

Navigating nexus: Mastering sales tax compliance



Disclaimer

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Continuing Professional Education (CPE)



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- Respond to 3 of 4 poll questions
 - Questions display for a limited amount of time
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Meet your presenters



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.



John Chiswell

Cross Border Solutions
Manager

Avalara

John Chiswell is a Cross Border Solutions Manager with over 10 years of logistics & ecommerce background, having worked with some of the major international logistics companies. As Cross Border Solutions Manager, John looks to build solutions for companies that can help them expand into new markets, taking advantage of Avalara's suite of compliance tools

Agenda

- 1 > What is nexus?
- 2 > Who does nexus apply to?
- 3 > How do I know if I have nexus?
- 4 > Determining how much you owe
- 5 > The post-nexus trigger process
- 6 > How Avalara can help
- 7 > Q&A


CPE POLL QUESTION 1

What do you find most challenging when it comes to understanding nexus?

What is nexus?

A GROWING LIST

Physical nexus-creating activities

 Multi-state locations	 Affiliates
 Maintenance / service / repairs	 Tradeshows
 Own / lease real property	 Commissions to resellers (1099s)
 Hosted data centers	 Investors / board members / employees
 Field sales / service staff	 Marketing / web advertising
 Charge licenses / royalty / fees / franchisees	 Drop shipments
 Direct and/or online sales	 Maintenance contracts
 Maintains inventory including 3rd party owned warehouses	 Remote sales

Nexus

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



Physical presence

- > 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 (Additional rules)

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

All 45 states

with a state sales tax have adopted economic nexus.

Thresholds vary state-by-state.

