Unlocking tax compliance mastery: Five key benefits of Avalara AvaTax

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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Meet your presenter

Jennifer Myers

Customer Excellence Manager

Avalara

I joined Avalara when we were a startup company back in 2012 on Bainbridge Island, WA. I spent eight years in New Sales, educating thousands of companies to automate their manual compliance processes with the first cloud-based solution on the market, AvaTax. I've been on the Customer Excellence team for the last three years supporting customer escalations & critical situations. When I'm not delighting our customers, I enjoy going to see live music (most recently, The Rolling Stones & Jose Feliciano), taking & teaching group fitness classes, traveling near & far (Iceland is on the bucket list!) & spending time with my two adult children, my partner of 10 years and my 89-year-old Mom. I've lived in the Seattle for area for 35 years and am frequently reminded of the natural beauty of the Pacific Northwest-the mountains, the water, the rain and the green that surrounds us! It really is stunning!

Agenda

1. Best practices for AvaTax
2. Manage nexus obligations with AvaTax
3. Manage product taxability with AvaTax
4. Manage exemptions with AvaTax
5. Manage reporting, returns, and reconciling with AvaTax
6. Q&A

Best practices for AvaTax

What is AvaTax?

Our cloud-based software delivers the latest sales and use tax calculations to your shopping cart or invoicing system at the point of purchase, while accounting for:

- Tax rates for each state, county, and city
- Laws, rules, and jurisdiction boundaries
- Special circumstances like tax holidays and product exemptions

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Avalara AvaTax

Reduces risk of exposure

Simplifies tax research and maintenance

Reduces implementation time and cost through integration

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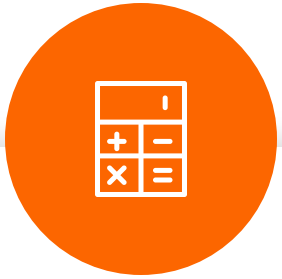
Best practices for AvaTax

Understand your roadmap for success. What do you want AvaTax to do for you?

Document your workflow and what piece connects with AvaTax



…with many actively contemplating new taxes…

For AvaTax to provide the best tax calculation, you need to ensure that you are sending the right information

…when will the other shoe drop?

There should be more than one person familiar with AvaTax at your company

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Best practices for AvaTax

When your company changes, you may need to adjust your info in AvaTax. Review your settings and make the necessary changes. This lets us keep calculating the correct tax for you. Here are some common company changes and the impact they can have on your AvaTax settings.

Company change	Impact	AvaTax settings
Adding or closing a location	Where you collect tax	Add/remove company locations Add/remove where you collect sales tax and sellers use tax
Expanding sales into a new region	Where you collect tax	Add a physical location
Expanding sales into a new marketplace	Where you collect tax	Add a marketplace Add an advanced marketplace rule
Changing inventory	What you sell	Add/remove items Map new items to Avalara tax codes
Adding new customers	Exemptions	Add exempt customers Exempt some of the customer's invoices or transaction line items
Changes in staff	Users	Add/remove users Change access level and permissions
Changes in business platforms	AvaTax account	Connect to a new business application

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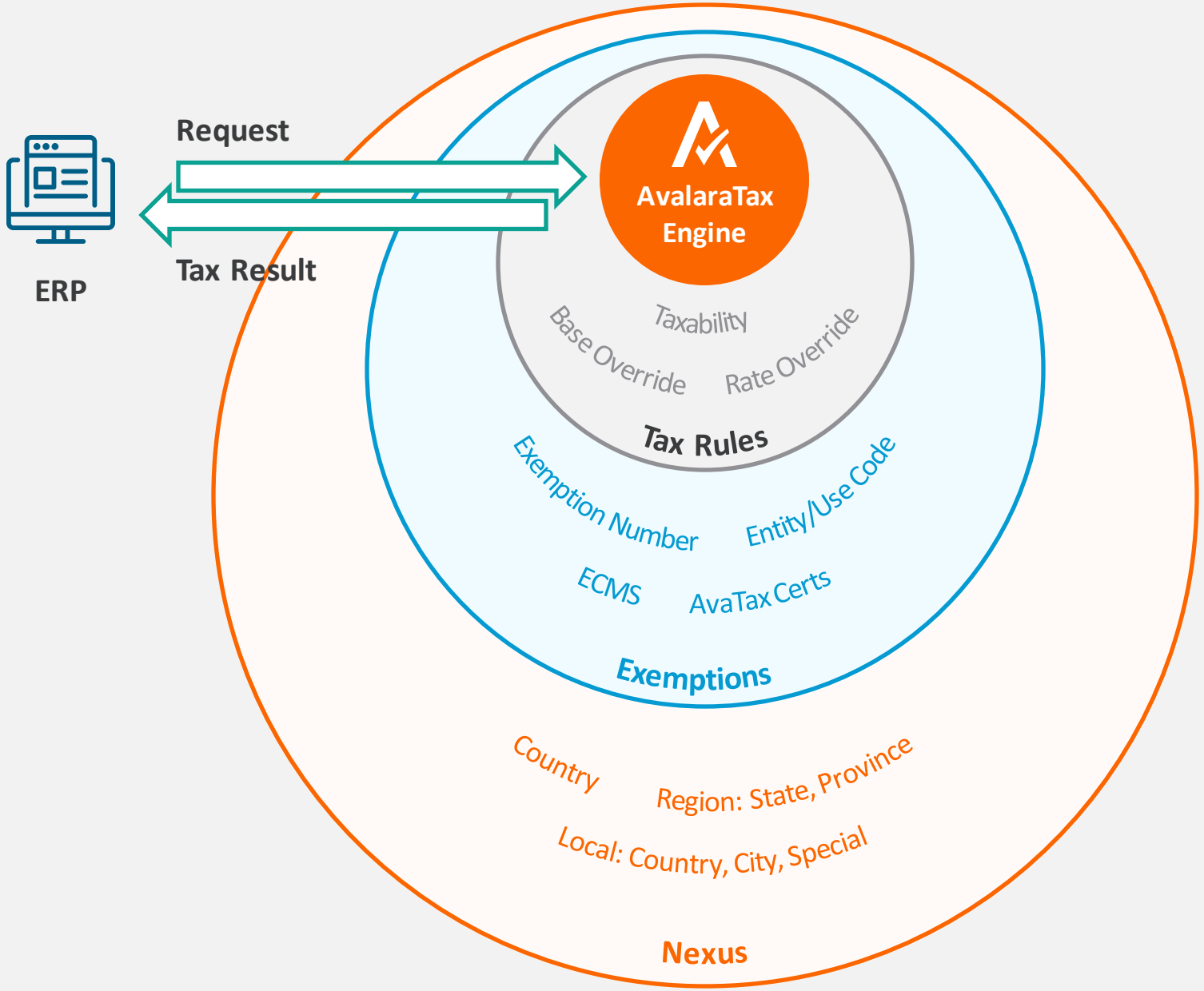
How does AvaTax work?

