

Overcoming Tax Compliance Hurdles within your Emerging Small Business (ESB)





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Agenda

- **Current Industry Challenges**
- **Survey Overview & Research Methodology**
- **Key Survey Findings: The Landscape of ESB Tax Compliance**
- **Audit Experiences**
- **The Best-In Class Approach**
- **Key Takeaways**

Impact on ESB's – 5 Years Later

South Dakota v. Wayfair



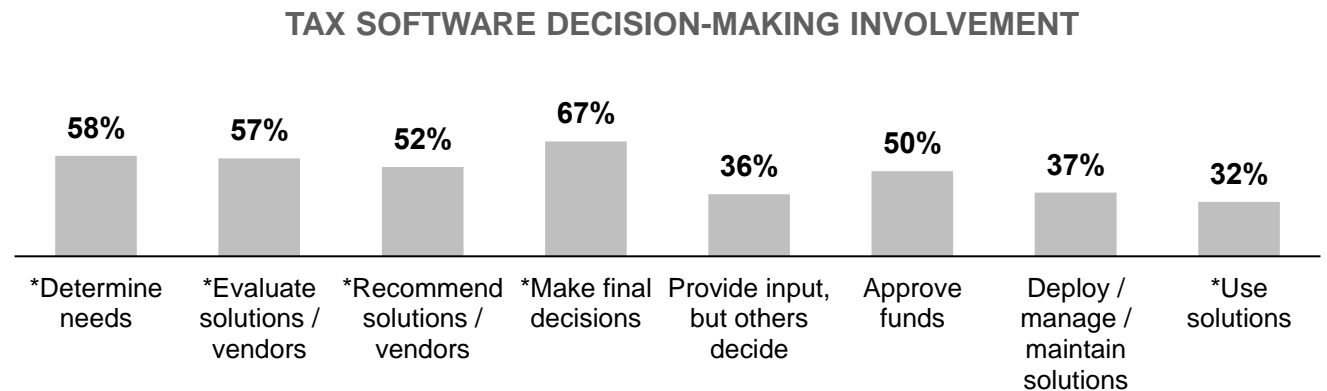
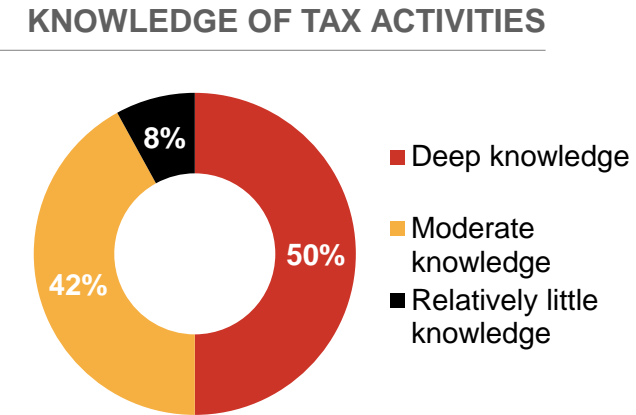
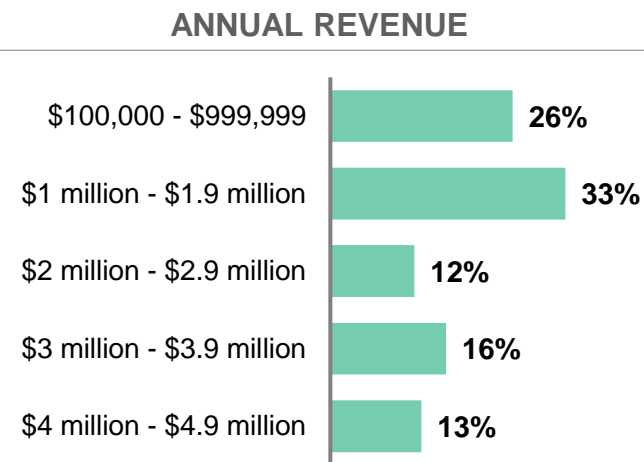
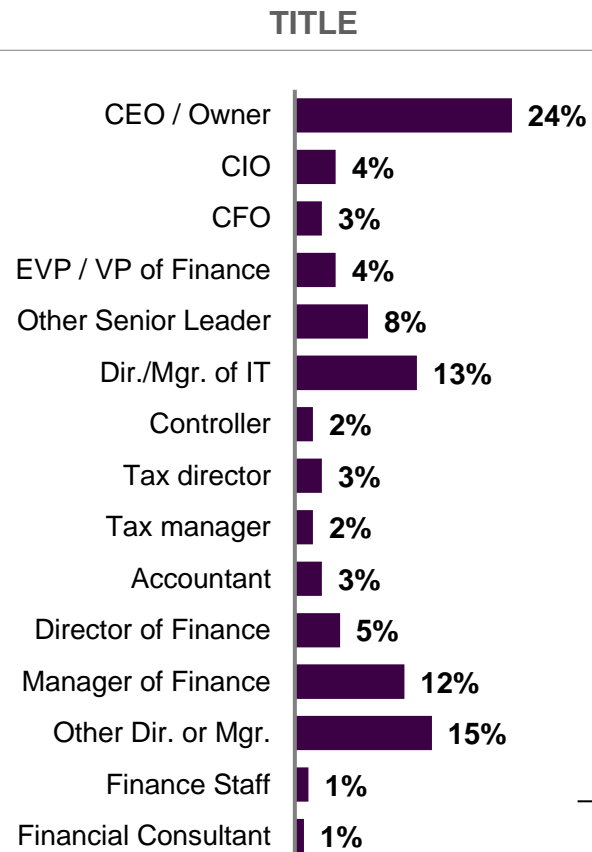
WHAT DOES IT MEAN FOR YOUR SMALL BUSINESS?

