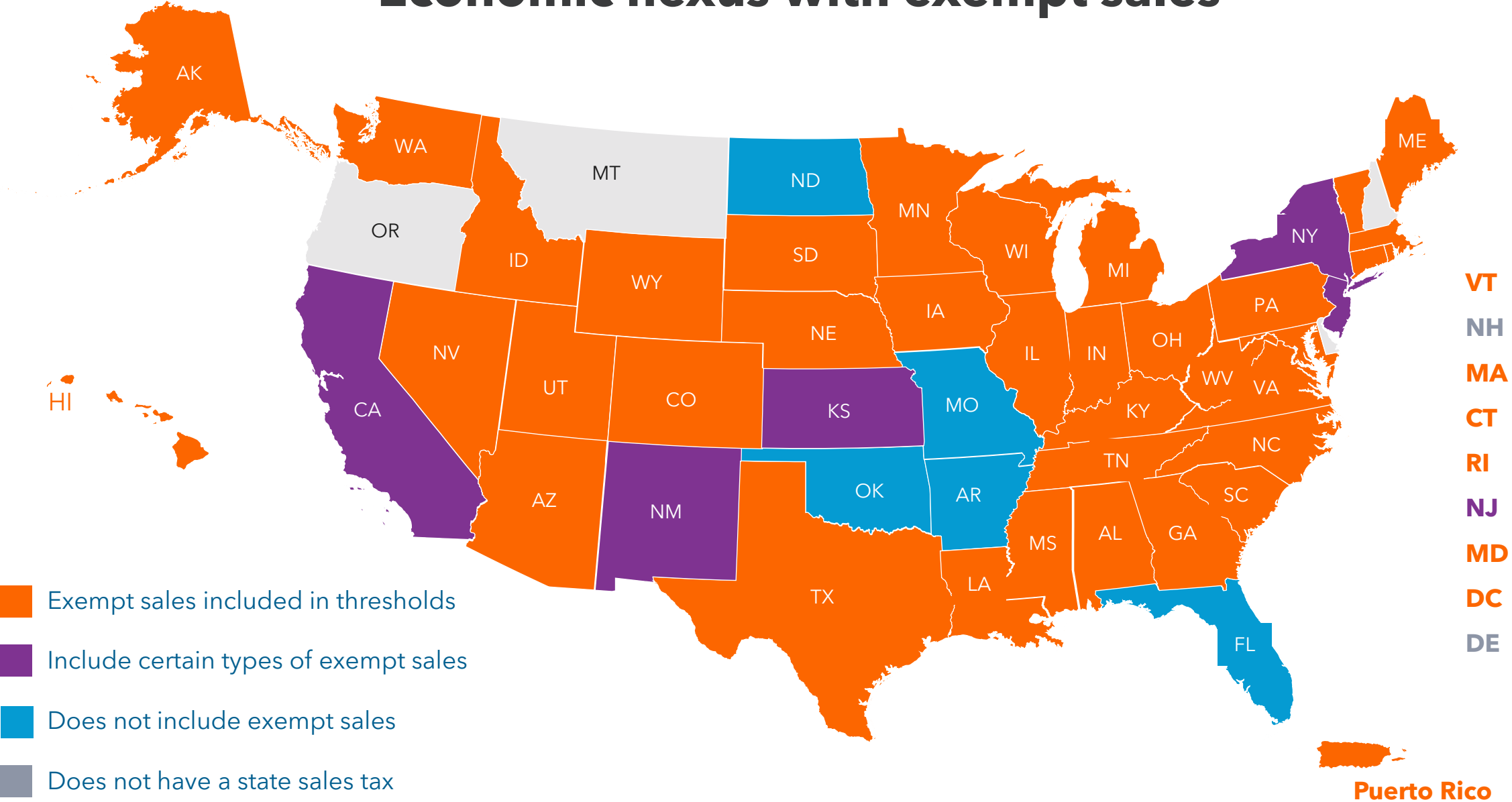
# Economic nexus thresholds by state



- > Wyoming will drop its 200-transaction threshold on July 1, 2024
- > Connecticut's threshold is gross receipts of \$100,000 **and** 200 retail transactions
- > New York's threshold is \$500,000 **and** 100 transactions
- > Certain states exclude resale, services, digital, SaaS, and more.

Use our free [sales tax risk assessment](#) to determine where you have nexus.

# Economic nexus with exempt sales





# Examples of the impact of *South Dakota v. Wayfair, Inc.*

## MANUFACTURER IN NY

- > 99% of sales are to other OEMs or reseller dealers (no tax)
- > Wayfair ruling increased their burden to prove exempt sales
- > Previous exemption certificate count: <75 on file

**New docs needed: 1,175**

## NATIONAL WHOLESALER

- > Sells to resellers who sell to end-users; drop shipment is part of their model
- > Wayfair grew nexus from just their physical HQ in NY to most U.S. states
- > Previous exemption certificate count: 500 on file

**New docs needed: 5,000+**



# The burden of proof is on you

- > While customers must provide documentation, the burden is on the SELLER during an audit to prove why tax was not charged.
- > Your \$0 sales tax liability is tied to those documents.
- > With fines and penalties, you can owe the state double the tax you failed to collect.