Necessary Information for Tax Calculation:

1. Ship-To Address
2. Ship-From Address
3. Amount (Extended)
4. Document Date
5. Exemption Number
6. Entity/Use Code
7. Customer Code
8. Purchase Order Number
9. Item Code (SKU)
10. Tax Code
11. Quantity
12. Tax Calculation Date
13. Discount Amount



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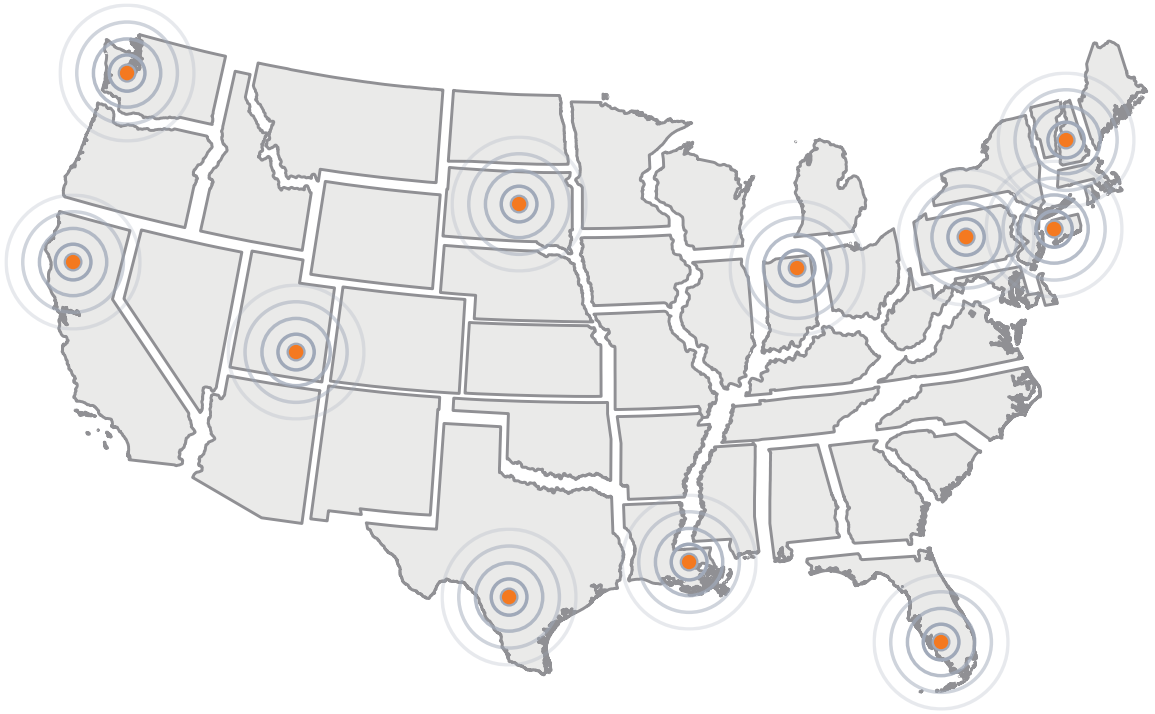
Manage nexus obligations with AvaTax

Understanding Nexus

Knowing where you should pay taxes is the first step



1 STATE

You're required to collect and pay taxes on transactions made in that state.

2+ STATES

If your company operates and has another physical presence in a state, you likely have to register there and start paying taxes made on transactions in that state.

MARKET-PLACE

If you sell your products and services in a marketplace to other states, the marketplace is likely responsible for collecting and paying those taxes.

AvaTax helps you monitor where your company is approaching economic threshold

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The nexus challenge

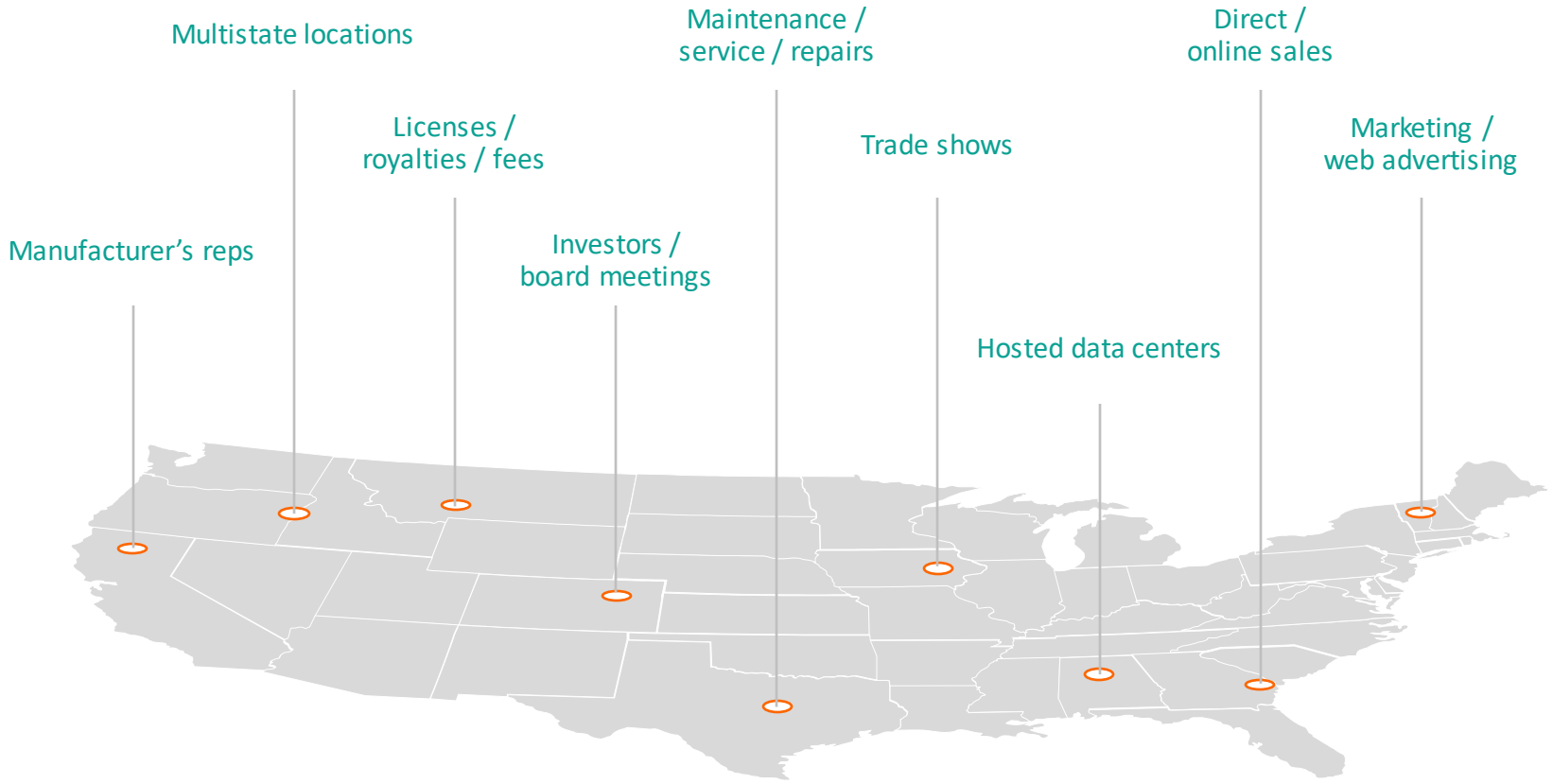
Owned / leased real property

Field sales / service staff

Inventory location

Affiliates

Economic nexus



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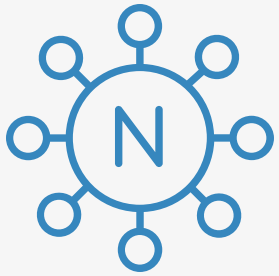

Nexus-creating activities

A growing list

- Affiliates
- Trade shows
- Commissions to resellers
- Investors / board meetings
- Marketing / web advertising
- Drop shipments
- Multi-state locations
- Maintenance / service / repairs
- Owned / leased real property
- Hosted data centers
- Field sales / service staff
- Licenses / royalties / fees
- Direct / online sales
- Inventory

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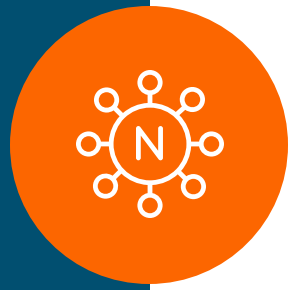
What is economic nexus?