The decision that changed sales and use tax rules for remote (online and off-line) sellers globally.

Survey At A Glance: 202 Respondents

QUALIFICATION CRITERIA:

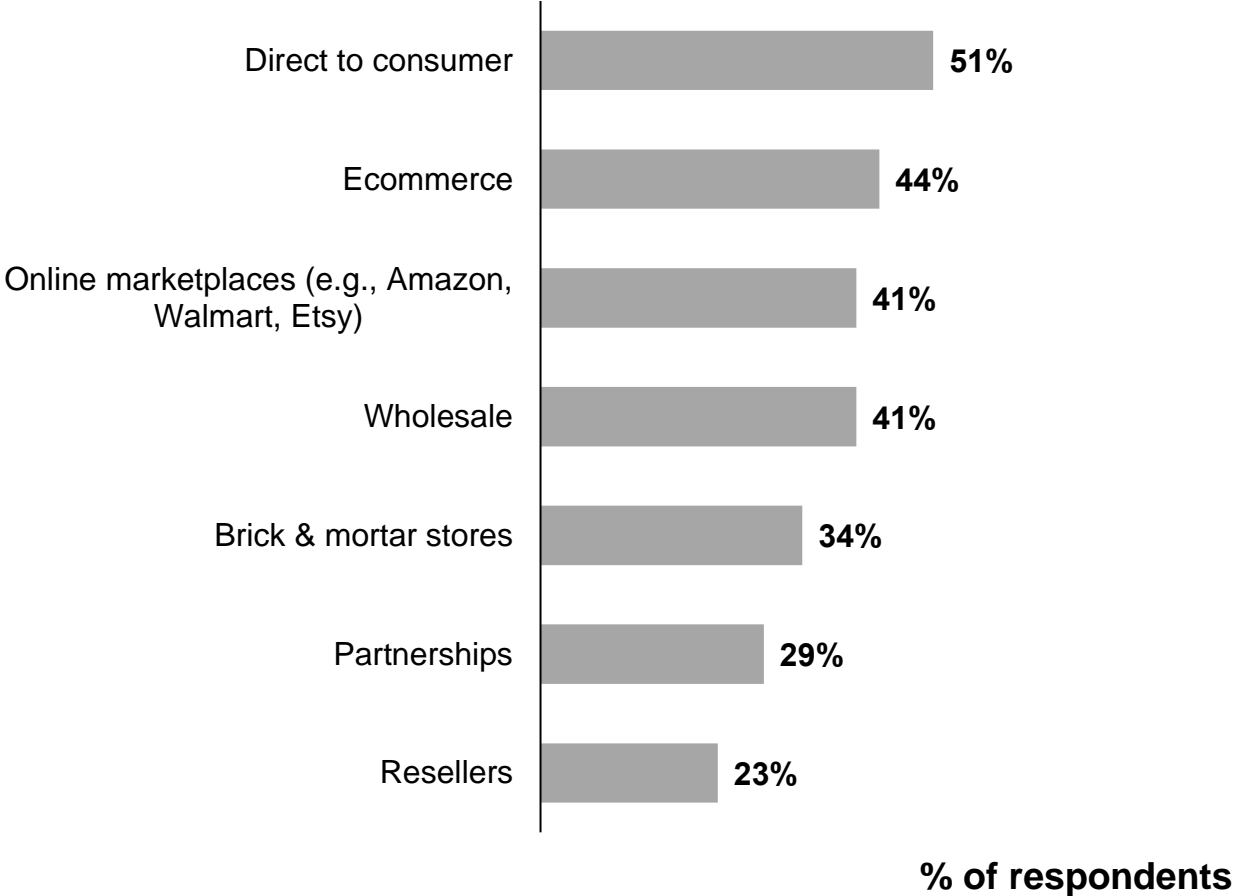
- Organizations with \$100,000 - \$5 million in annual revenue
 - USA only
- Excluding public sector industries (government, non-profit, military)
- At least a little experience with sales tax management
- Involved in making decisions about the org's tax management solutions