A magnifying glass with a wooden handle is positioned over a financial table, focusing on the data for the months of May, June, July, and August. The table contains numerical values in various columns, with some cells highlighted in light blue. The magnifying glass is tilted, showing a close-up of the numbers within its lens.

	May	Jun	Jul	Aug
	20.77	5.86	3.96	5.6
	1.5	4		
	0.5	0	0.37	0
	53.32	2.36	0.3	1.21
	9964.76	11065	13945.79	14851.18
	211.18	54.91	453.65	229.93
	14016.76	1594.89	12901.21	12625.01
	1232.46	1046.6	1152.52	1210.19
	3408.59	445.21	3400	2956.12
	445.02	491.75	442.9	443.92
	8323.28	228.76	5744.81	4654.11
	1859.25	78.12	1914.77	1830.85
	860.27	53.35	979.59	847.94
	561	5.83	515.79	558.06
	390.96	39.2	403.78	402.73
	80.6	4	87.88	35.36
	0.99		17.86	1.88
	0.75		0.25	3.70
	313.82	14		
	308	22.03	191.87	172.88
		14.44	0	20.7
		16.55	23.4	30.25



**Challenge #2:**

The customer experience



Managing exemption certificates right is managing customers well.

## Exempt customer experience is KEY

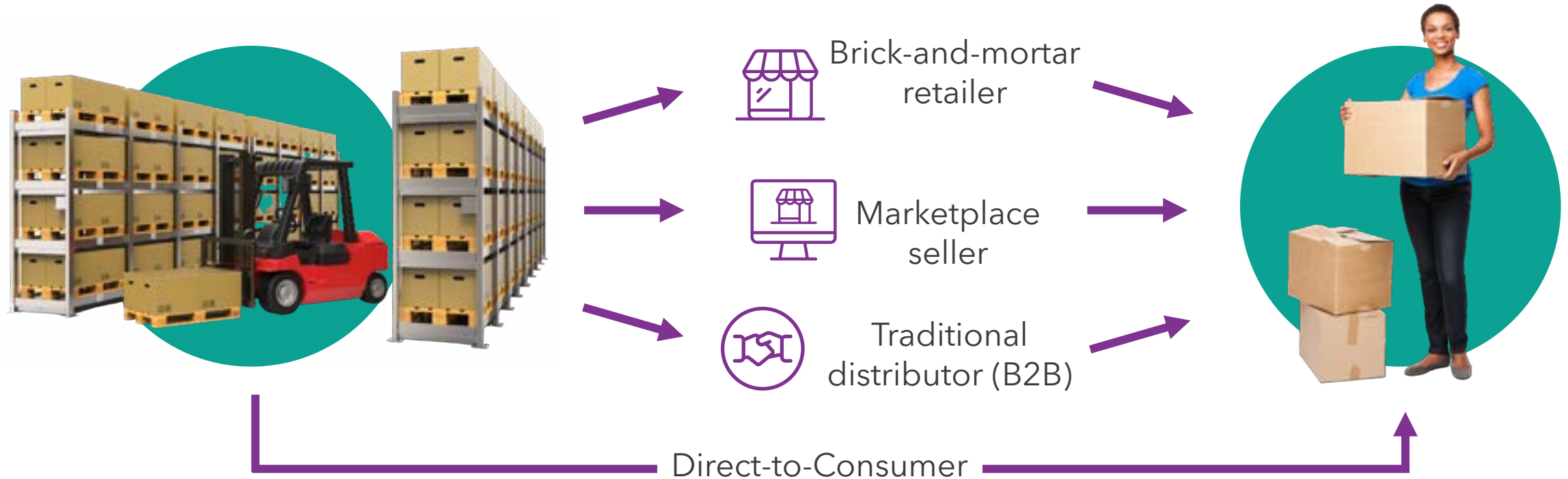
- › Customers feel burdened by being asked to provide documentation.
- › No one likes delays when ready to place an order.
- › Poor experiences often present as billing issues; increases the likelihood of credit & re-bills
- › Held invoices can create cash flow issues



**Challenge #3:**

The impact of omnichannel selling

# Rise of B2B ecommerce



**Expanding the traditional distribution & sales channels**

# Rise of B2B ecommerce

- › B2B digital sales **grew 17% to \$2.1T in 2023**.\*
- › **B2B ecommerce is the most effective sales channel**, rated first by 35% of respondents in a 2023 B2B Pulse survey.\*\*
- › 2/3 of buyers in 2022 opted for **remote human interactions or digital self-service** for ordering and reordering.\*\*
- › 70% of decision makers are prepared to **spend up to \$500,000** on a single ecommerce transaction.\*\*
- › **Hybrid sales models** (in-person *and* remote customer interactions) are deployed by 57% of winning companies.\*\*