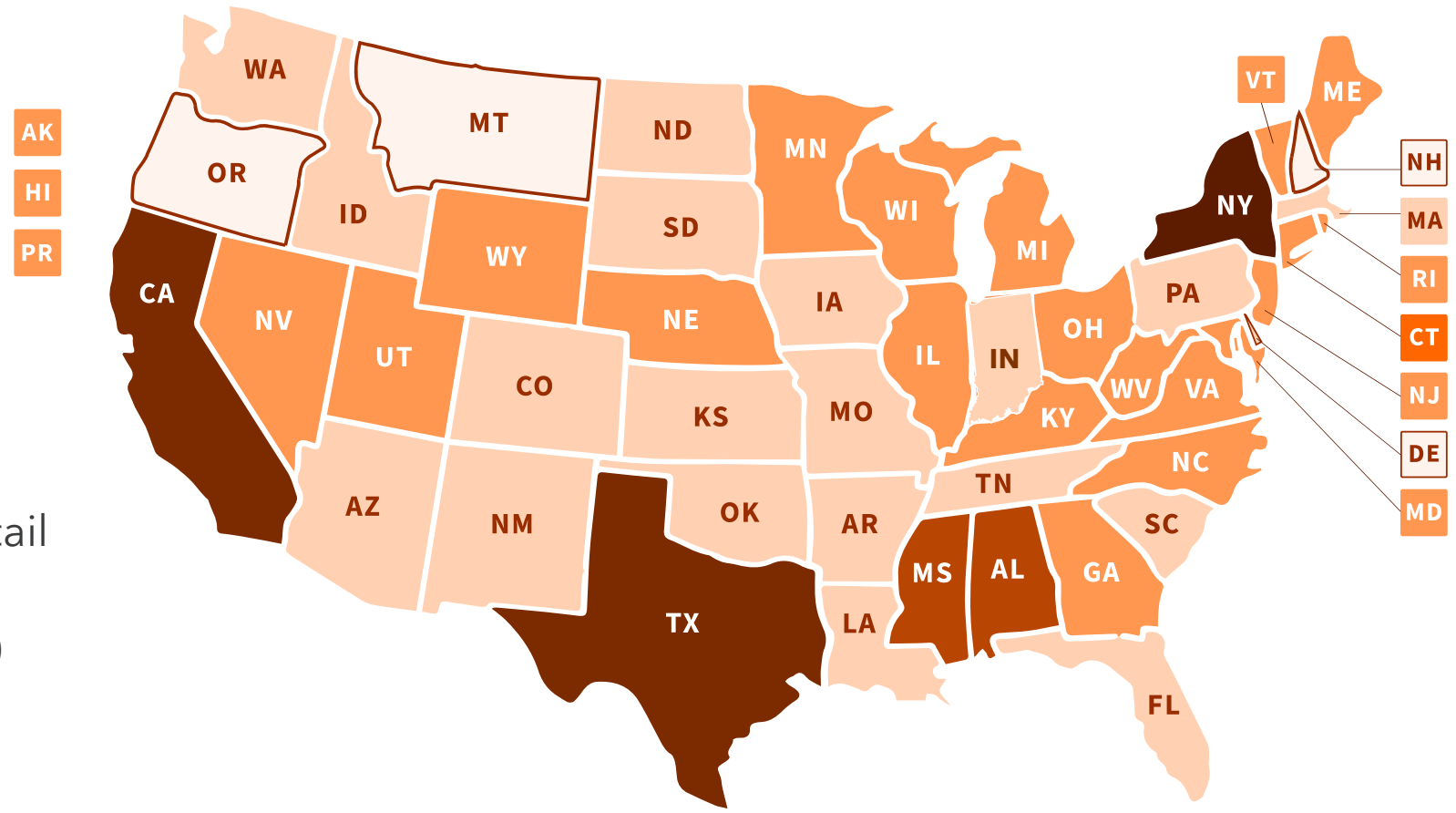
Economic nexus is a tax collection obligation imposed on sellers based on their level of economic activity within a state.

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

46 out of the 50 states have adopted economic nexus laws (thresholds vary).

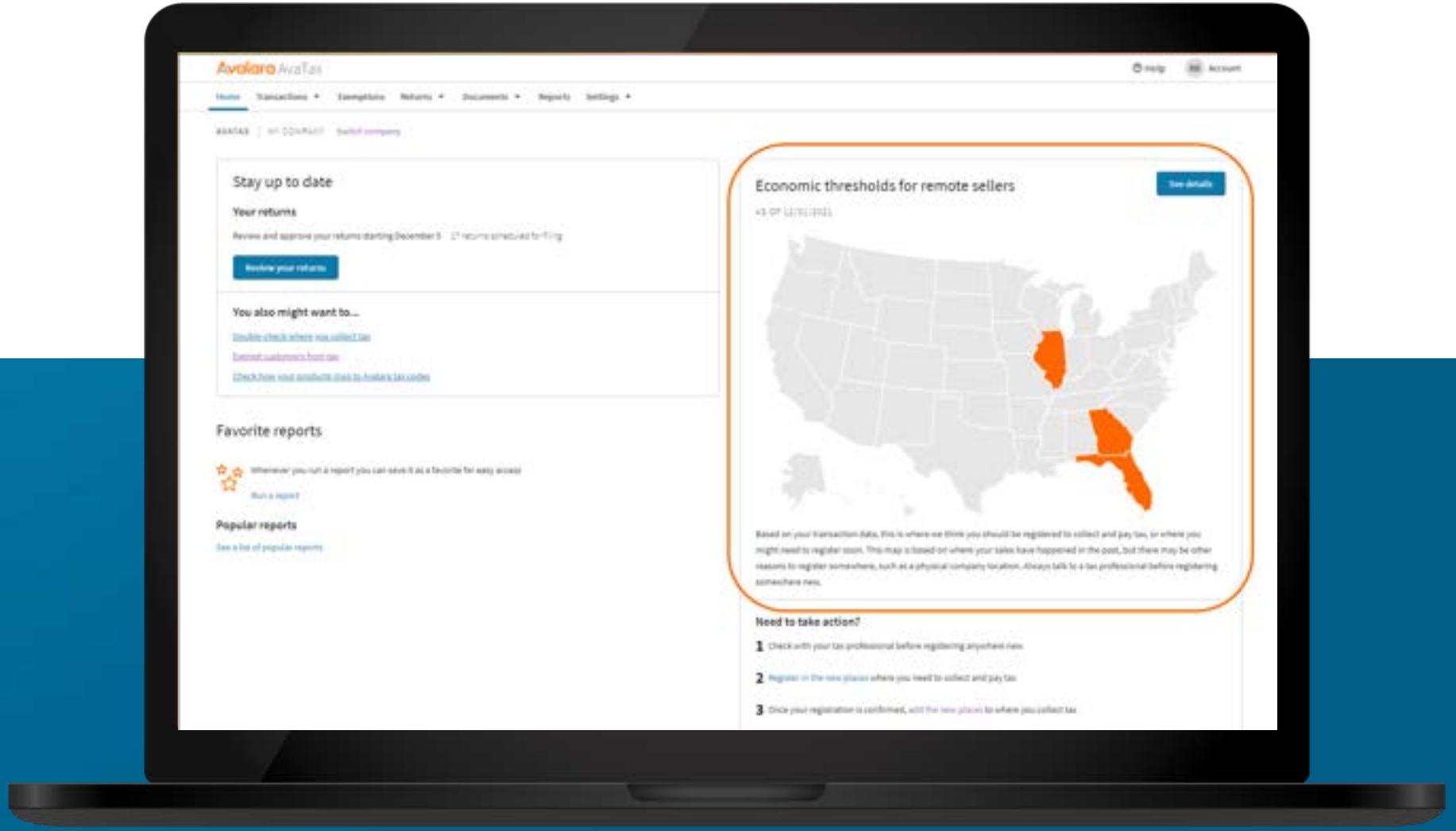
A current look at economic nexus thresholds by state