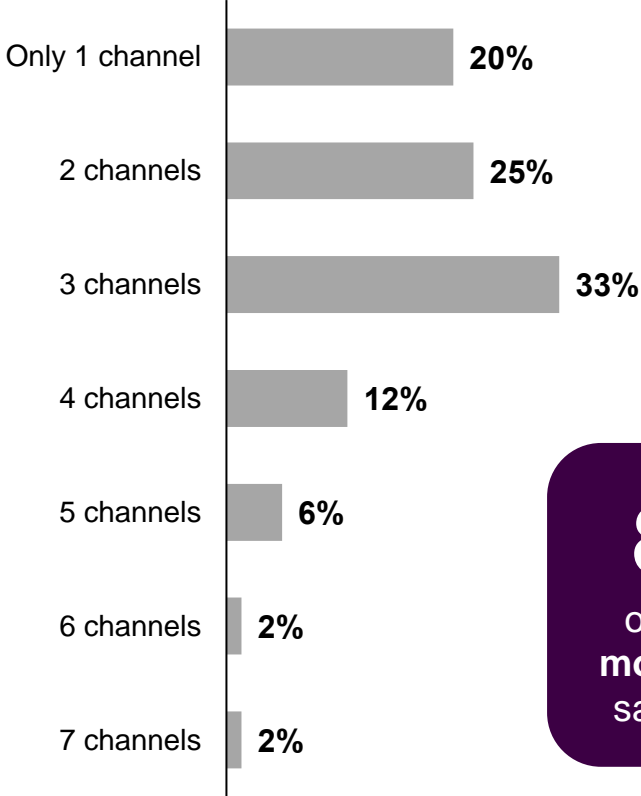
*Respondents had to select at least one of these to continue

Channels for Selling Products and Services

Types of Sales Channels



Number of Sales Channels



80%
of ESBs use
more than one
sales channel

Key Survey Findings

The number of states ESBs sell into varies by company size

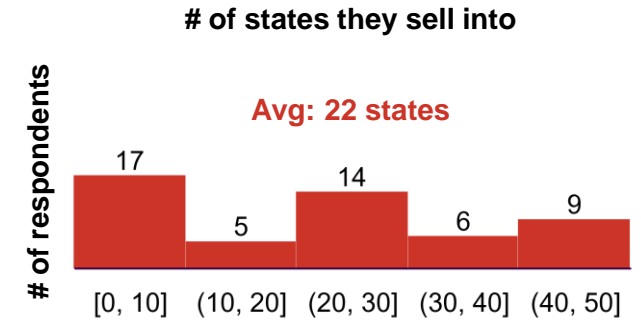


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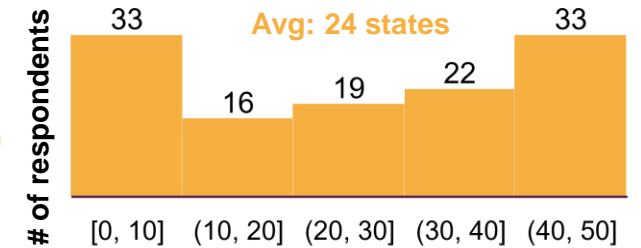
Average number of states ESBs sell into



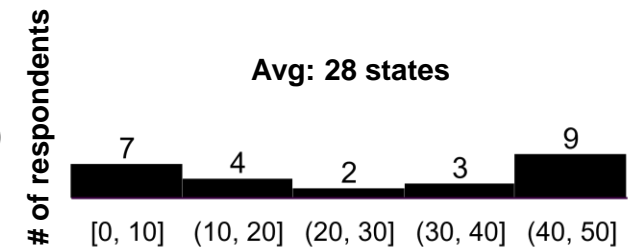
SOHO
(\$100k - \$1 million)



Target ESBs
(\$1 million - \$4 million)