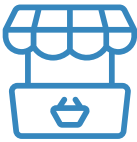
**OFFLINE B2B WORKFLOWS NEED  
TO BE REPLICATED ONLINE**



# Collect across all channels



Ecommerce in-cart and/or My Account page



New customer portal



In-store



Mail, email, phone



In the field

Allow customers to view & manage their exemption certificates in any sales channel

- Real-time certificate completion for ecommerce
- Easy access to certificates for in store, field sales and shared service teams
- Online web portal for customers

## No sales tax?

- › Poor processes for managing exemption certificates create negative customer experiences.
- › Customers don't like providing documentation.
- › Employees are not tax compliance experts

Customer service still matters





**Challenge #4:**  
Increased audit risk



# How high is audit risk?

## **60% of audits target four industries:**

- › Manufacturing
- › Construction
- › Wholesalers and distributors
- › Retail

## **Most common mistakes found by auditors:**

- › Nexus oversights
- › Exemption management, document errors
- › Misreporting use tax

## **Audit red flag:**

- › Invoices that don't show sales tax

## **What auditors will do:**

- › Request proof your business paid tax

## **Average cost of an audit:**

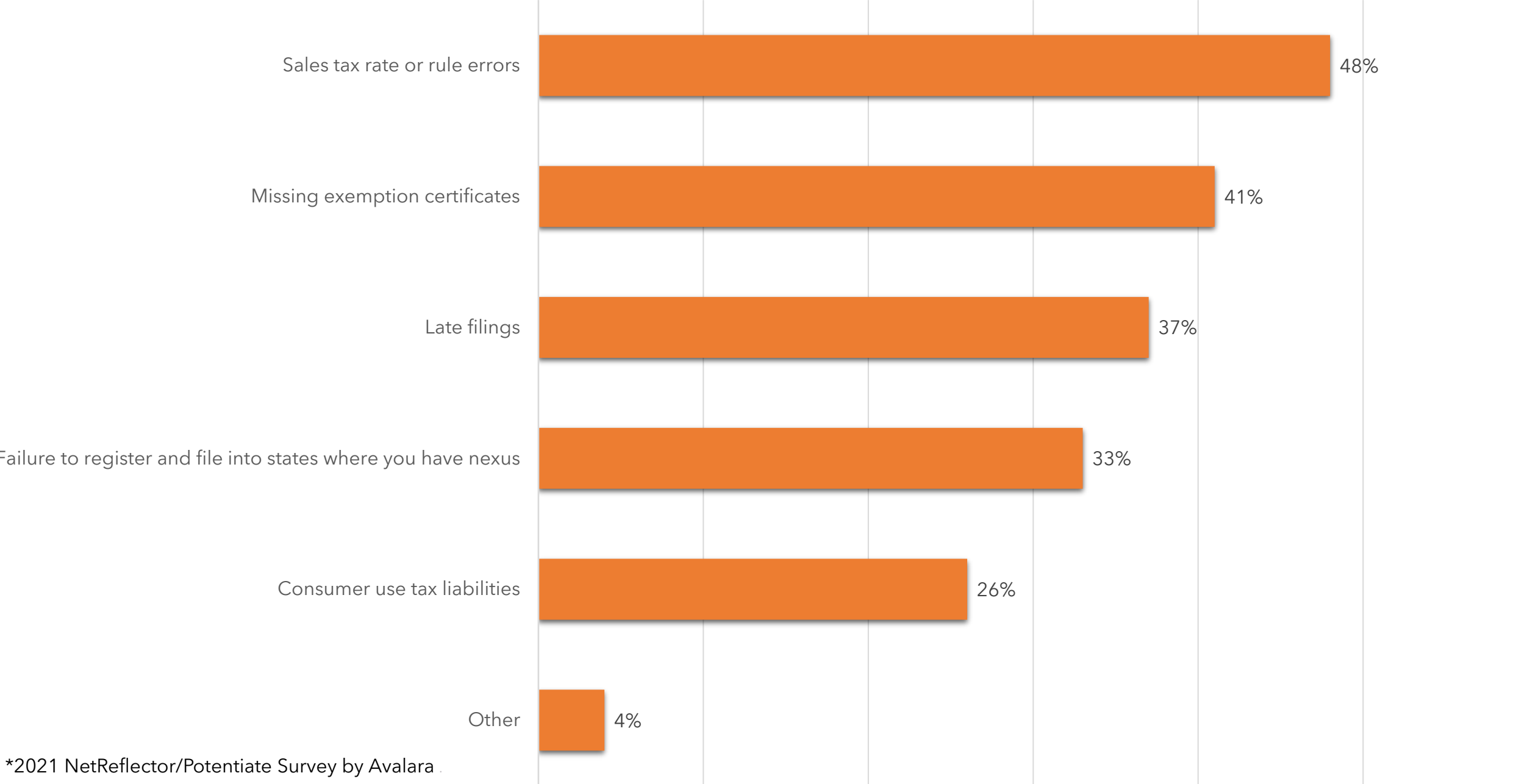
- › \$114,000 including penalties, fees, and professional counsel