- $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
- Certain states exclude resale, services, digital, SaaS, and more.

Economic Nexus Map



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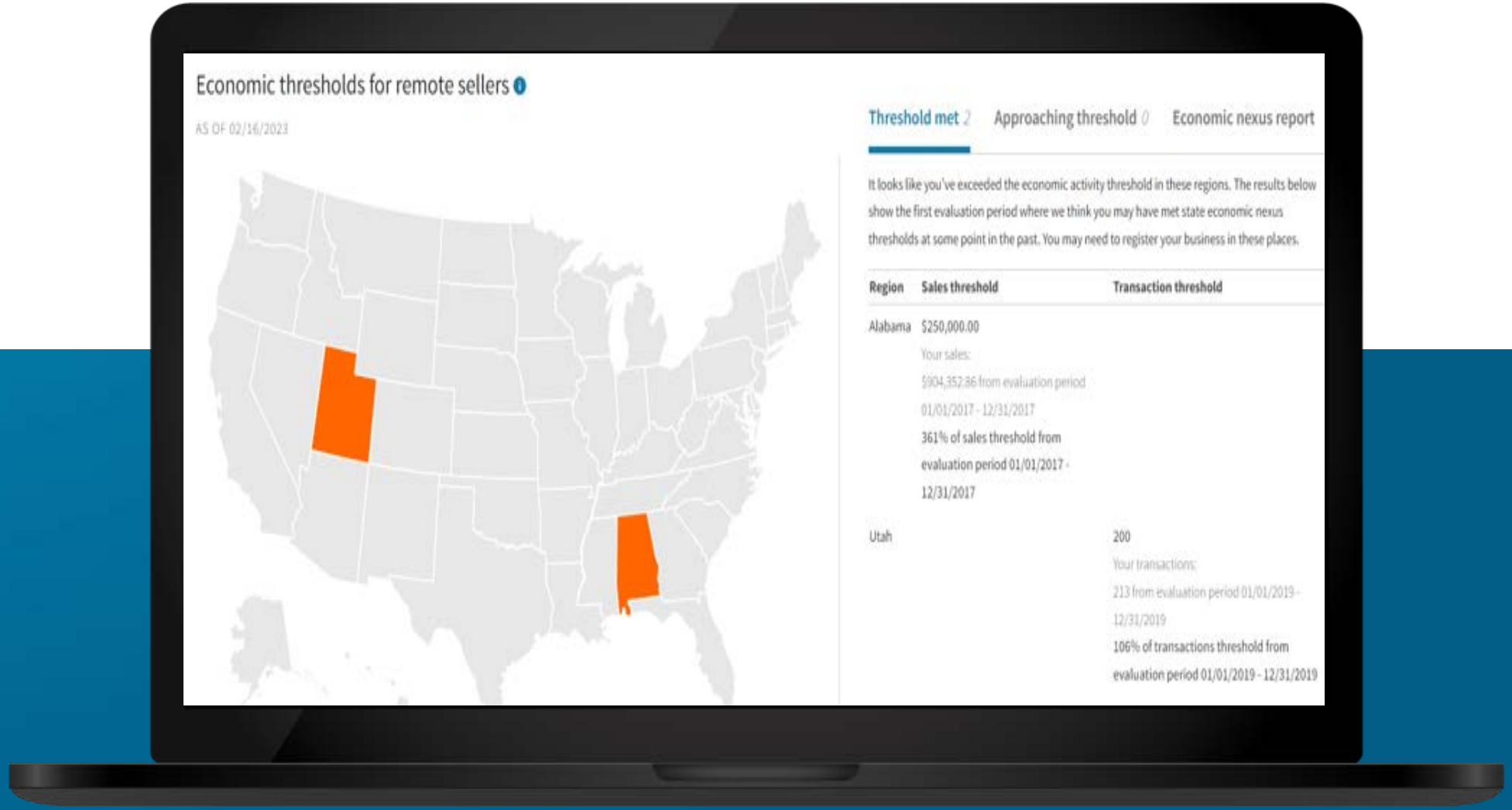
Economic Nexus Map Report



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Nexus Obligations – AvaTax Tools & Best Practices

- To calculate tax transaction with AvaTax, you need to know where you are **registered to collect sales and use tax**
- Avalara periodically reviews your transactions and will alert you if sales activity approaches and economic threshold
- Sales that do not flow through AvaTax requires manually checking to see if you met any thresholds
- **Economic Nexus Map –** tool to help you determine if you should register to collect sales and use tax
  - Talk to a tax professional to decide if you should register to collect and pay tax there
  - Need more details, request a Sales Tax Risk Assessment

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Manage product taxability with AvaTax

Calculating the correct sales tax amount

Overview:

- There are more than 12,000 tax jurisdictions in the U.S. and 1,800 different rules.
- Each jurisdiction has different tax rates and product taxability rules.
- Even within jurisdictions there can be nuances.

