Tax compliance strategies to reduce risk and save time

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.

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- Respond to **3 of 4** poll questions
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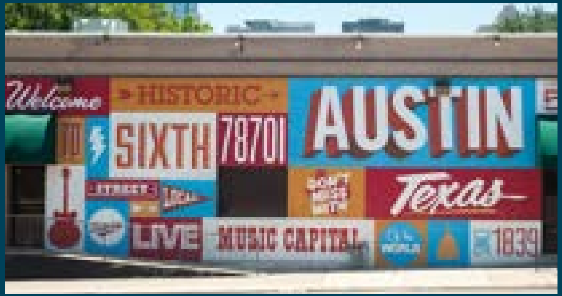
Avalara CRUSH

NOVEMBER 11-14, 2024
FAIRMONT AUSTIN

Our biggest customer event is returning this November in Austin! Avalara CRUSH is designed to take the tax compliance conversation deeper — attendees will learn how to make the most of Avalara solutions, get insights on trends in AI and the global economy, collaborate with peers, and network at fun evening events.

It’s more than a conference. It’s CRUSH.



www.AvalaraCRUSH.com

#AvalaraCRUSH

Meet your presenters

Meet your presenter

Steven Cabrera

Tax Director, Avalara

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Steven Cabrera is a CPA and former California State Tax Auditor. He has over 25 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.

Meet your presenter

Christine Martin

Senior Solutions Consultant, Avalara

christine.martin@avalara.com

Christine Martin is the Senior Partner Solution Consultant at Avalara, based out of Montana. Prior to Avalara, Christine spent 25-plus years working in industry in the sales and use tax space, starting her career at Marriott headquarters in Bethesda, Maryland. Christine has been a tax manager at a Fortune 1000 paper manufacturer as well as Director of Compliance for a telecommunication tax outsource provider. Additionally, she spent 4 years managing a partner channel in the business intelligence and financial reporting space. Christine has been a frequent presenter on sales and use tax, and business intelligence topics.

Agenda

1. Risk of getting tax compliance wrong
2. 3 common areas of audit focus
3. Other notable areas of risk in compliance
4. Solutions for minimizing risk
5. Q&A

The risks of getting tax compliance wrong

THE RISKS

Getting tax compliance wrong

- Tax compliance is a **non-revenue generating activity** but getting it wrong can be damaging to your business.
  - Costs due to under-reported sales tax, resulting in interest and penalties
  - Operational resources
  - Time spent
  - Employee turnover
  - Getting audited
- Understanding your risk and how to control it comes down to nexus

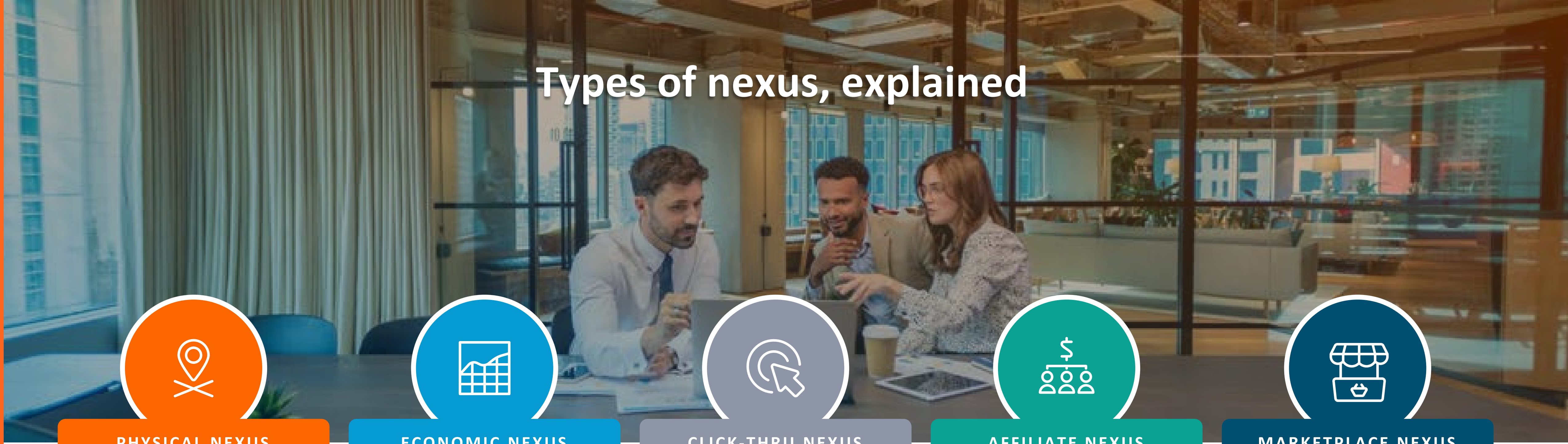
IT ALL COMES DOWN TO NEXUS

When must businesses collect sales tax?