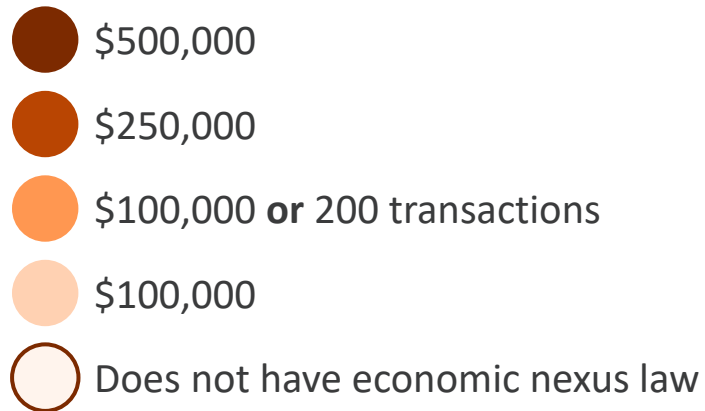


South Dakota v. Wayfair, Inc. changed sales tax for businesses

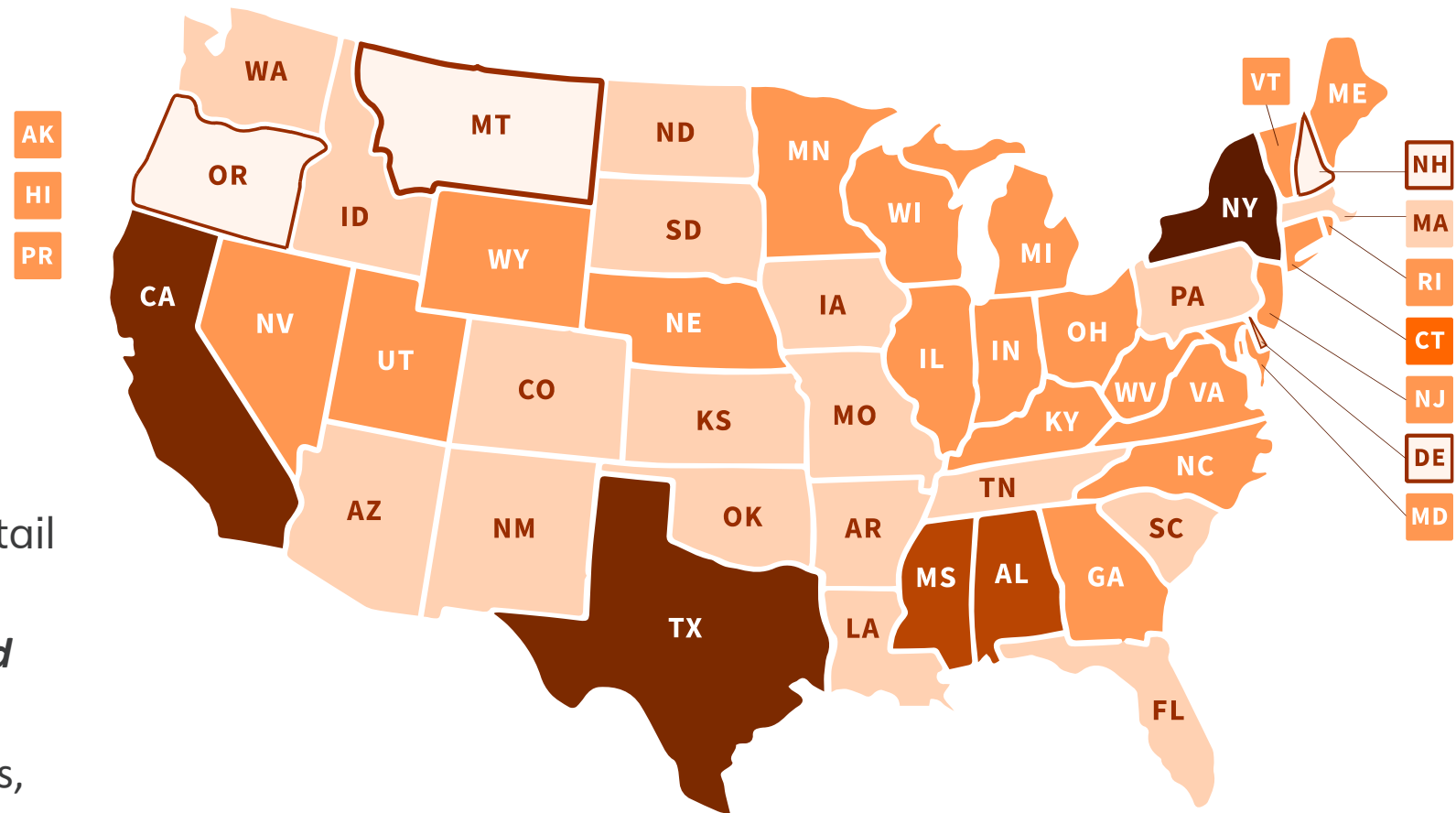
On June 21, 2018, the U.S. Supreme Court issued its decision in *South Dakota v. Wayfair, Inc.*

- › 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.

Economic nexus thresholds by state



- > 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.



CPE POLL QUESTION 2

Because of economic nexus laws, in how many states has your business had to begin collecting and remitting sales tax?

Who does nexus apply
to?



Nexus rules apply to businesses located outside the U.S.



Unlike VAT, which is charged at every stage of production, U.S. sales tax is paid by the customer at the final sale of the product.

In Europe, each country is a taxing jurisdiction. In the U.S., there are more than 13,000 tax jurisdictions, from states to counties to cities.



International sellers must also consider U.S. sales tax exemptions and sales tax holidays.



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



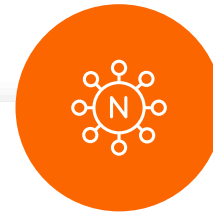
Affiliate nexus

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



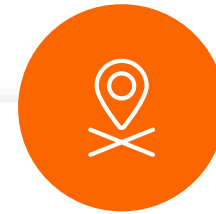
Click-through

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.

Once you trigger nexus, you must then 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 specific to every state you sell into, including each local jurisdiction.