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Product taxability challenges

Exempt Taxable

Bottled water in Connecticut

- Convenience store
- Grocery store

Toothbrushes & dental floss

- New York
- Pennsylvania

Powdered drink mixes in New York

- Kool-Aid
- Tang

Takeout in Colorado

- Straws
- Cups, cup lids

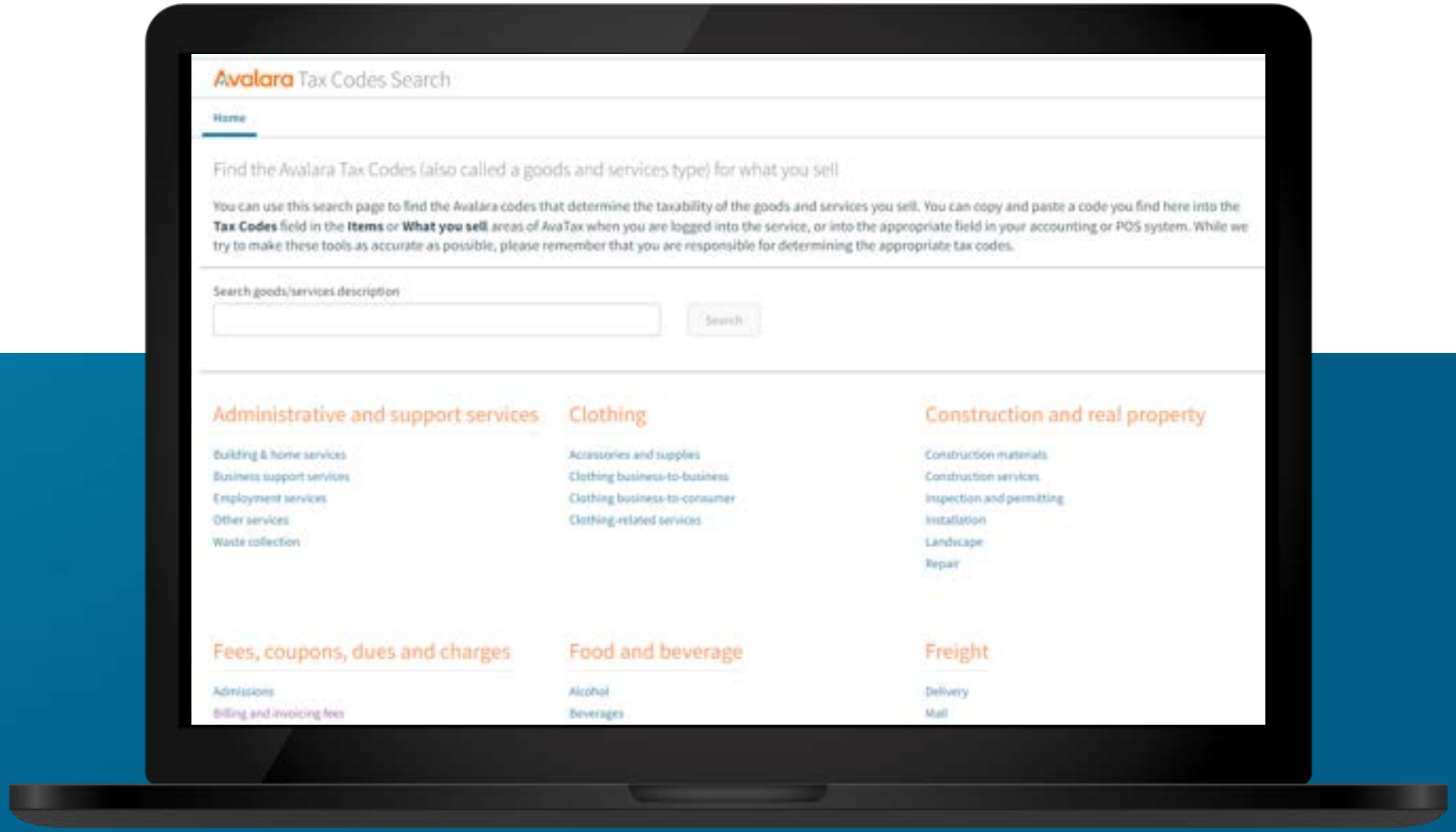
Ice cream in Maryland

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

Candy bars in Indiana

- Reese's
- KitKat, Twix

Map your products to Avalara Tax Codes



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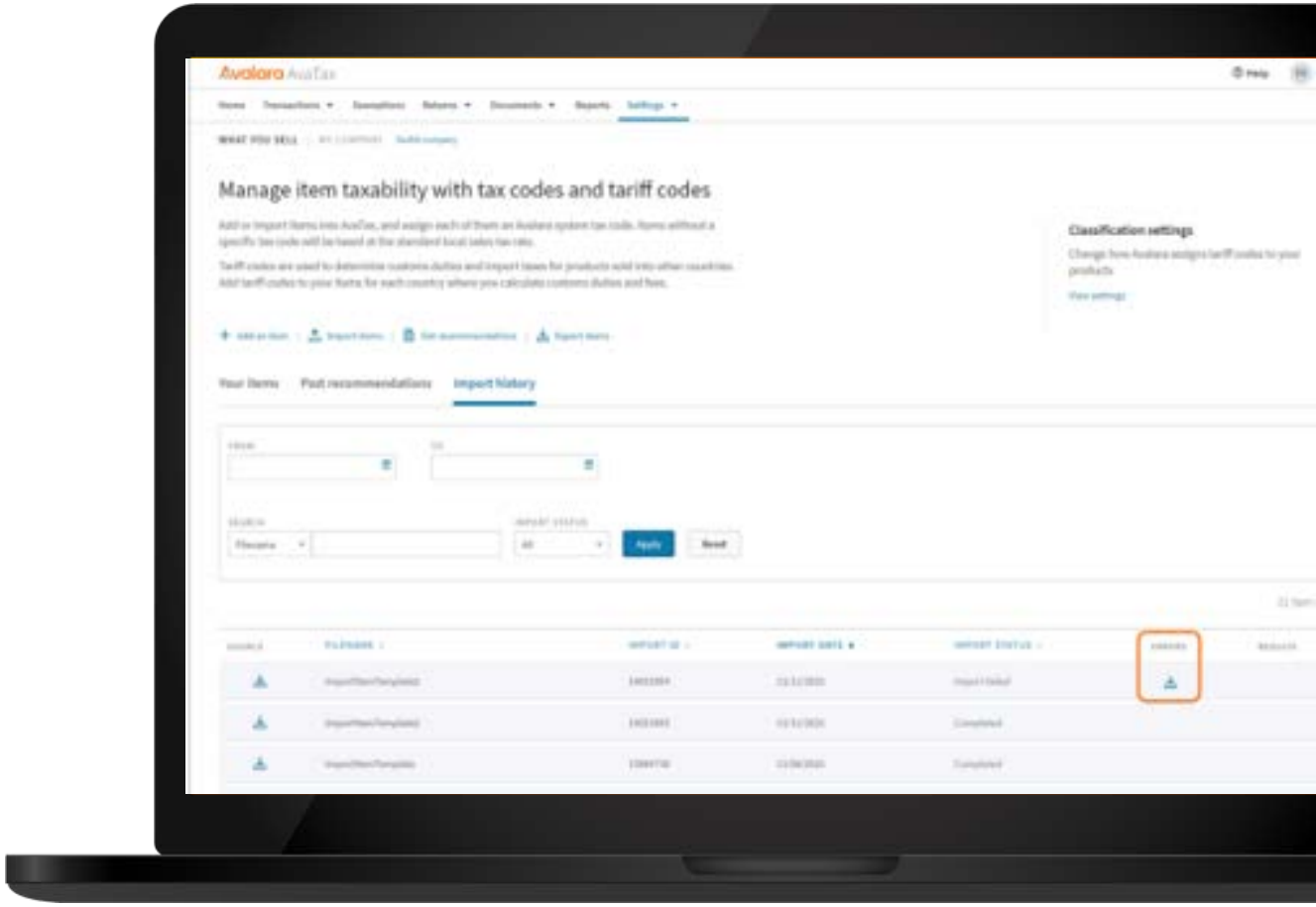
Product Taxability – Best Practices

- To use AvaTax, you need to tell us about the **products and services you sell**
- Map the items you sell to Avalara tax codes in AvaTax or in your connected business application.
- AvaTax gives you the ability to create a custom tax code you are unable to locate a tax code that matches the item you sell
- If an item isn't mapped to an Avalara tax code, we'll assume:
  - It is fully taxable at the normal rate
  - It is tangible personal property



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Manage exemptions with AvaTax

The Exemption Certificate Challenge

Internal Management

1. Employees find it difficult to collect them
2. Employees are not trained to validate them properly
3. Certificate retrieval is time consuming and hard
4. A single missing certificate could cost much more than the taxes you failed to collect

Form ST-5
Sales Tax Exempt
Purchaser Certificate

Rev. 6/09
Massachusetts Department of Revenue

Part 1. Exempt taxpayer information. To be completed by exempt government or 501(c)(3) organization.