Sales tax nexus defines the level of connection between a taxing jurisdiction (e.g., a state), and an entity (e.g., your business).

- Until this connection is established, the taxing jurisdiction cannot impose its sales taxes on you.

Types of nexus, explained



PHYSICAL NEXUS

Seller **has physical presence** in the state: office, warehouse, even remote employees.

ECONOMIC NEXUS

Seller meets a set level of **sales transactions** or **gross receipts activity** within a state. No physical presence required.

CLICK-THRU NEXUS

Seller meets sales threshold in a state from the activities of an **in-state referral agent**.

AFFILIATE NEXUS

Remote retailer holds substantial **interest in, or is owned by**, an in-state retailer that sells the same or similar line of products under the same or similar name.

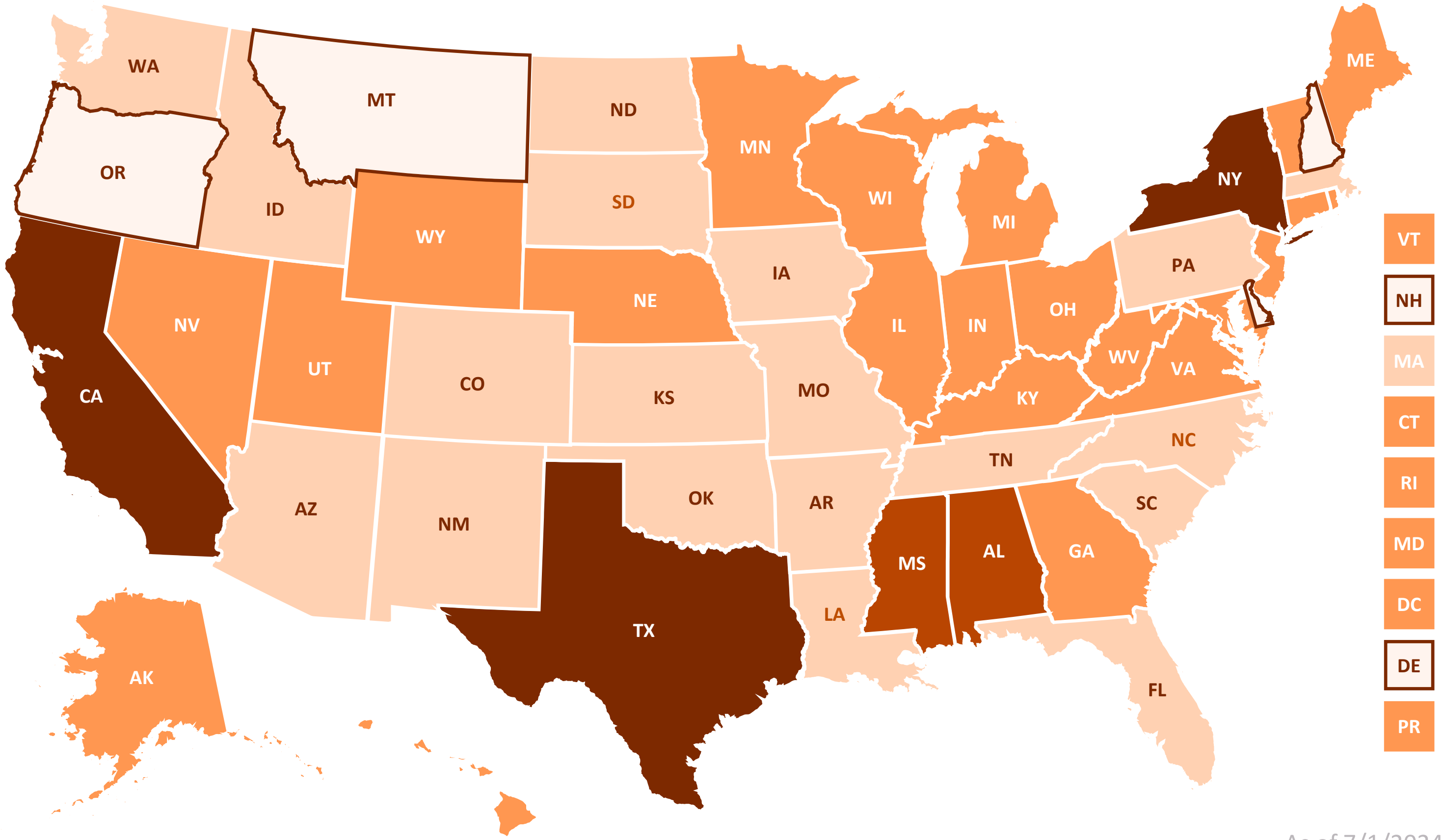
MARKETPLACE NEXUS

Marketplace facilitators may be required to collect and remit sales tax instead of the individual seller if it operates its business in a state and **provides ecommerce infrastructure, customer service, payment processing services, and marketing**.