13,000+ sales tax jurisdictions
in the U.S

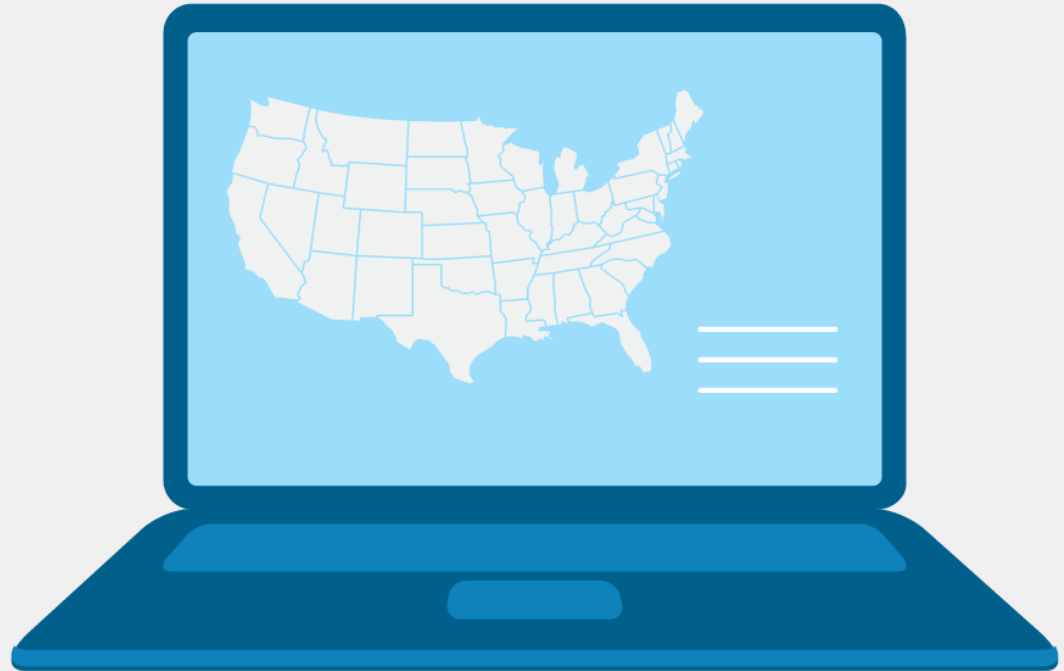


KEEPING UP WITH NEXUS REQUIREMENTS

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

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

Determine how much a financial risk was triggered

Once you hit nexus, you must register.

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.
 - In certain states, grace periods provide grant time to register.
- 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.
- Unresolved delinquencies must be resolved before registration. In many states, registering for sales tax may disqualify you from a Voluntary Disclosure Agreement (VDA).



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.



CPE POLL QUESTION 3

How automated are your tax processes
and technologies?

How Avalara can help

Automation is key to keeping up with nexus

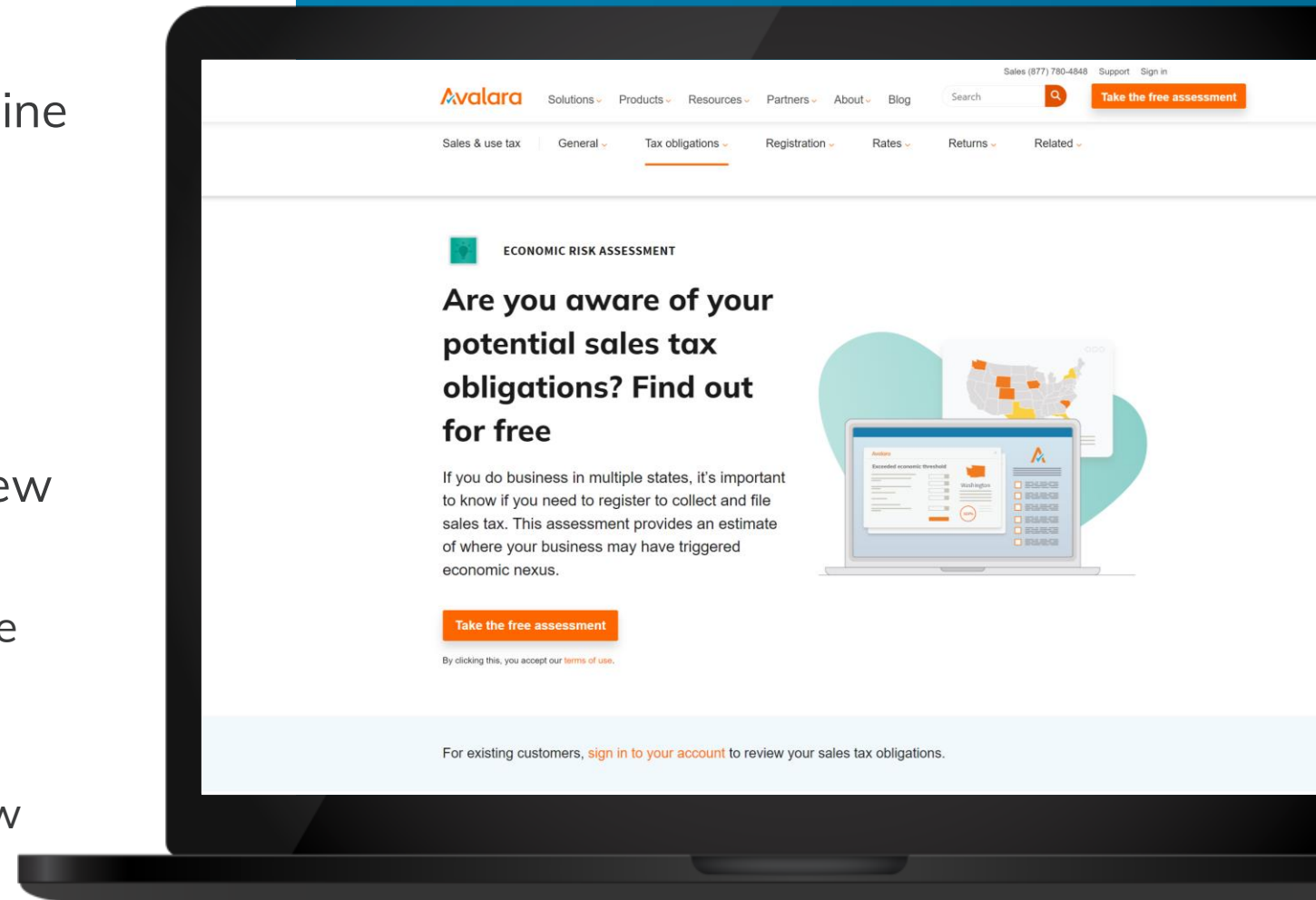
Avalara's free nexus tool helps determine where you may have nexus.