Name: 3M
Address: 123 Main Street
City: Alpha State: MN Zip: 99999
Exemption number: 11111
Issue date: 01/01/2014 Date of expiration of certificate: 01/01/2015

Certification is hereby made that the organization named above is an exempt purchaser under Massachusetts General Laws, Chapter 64H, sections 6(d) or 6(e). All purchases of tangible personal property or services by this organization are exempt from taxation under said chapter to the extent that such property or services are used in the conduct of the business of the purchaser. Any abuse or misuse of this certificate by any tax-exempt organization or any unauthorized use of this certificate by any individual constitutes a serious violation and will lead to revocation.

Signature Title: Sales Engineer Date: 01/22/2014

Warning: Willful misuse of this certificate may result in criminal tax evasion sanctions of up to one year in prison and $10,000 ($50,000 for corporations) in fines.

Part 2. Agent information. To be completed by agent of exempt government or 501(c)(3) organization.

Name of agent's organization
Address
City State Zip
Agent's name
Address
City State Zip

I certify that in making this purchase, I am acting as an agent for the exempt organization named above (select one):
☐ Government organization (local public school, city/town government, state agency, etc.).
Attach Form ST-2, if available. If Form ST-2 is not available, enter exemption number, if known:
☐ 501(c)(3) organization (parochial school, Scout troop, etc.). Form ST-2 must be attached.
Signature Title Date

Part 3. Vendor information

Vendor's name: Multi State Manufacturing dba MS Distribution

Check applicable box:
☐ Single purchase certificate (attach detailed receipts or complete Part 4, on reverse)
☑ Blanket certificate

Signature of Authorized Purchaser | Print Name Here: jason warren | Title: janitor | Date: 01/31/2014

Any person, group or organization purchasing on behalf of exempt government organizations must certify that they are doing so by presenting to the vendor a properly executed Form ST-5 when making such purchases. Part

Massachusetts Department of Revenue, Customer Service Bureau, 200 Arlington Street, Chelsea, MA 02150; (617) 887-6367.

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Managing exemptions

Create a plan to help you collect, store & manage exemption certificates

Determine how your exemption needs to be applied to an invoice in AvaTax. Here are a few ways to help you exempt an invoice in AvaTax

- Enter an Exemption Certificate number in the exemption certificate data field in AvaTax or your business application.
- **Enter an Entity Use Code** – a value that can be passed at the document or line level of a sales tax request and identifies the customer within a group as exempt. See Avalara Exempt Reason Matrix
- Avalara Tools to help you store and manage exemptions
- **Avalara ECM** – a powerful AvaTax product add-on for businesses that want to capture and store certificates electronically while tracking expiration dates. It is a subscription-based service in the Avalara platform.
- **AvaTax Exemptions** – an ECM lite solution available within AvaTax that leverages the core of the exemption certificate engine.

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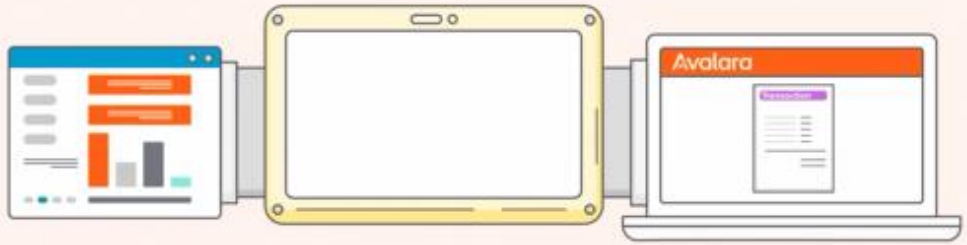
Manage integrations with AvaTax

AvaTax Integrations

1,200+ signed partner integrations and counting

- Avalara has hundreds of pre-built connectors to integration your systems and our partners have hundreds more
- Avalara API are available to build your own connection to AvaTax
- There are 2 types of integrations:
  - Integrations that only **import your transactions**
  - Integrations that **provide real-time tax calculations**



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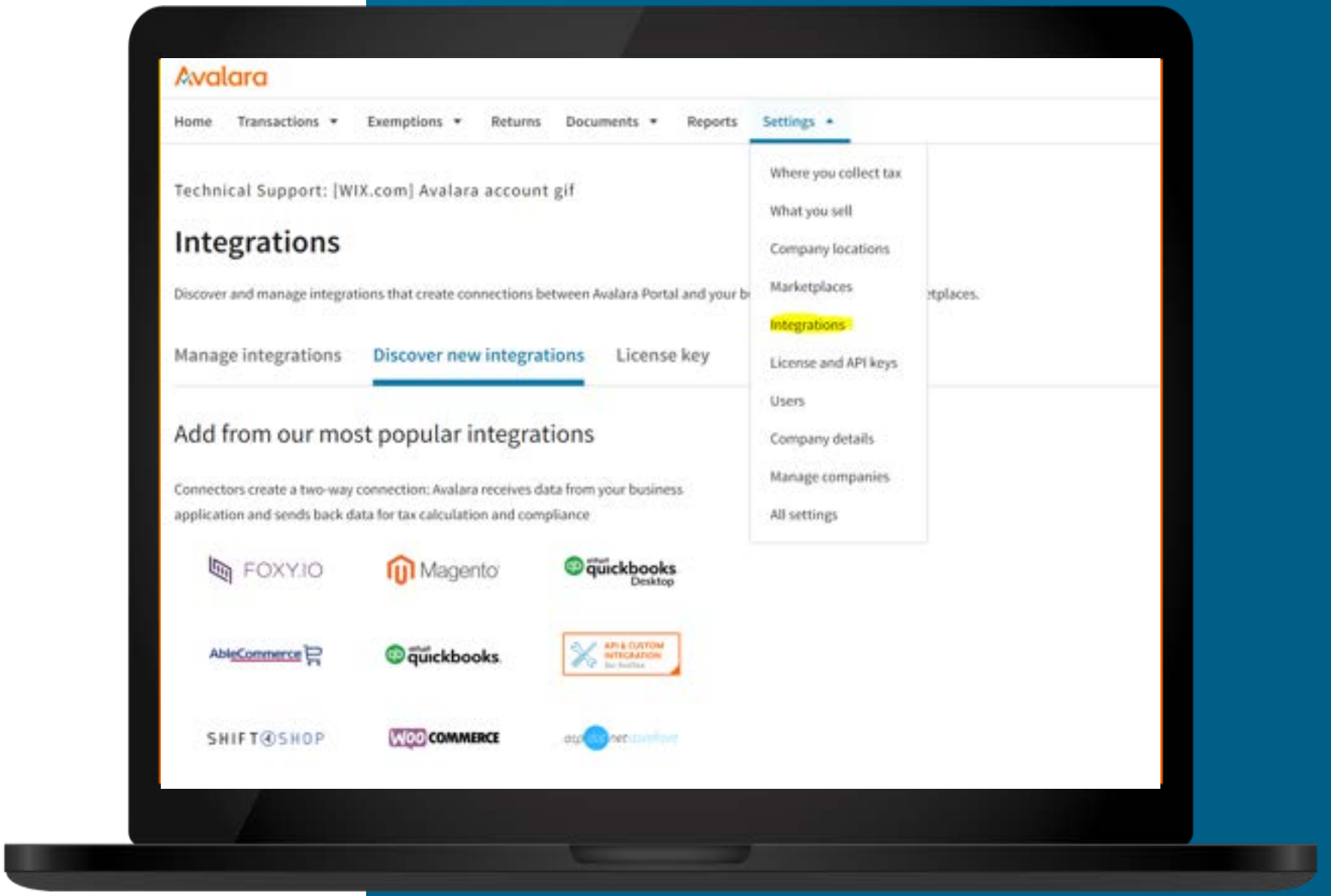
AvaTax Integrations