## How painful and expensive are audits?

- › Most audits (79%) were completed within three weeks.
  - › A small percentage dragged on for five months or more.
- › It took employees an average of 35 hours to oversee and respond to an audit.
- › 93% of companies spent 10 or more hours on an audit.
- › Assessments can be applied to transactions dating back years.

# Reasons for audit penalties



\*2021 NetReflector/Potentiate Survey by Avalara



Best practices

# Rates are just the tip of the iceberg...



Tax calculations

Nexus

**Customer satisfaction**

Exemption certificates

Audit readiness

Ecommerce (B2C & B2B)

Accurate filing

Global tax compliance

Use tax

Tax research



# The 5 steps to sales tax compliance



1

## UNDERSTAND

Understand where your business must collect and remit sales tax, or exemption certificates



2

## REGISTER

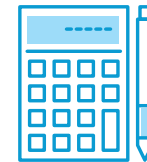
Register with each state where nexus is triggered



3

## VALIDATE

Collect, validate and maintain updated exemption certificates



4

## CALCULATE

Calculate the correct sales tax amount when needed



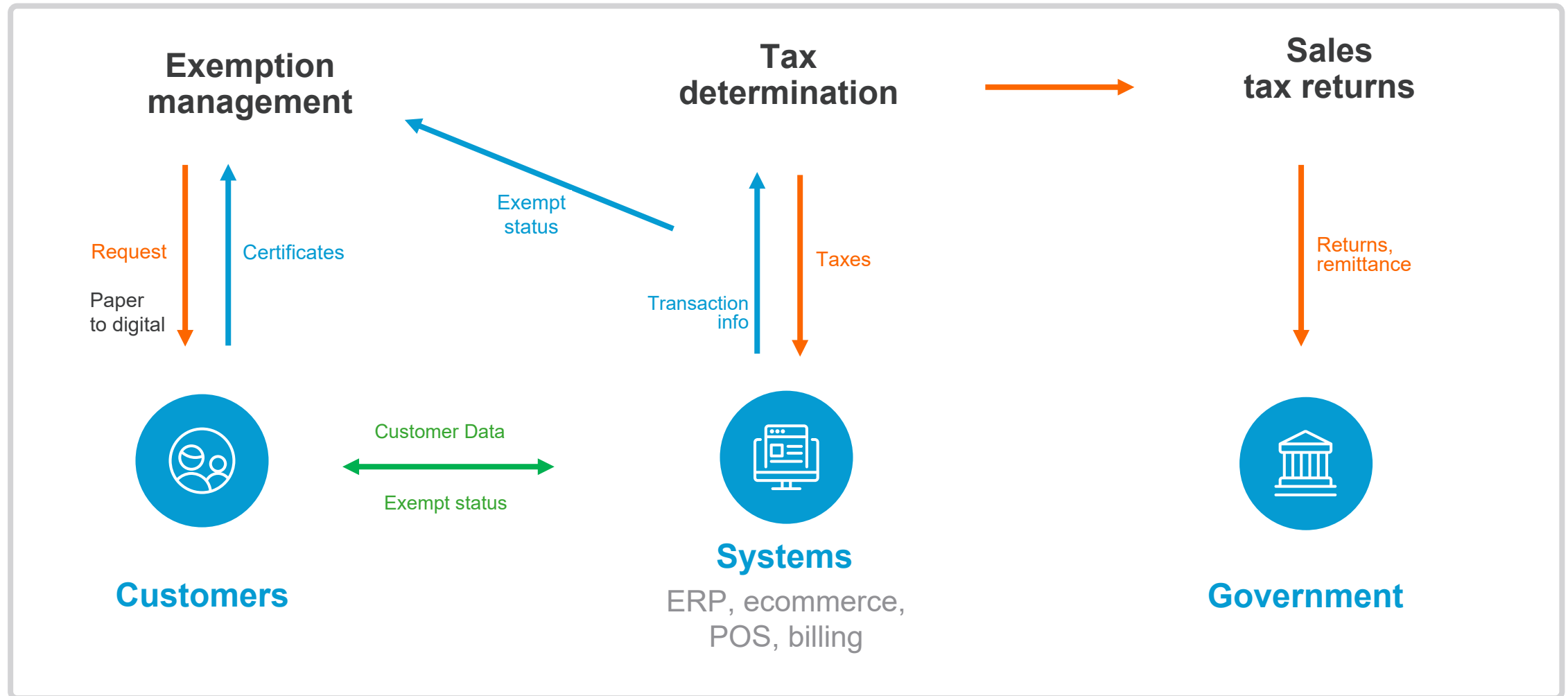
5

## REPORT

File and remit sales tax returns accurately and on time



# Avalara's Tax Determination Suite





# Automation is key to compliance

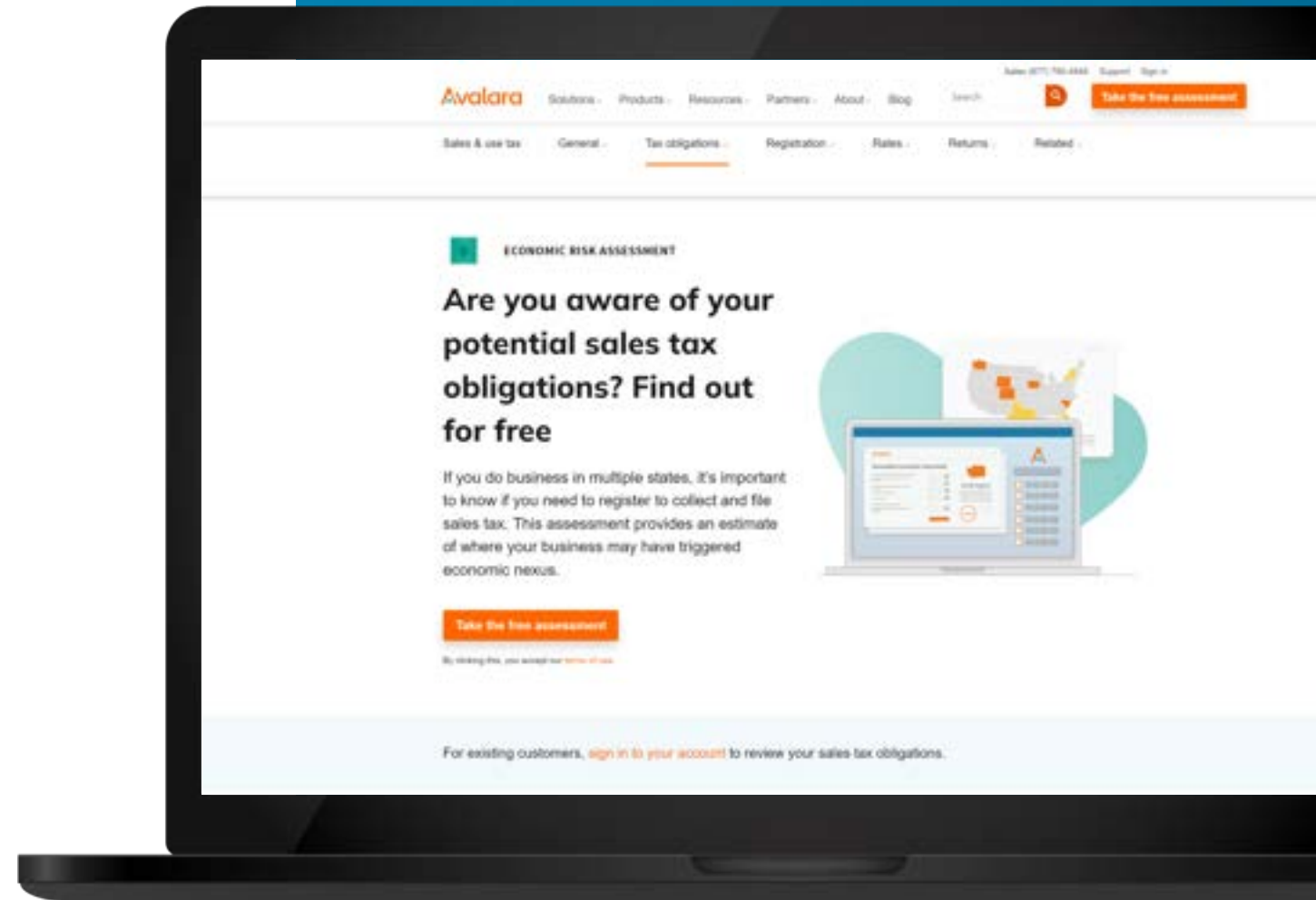
**Avalara's free nexus tool** helps determine where you may have nexus.