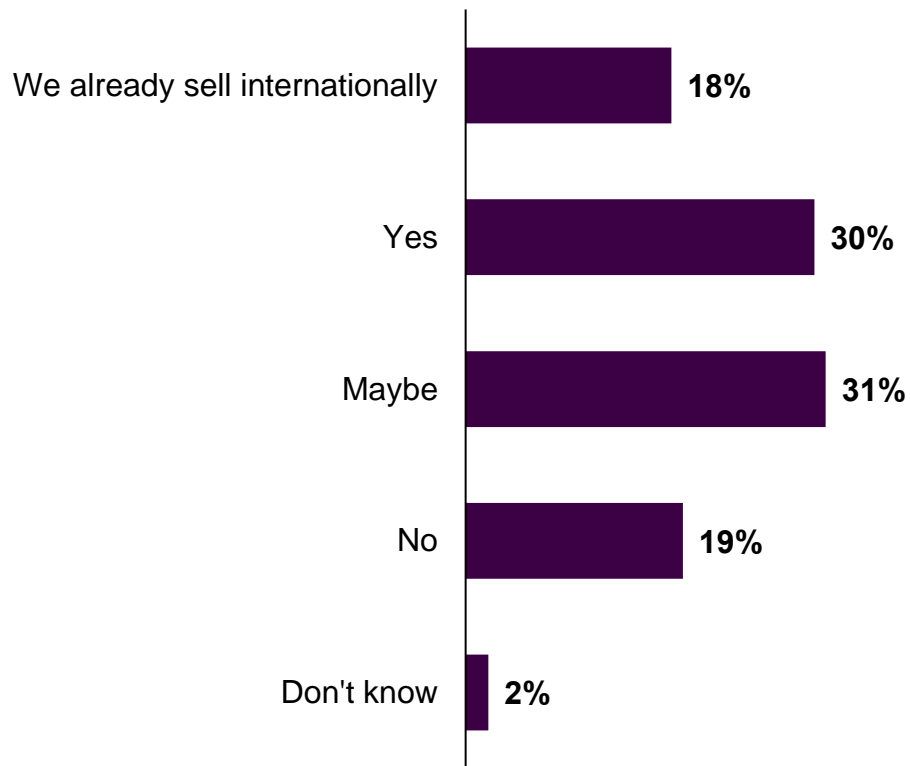


Large ESBs
(\$4 million - \$5 million)



Only 18% of ESBs currently sell internationally, and those who don't struggle with risk and requirement awareness

Are you considering selling internationally?



% of respondents

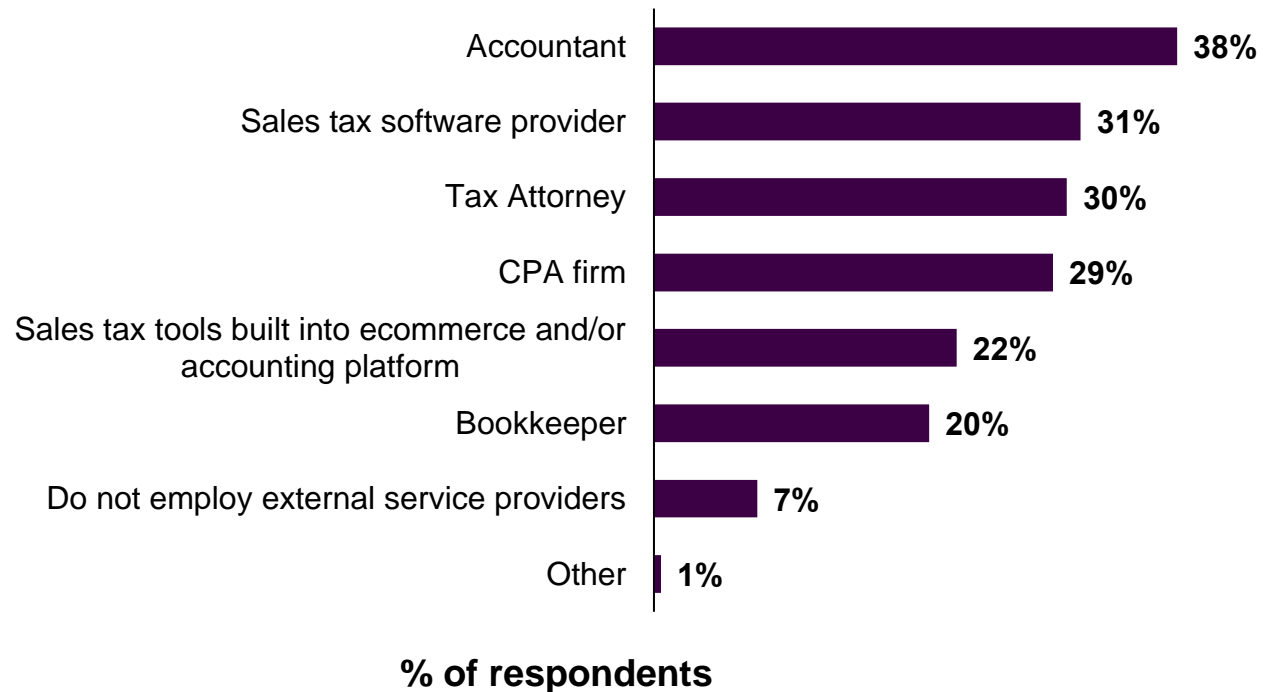
Barriers to Selling Internationally



n = 202, Source: Aberdeen, February 2023

93% of ESBs outsource some part of their sales and use tax compliance processes

Use of External Service Providers for Outsourcing Sales & Use Tax Compliance



40 hours

Average number of hours these external service providers dedicate per month to each org's tax management activities

Time, new state obligations, and regulatory changes are the top 3 challenges ESBs face with tax management