How can I look up what Integrations I'm using?



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AvaTax Integrations

Troubleshooting your integrations

Avalara does not own all Connectors to AvaTax, so we are not able to offer recommendations for some platforms

- You may need to work with a partner to troubleshoot a problem

Avalara is the expert on AvaTax, but you need to be **familiar** with your systems and your ERP.

To add a new integration to AvaTax, reach out to your **Account Management Team or an Avalara sales representative.**

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Manage reporting, returns, and reconciling with AvaTax

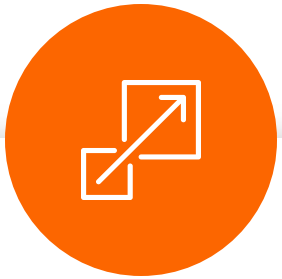
Using AvaTax's reporting features

Avalara has powerful reporting features. These reports help you to reconcile data, file returns, and otherwise use information from your transactions.

If you want to reuse a report with certain criteria, save yourself some time by adding that report to your favorites.

Here are a few things to remember about reports:

Each report category has a number of reports that can be **further customized** to provide you with the information you need.



Reports that you view in the Avalara platform have **hyperlinks to other reports and transactional detail**.

Reports that you export contain **all available information included in transactions**, depending on the filters you choose for the reports.

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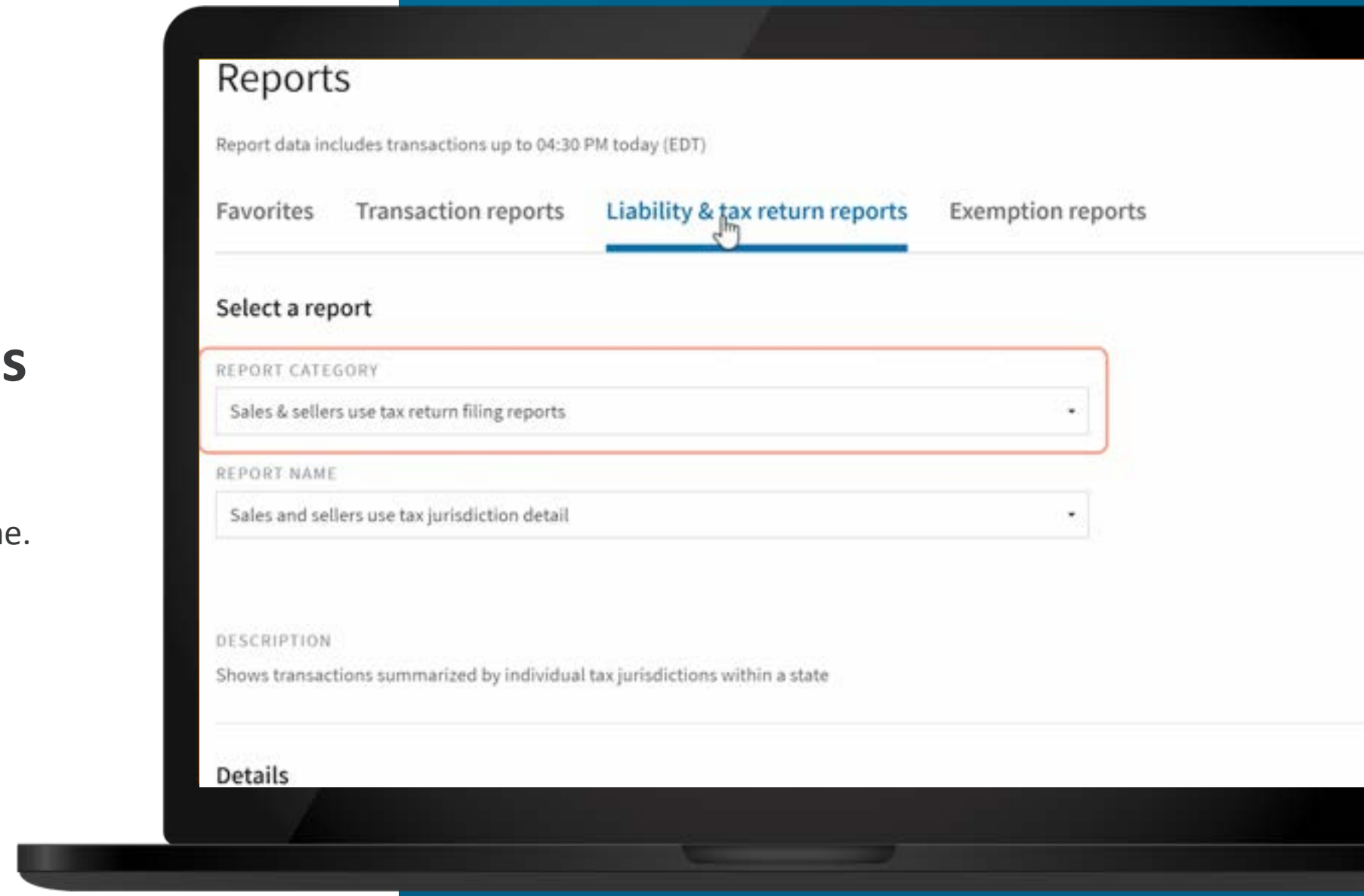
Using AvaTax's reporting features

Start by choosing the type of report you want to run, as well as the report category and name.