Economic nexus thresholds by state

- $500,000
- $250,000
- $100,000 **or** 200 transactions
- $100,000
- Does not have economic nexus law

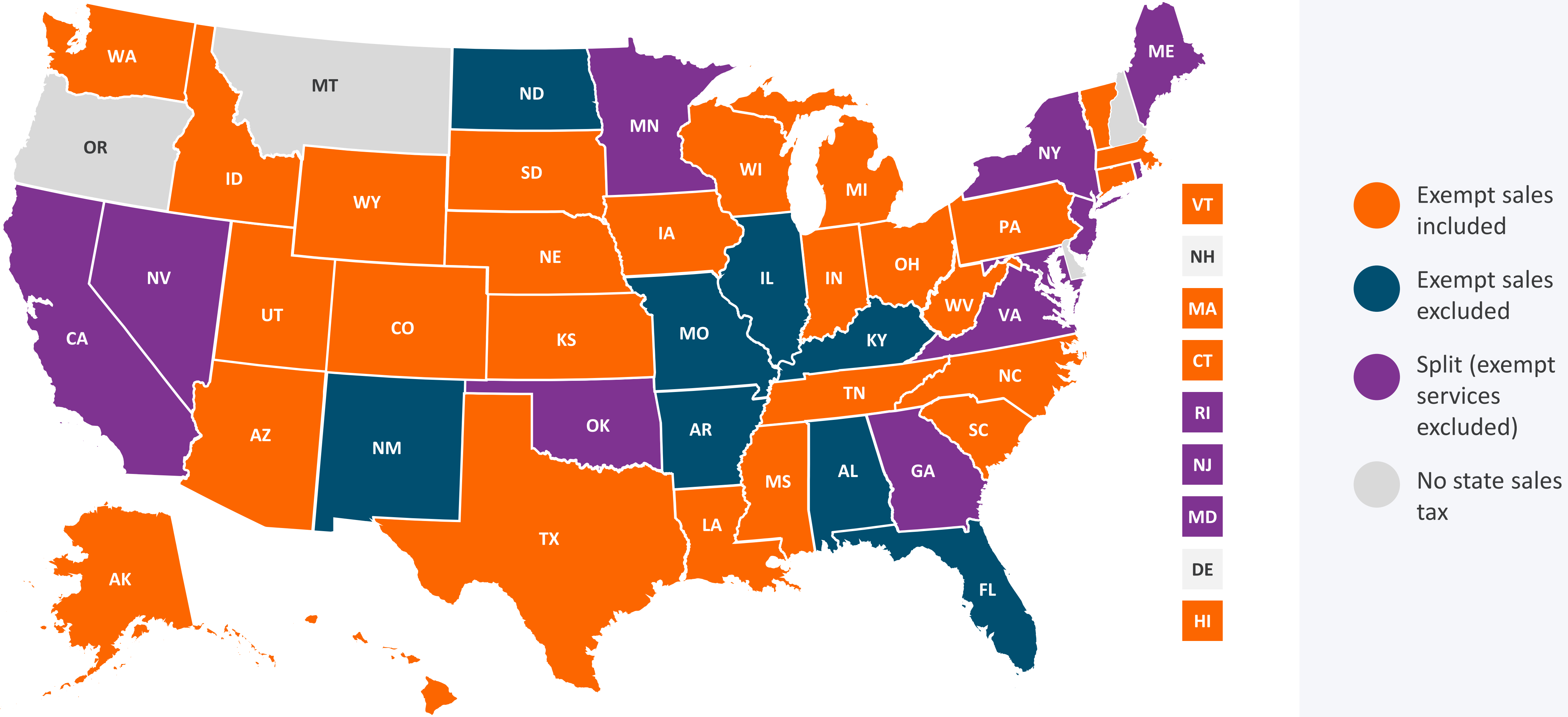
- Connecticut's threshold is gross receipts of $100,000 ***and*** 200 retail transactions
- New York's threshold is $500,000 ***and*** 100 transactions
- Recent activity with states dropping their transaction threshold



As of 7/1/2024

Use our free **sales tax risk assessment** to determine where you have nexus.

Exempt sales in economic nexus thresholds



A GROWING LIST

Physical nexus-creating activities

- Multi-state locations
- Maintenance / service / repairs
- Own / leased real property
- Hosted data centers
- Field sales / service staff
- Charge licenses / royalty / fees
- Direct / online sales
- Maintain inventory
- Affiliates, franchises, partners & influencers
- Tradeshows
- Commissions to resellers (1099s)
- Investors / board members / employees
- Marketing / web advertising
- Drop shipments
- Maintenance contracts
- Remote sales

The 3 common areas of audit focus

1. Taxability determination

Every transaction is considered taxable unless proven otherwise.