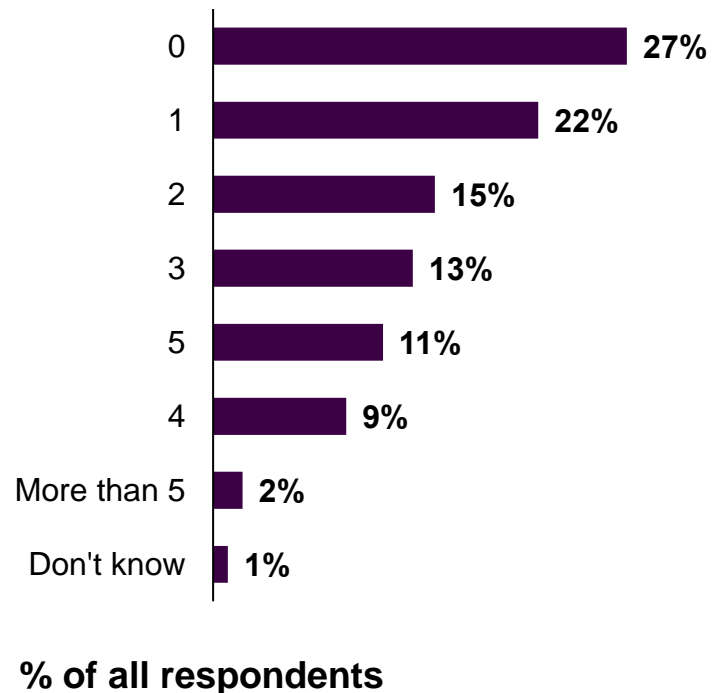
Tax Management Challenges



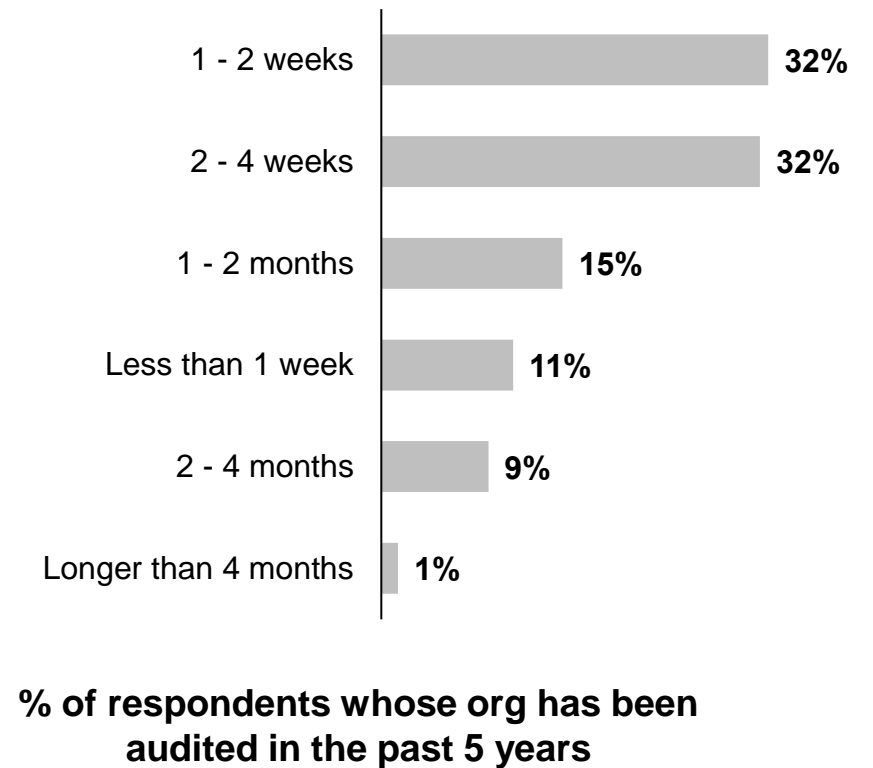
Audit Experiences

72% have been audited in the past 5 years; 64% reported the audit took within a month to complete

How many times has your organization been audited in the PAST 5 years?