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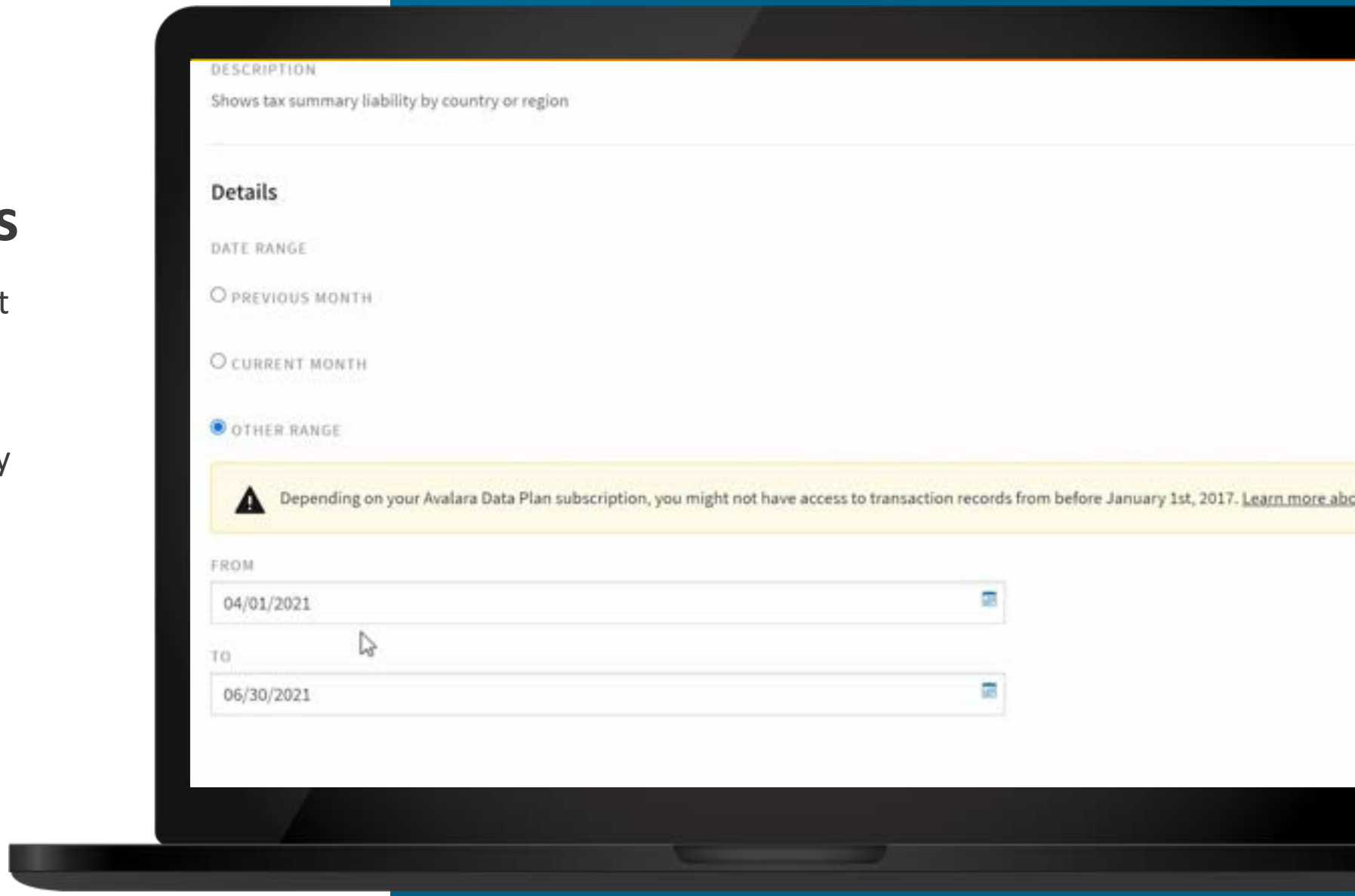
Using AvaTax's reporting features

Depending on the type of report you choose, **different filters will appear.**

For example, if you file quarterly rather than monthly, you can enter a custom date range. You can also filter by state.

If you plan on running the report again, remember to save it for easy access!



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Using AvaTax Reports & Reconciling features

Why Reconcile?

- Reconciliation is the process of **finding and resolving unexpected tax amounts** before you approve your returns for us to file.
- With AvaTax, you can run reports to find and resolve discrepancies between AvaTax and your business application.
  - **Start with top-level reports**. If you find a discrepancy, drill down until you find the source of the problem.
- This is a critical step that needs to occur every month even if you file quarterly or annually.

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Using AvaTax Returns & Reconciling features

To reconcile and defend against audits, it's important to remember how everything occurs.

When a transaction occurs, it's entered into your business application which sends it to us and then we calculate the tax. At the end of each filing period we use the transaction info in AvaTax to prepare your tax returns.

Make sure all amounts match. If they do, then consider yourself reconciled.

If not, you need to figure out why.

1. Run a report to find the source of your discrepancy.

Here, the **sales tax top line report** is a good place to start.

2. Compare the amounts in the report with the ones in your business application.

Edit or void amounts until they match

3. Double-check the tax calculated **matches** the amount on your returns

4. Manage and approve returns page to quickly see the total amount due for all your returns

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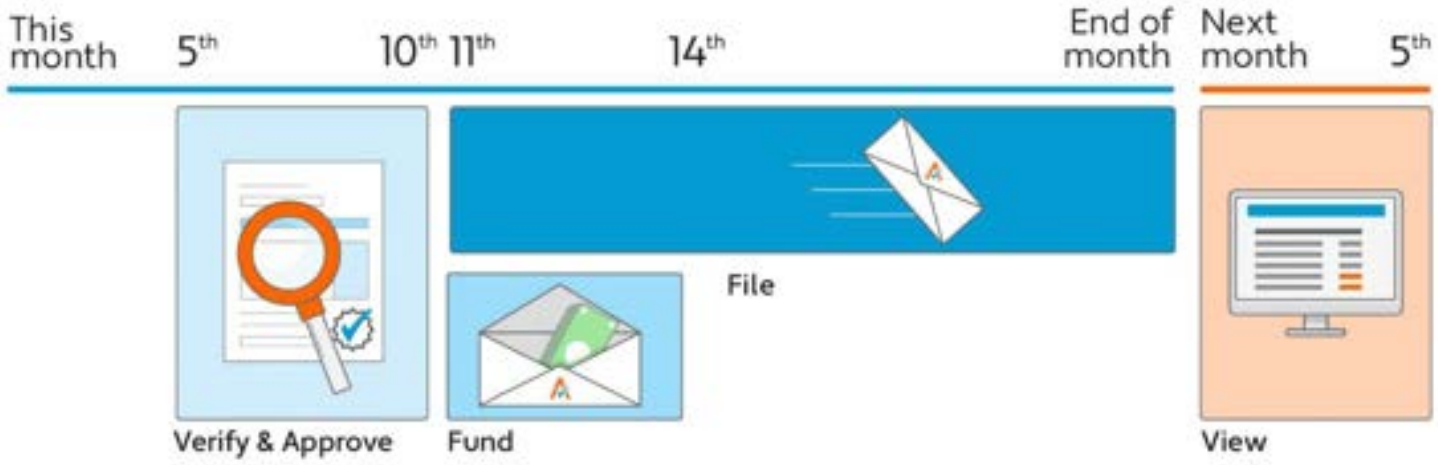
Using AvaTax Returns & Reconciling features

Key Dates to Remember



Key Dates to Remember:

- **20th** – Schedule your new Returns for that month by the 20th to make sure it's included
- **5th** – Avalara generates sales totals and tax liabilities for you to approve
- **10th** – Verify and approve your returns by the 10th of the month, 5:00 p.m. PT
- **11th to 14th** – Avalara makes one withdrawal of funds to cover all the scheduled returns from the bank account listed on your funding power of attorney

Questions

Avalara