- › 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.

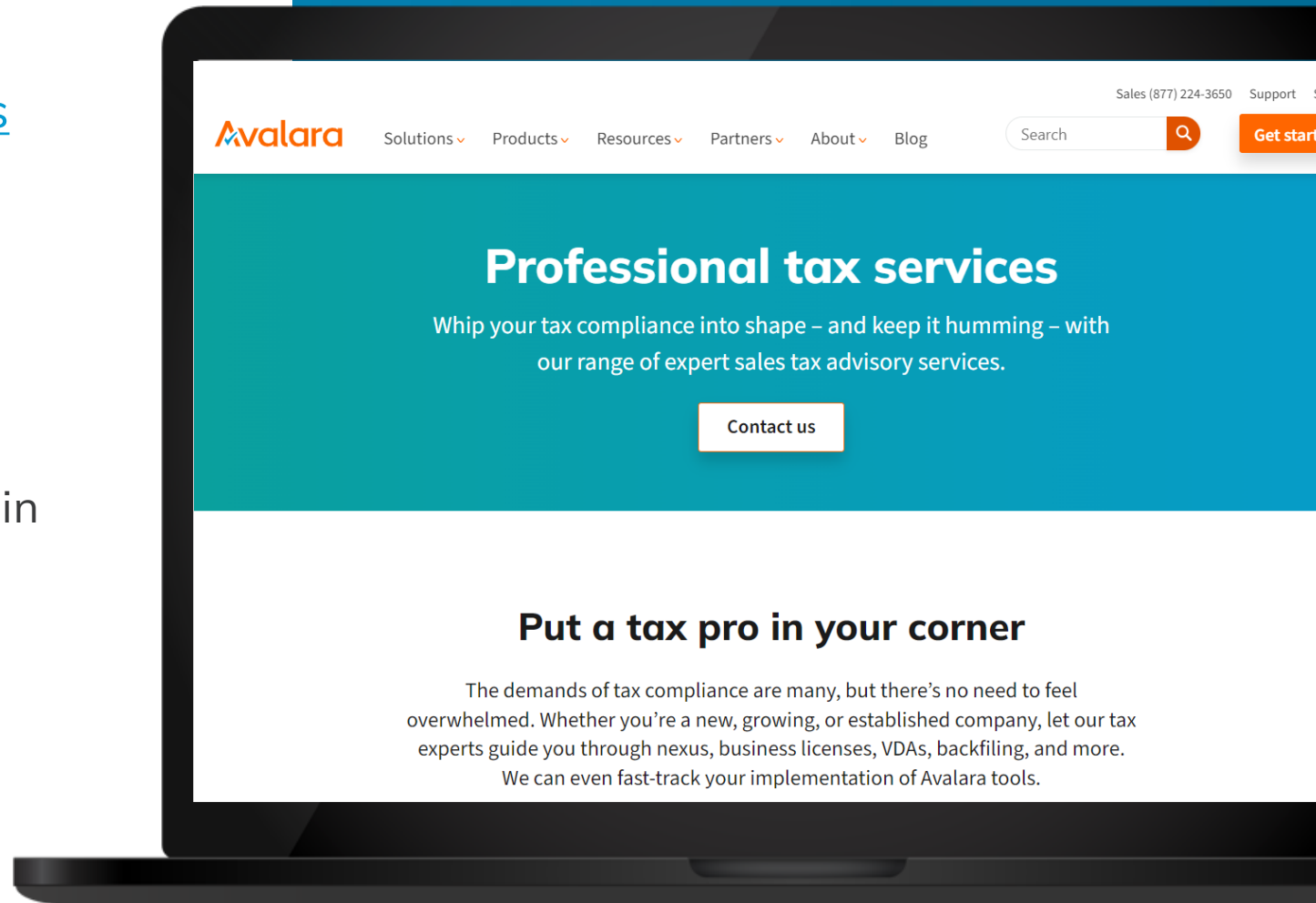


Voluntary Disclosure

[Avalara's Voluntary Disclosure Services](#) will do the following*:

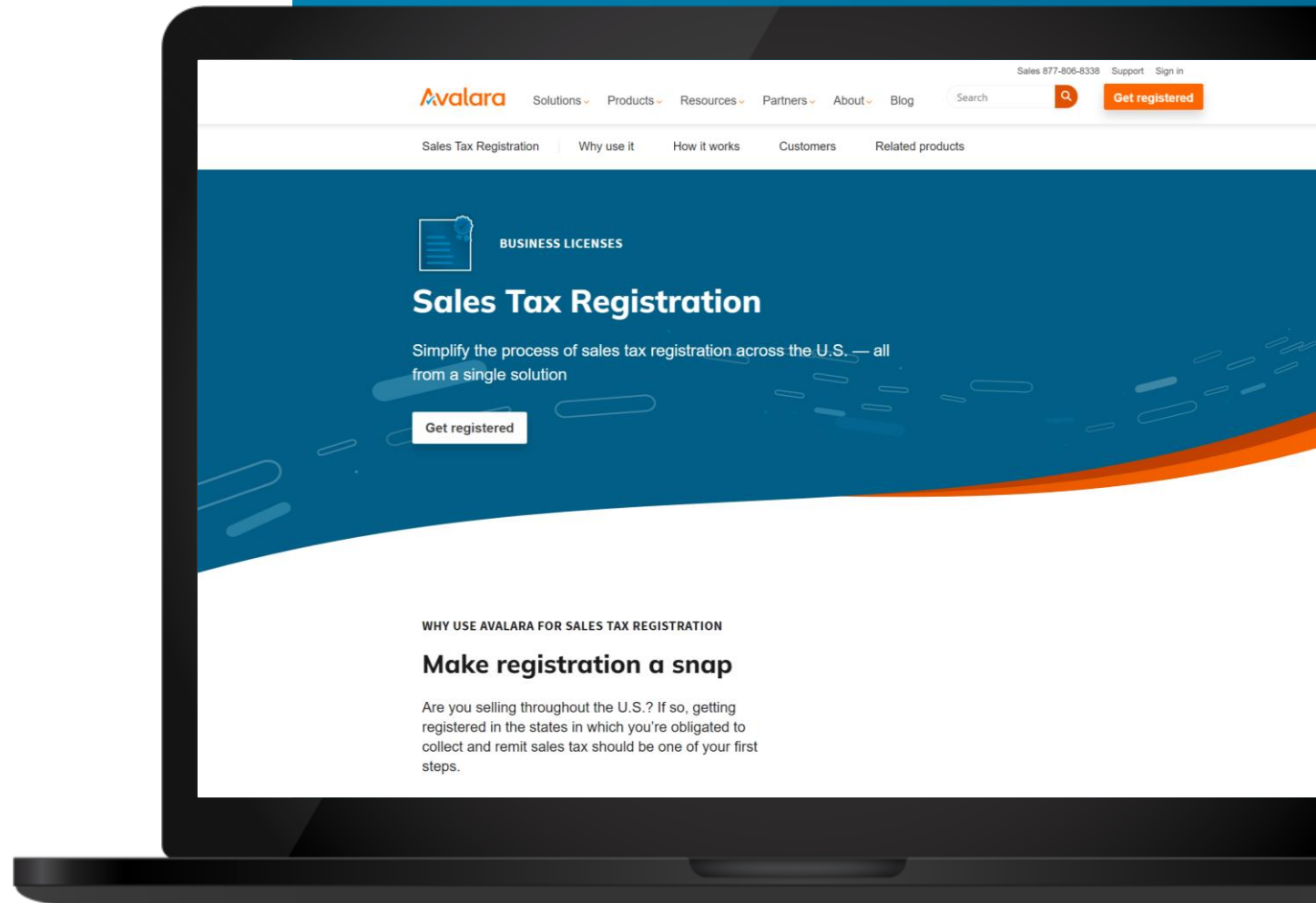
- › Get the company registered
- › File all delinquent tax returns
- › Penalties will be waived
- › Liability periods shortened to 3-4 years in most states