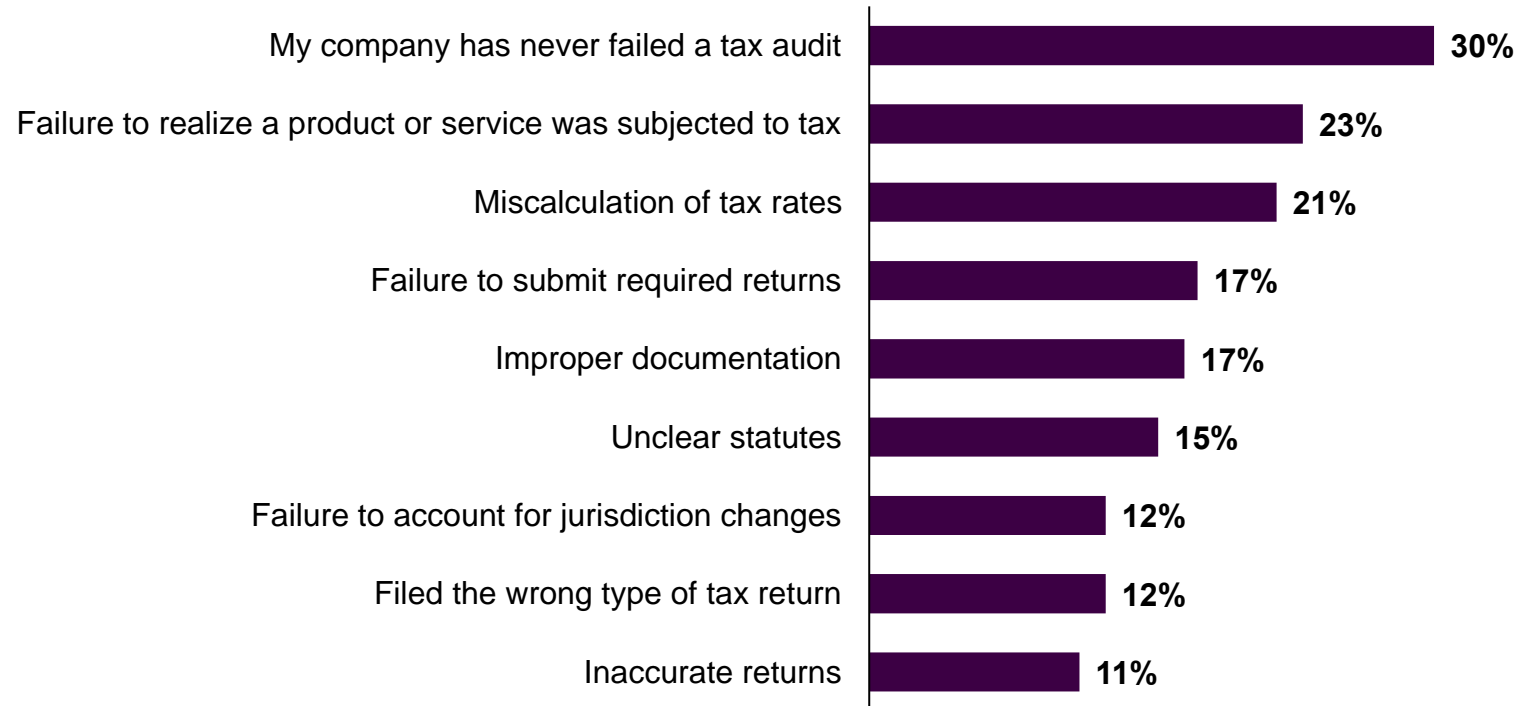


Length of Audit



70% have failed an audit, citing lack of awareness of product and services that are subject to tax as the main reason

Reasons companies fail tax audits

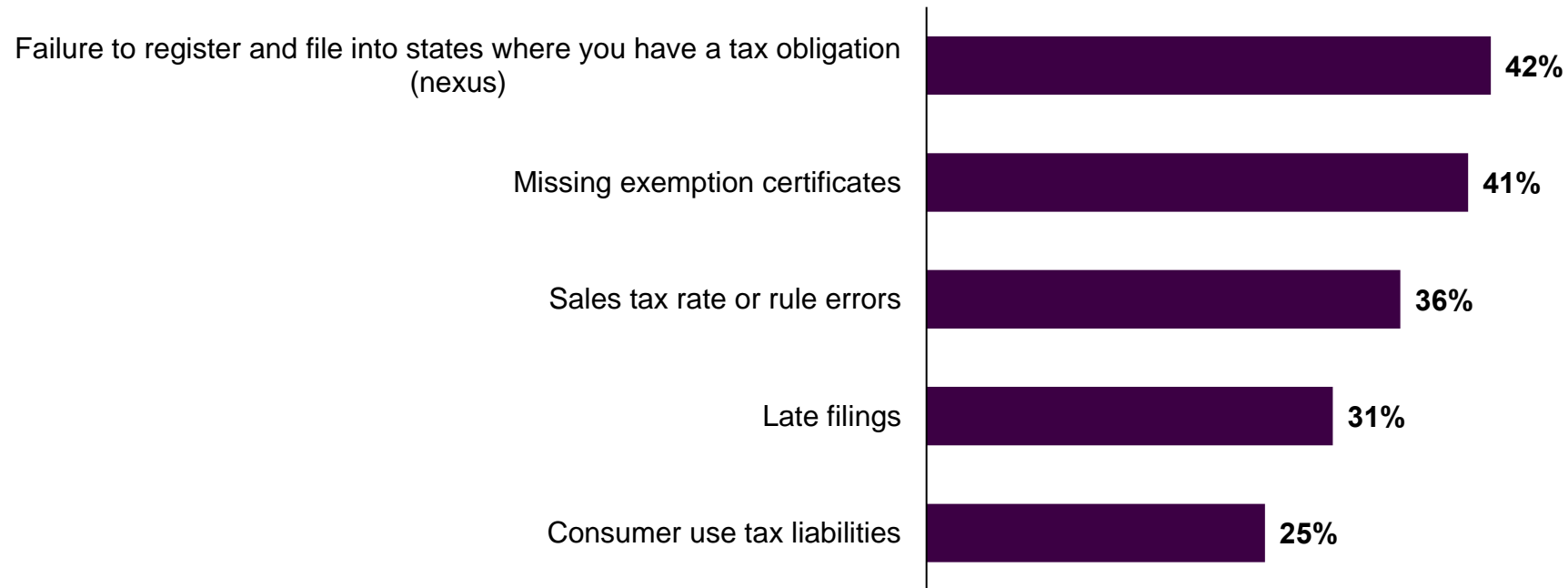


% of respondents who have been audited in the past year

n = 202, Source: Aberdeen, February 2023

Missing exemption certificates and state tax obligations are the top 2 reasons penalties are incurred from audits