- › Provides an estimate of where your business may have triggered economic nexus

**Avalara's Premium Sales Tax Risk Assessment** offers a comprehensive view of your obligations.

- › Provides an exact list of U.S. states where the company has triggered nexus, in addition to a tax exposure analysis

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



# Collecting, validating, and maintaining exemption certificates

## Intelligent compliance document management



Directs buyer to proper documentation, eliminating need for onsite expertise



Insights and centralized collaboration



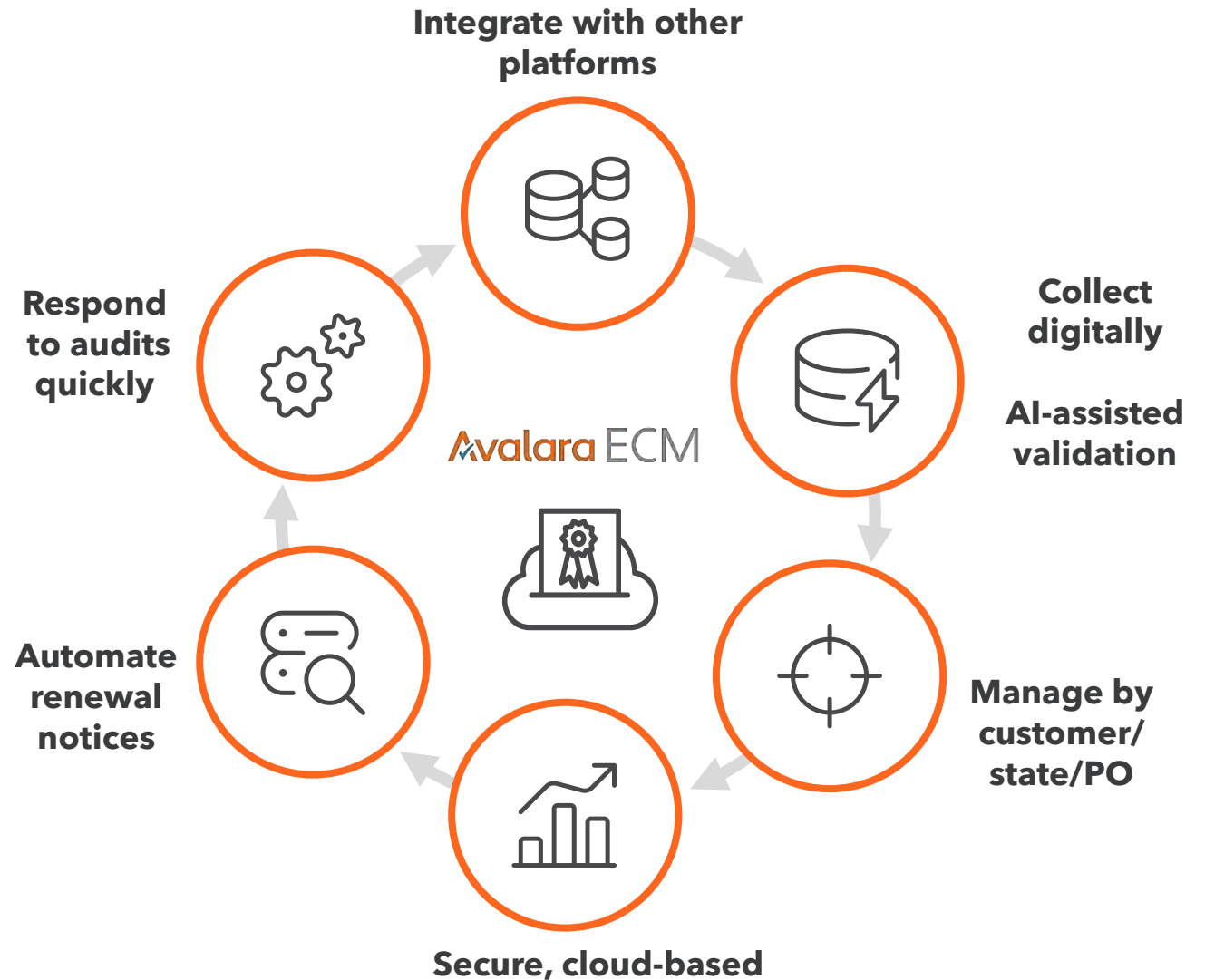
Integrates with AvaTax, invoicing platforms, websites and other tax engines for real time verification



Available ecommerce module, APIs, and professional services



Extensive reference library of exemptions laws



# ECM Managed Services

## One-time ECM Managed Services

### Step 2 of implementation

Following customer-led software setup and upload of clean customer data, Avalara will help you move from your current manual/paper/PDF processes to digitized compliance workflow. We will collect/validate all required customer exemption certificates for your business.