- Auditors will first look at whether sales tax should be collected, depending on product/service's classification, intended use, location of use, etc.
- Exempt sales must be documented properly with an exemption certificate.
  - Missing certificates can leave your business obligated to pay the sales tax.
- Sales tax holidays must be considered to ensure the correct taxability status.
  - More than 20 states have tax-free periods where certain goods that are usually taxable are exempt.
  - In 2023, there were 98,910 U.S. sales tax holiday rule updates.
- You must know the taxability rules of your customers' locations.

1. Taxability determination

(con’t)

- Auditors will also assess whether your business may be liable for use tax.
  - Use tax may be owed if sales tax isn’t collected on a business purchase or if the product/service’s use or location of use results in additional tax owed.
- Once these initial tests are complete, the auditor will compare their calculated tax due to the state and compare it to what was reported.
  - The assessment is then based on the unreported tax.

2. Sales tax rate accuracy

- Next, auditors will look to ensure sales tax rates were calculated correctly.
- There are more than **13,000** tax jurisdictions in the U.S.
- Each jurisdiction has **different tax rates** and **product taxability rules**.

11,192

Sales and use tax rate updates in the U.S. in 2023*

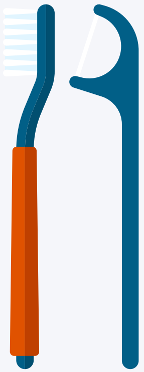
*based on Avalara data

Product taxability challenges

Exempt Taxable

Bottled water in Connecticut

- Convenience store
- **Grocery store**



Toothbrushes & dental floss

- New York
- **Pennsylvania**

Maryland software

- Individual Use
- Business Use

Takeout in Colorado

- Straws
- **Cups, cup lids**

Ice cream in Maryland

- Haagen-Dazs (14oz)
- **Ben & Jerry's (16oz)**

Software-as-a-Service

- New York
- California

3. Reconciling recorded vs. reported

- Auditors will examine your key general ledger accounts tied to reporting sales tax.
- There is a difference in fiscal-year reporting and calendar-year reporting.
- Auditors will review your methodology in preparing returns, manual compilation, software, procedural, etc.
- Ultimately, do the amounts reported on your tax returns match the taxable sales and tax accrued in your financials?

Remitting sales tax to the tax authority

- Once sales tax is collected, those funds need to be remitted back to the state.
- Each tax authority has unique requirements around remittance.
- Sales tax returns must include aggregated data across all sales channels.

NUANCES OF SALES TAX REMITTANCE

- Forms specific to the jurisdiction and tax type
- Paper remittance vs online remittance
- Varying remittance due dates
- Prepayments
- Handling of tax notices
- Filing in local jurisdictions
- Late payment fees
- Multiple payment methods

Other risk considerations

TAXABILITY DETERMINATION

Is the product taxable or exempt?

SALES TAX RATE ACCURACY

Did you collect the right amount of sales tax?

RECONCILING TAX ACCOUNTS

Does the tax amount recorded equal the amount reported?

LICENSES AND REGISTRATIONS

Does your business hold the appropriate licenses and registrations?

TAX RESEARCH

Did you accurately interpret tax laws and their application?

COMBINING DISPARATE SYSTEMS

Are you combining transactions across your systems (POS, ERP, marketplaces, etc.) to paint a complete picture?

MERGERS & ACQUISITIONS

Does one business have past tax flaws that need to be corrected?

The 3 common areas of audit focus

Actionable steps to stay a step ahead of auditors

- Understand your nexus obligations and your product taxability.
- Make sure your exemption certificates are valid and on file for each exempt customer.
- Internal audits can help identify gaps and areas for improvement.
- Consider automation to streamline your compliance and remove the manual burden.

Why automate sales tax management?

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

Avalara products and services

Vendor — Your purchases → … — Your sales → Customer

Core Products
- Exemption Certificates
- Tax Calculation
- Tax Returns & Reporting (M)
- E-Invoicing & Live Reporting

Supporting Products
- Licenses & Registration (M)
- Tax Research
- Item Classification (M)
- Cross-Border
- 1099 & W-9
- Property Tax

Integrations & APIs
- ERP & Accounting
- CRM
- eCommerce
- Marketplace
- Point-of-Sale
- Billing & Payments
- Application Programming Interfaces
- …

Professional Services
- Streamlined Sales Tax
- Sales Tax Risk Assessment
- Voluntary Disclosure Agreement
- Implementation
- Training
- Support

M Managed services

Q&A

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