Reasons Penalties From Audits Were Incurred



% of respondents who have incurred penalties in previous years

The Best-in-Class Approach

Definition of Best-in-Class Companies

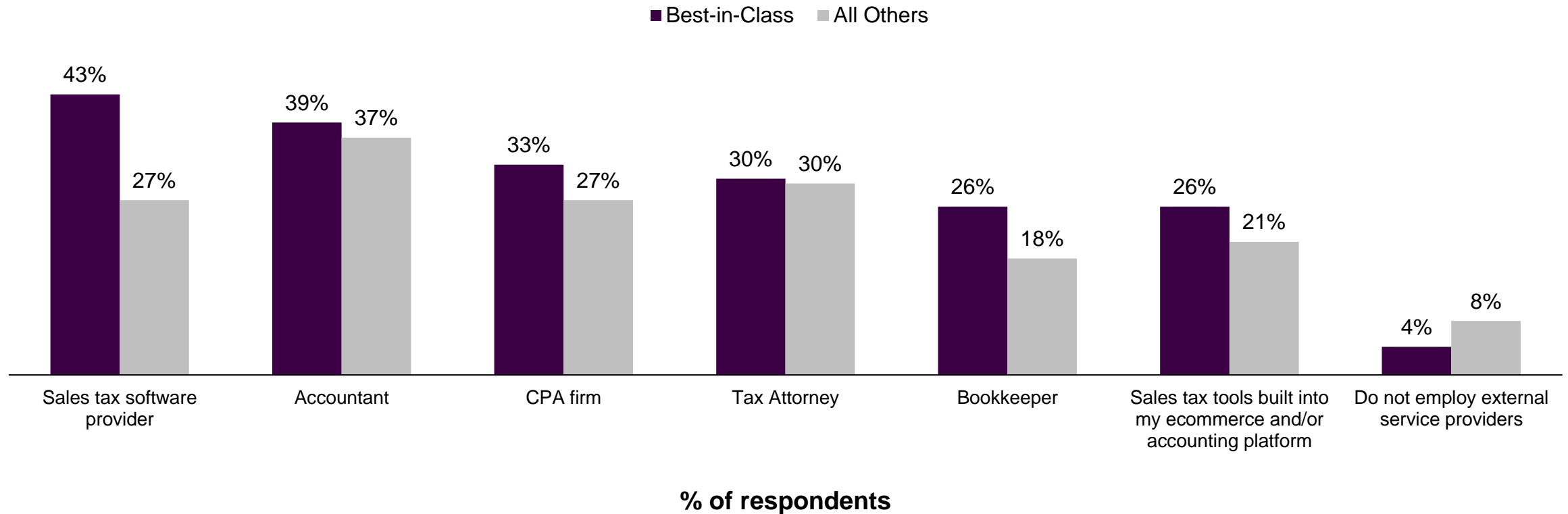
Year-Over-Year (YoY) Performance Improvements in Compliance KPIs

Year-over-Year Improvement (Decrease)	Best-in-Class (n=46)	All Others (n=155)
Increase in % of financial reports that were 100% accurate	+24.2%	+3.1%
Decrease in total cost of audits, including fines/penalties	-16.4%	-0.4%
Decrease in time/resources dedicated to monthly tax processing and reconciliation	-14.1%	-3.7%

Average % improvement/decrease over the past year

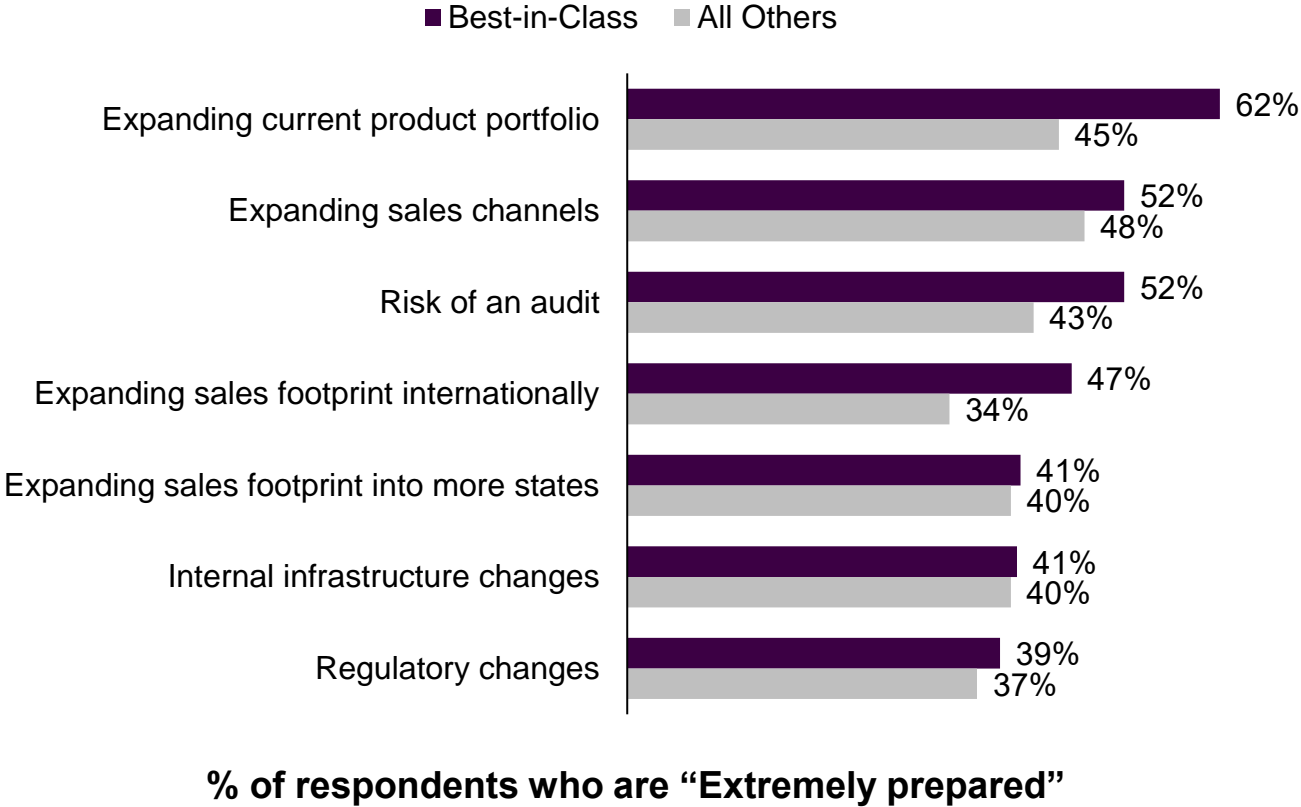
Top performers are more likely to partner with sales tax software providers