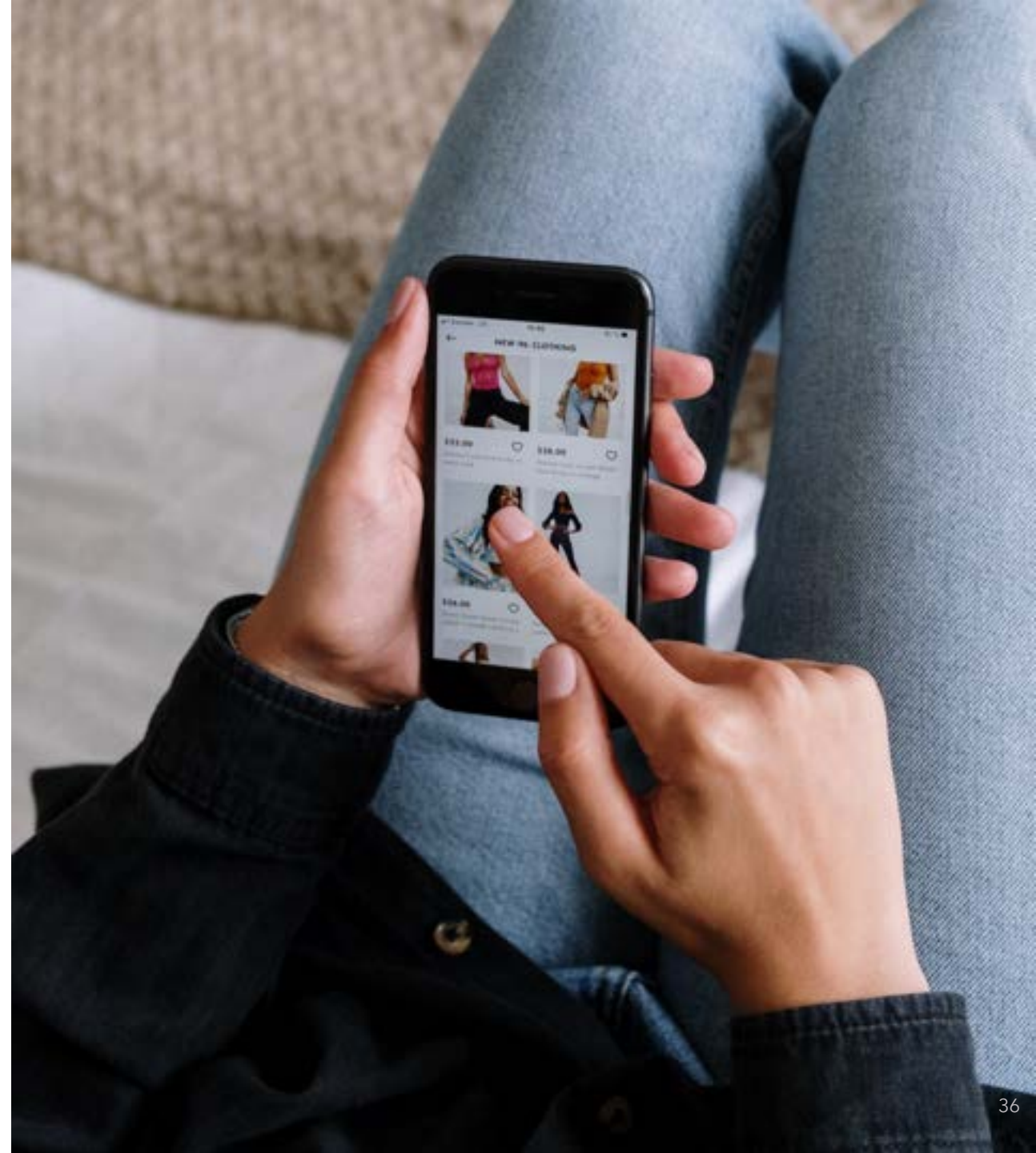
## Recurring ECM Managed Services

### Ongoing maintenance

Avalara will proactively run reports of certificates due to expire, create campaigns, validate newly received certificates, and provide customer support to ensure all certificates remain up-to-date and your business remains compliant.

# Types of ECM integrations

1. **ERP** (through AvaTax)
2. **Ecommerce sites** (through AvaTax)
3. **Independent** (API integrations)