**subject to qualifying criteria*



Registering to collect sales and use tax

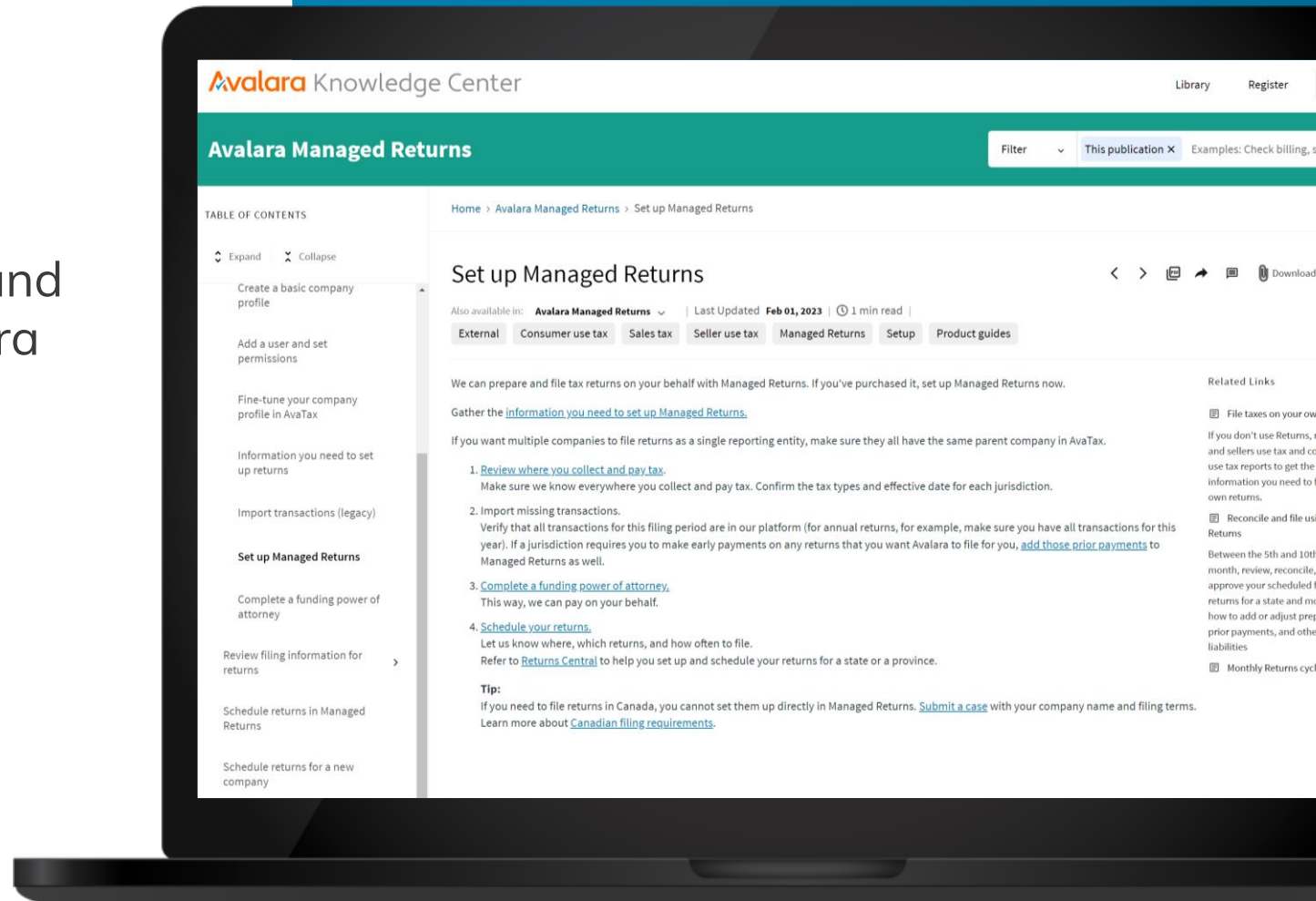
You're required to register in states where you have nexus. [Avalara Sales Tax Registration](#) can fill out one form to register for multiple jurisdictions where you owe. Avalara can handle the applications for you.



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.



CPE POLL QUESTION 4

What was your top learning from today's webinar?

Questions



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Webinars

- > 3/19 How to get tax decisions right with tax research
- > 3/28 2024 tax changes: Q2 outlook



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