# Purchasing/procurement - Vendor Exemption Management



Adds control to procurement process



Minimizes time and need for tax expertise



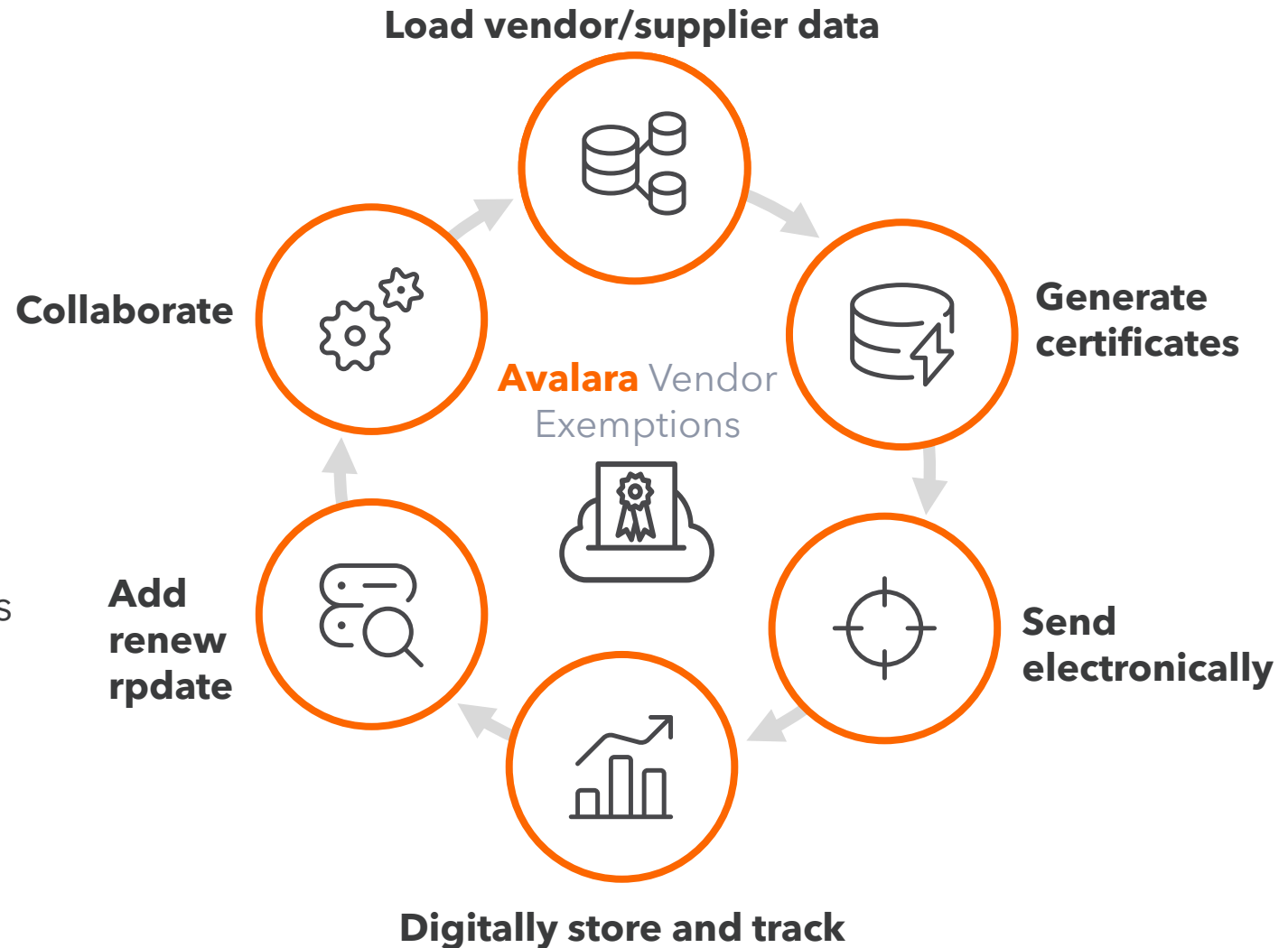
Allows web-based automation and process centralization



Creates pre-populated certificates (signature)



Improves vendor/supplier relationship, creates more efficient buying process



# Digitize exemption certificates

Automate across platforms and channels to be fully compliant with new laws.



## Collect across all channels

Collect, validate, and update sales tax exemption certificates BEFORE you invoice, regardless of where that invoice is created: ERP, online, over the counter, and in the field.



## Turn paper to pixels

Collect digitally, and digitize existing certificates including validation, mapping, and certificate intake process. Digital information enables robust tracking and reporting.

Enable campaigns for new states and renewals/updates.



## Remove the guesswork

Buyers know what to provide, sellers know what to collect. Digital forms eliminate errors, speed up processes, even auto-validate. Be proactive instead of reactive.



# Why automate sales tax compliance?



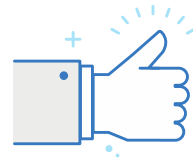
## Accuracy

Real-time tax calculations that get it right every time



## Efficiency

Reduce costs and time spent managing tax compliance



## Customer satisfaction

Streamline transactions with instant sales tax calculations



## Risk management

With accurate results, you'll decrease your company's risk



## Business growth

Free up resources to focus on high-value projects

# Savings from tax exemption certificate labor

According to a 2024 Forrester Total Economic Impact™ study

## The scenario

### BEFORE

Poor certificate management processes

### AFTER

Software collects, validates, and maintains exemption certificates, ensuring accuracy for buyer and seller

## The result



**30 minutes**

saved for staff per exemption certificate

## Financial impact



**\$96.5K**

three-year PV



## What customers say

“Using Avalara’s Exemption Certificate Management tool has been an amazing transformation for us. We zip out the files based on the query we get from the auditor. It’s so fast, and then we can go through them electronically, check them, and send them off.”

**Executive Tax Director**  
Manufacturing



## IMPORTANT QUESTIONS

# What to ask yourself

- › How many states are you / do you need to register in for sales tax compliance?
- › What % of your customers / businesses 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 ensure what is collected is accurate and valid?



Know if your  
business  
needs help.



Questions?