Use of External Service Providers for Outsourcing S&U Tax Compliance



Best-in-Class ESBs are better prepared to take on future business changes and plan for growth

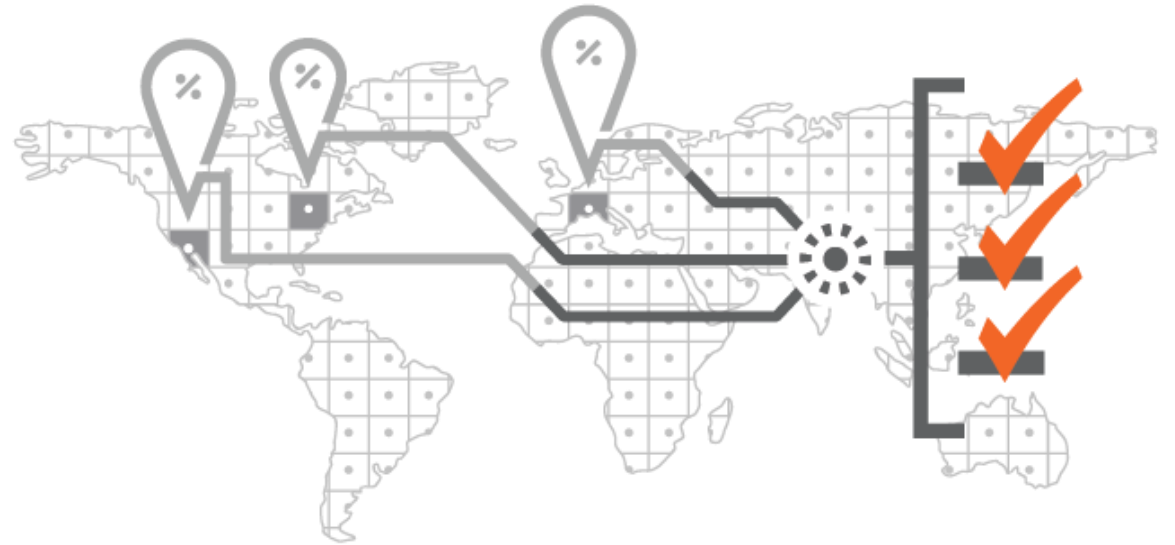
Preparedness for Future Business Changes



The Positive ROI of Automation

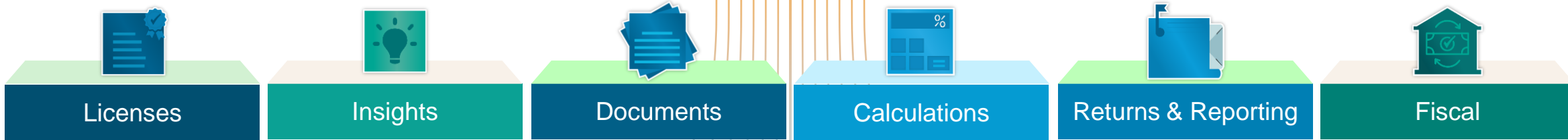
Avalara can help:

- ✓ Reduce tax compliance complexities
- ✓ Minimize reporting risks from changing regulations
- ✓ **Decrease cost** and improve government reporting efficiencies
- ✓ Consolidate multiple reporting jurisdiction requirements
- ✓ Produce Schedules and Signature-ready returns in the mandated format
- ✓ Offer automated import from your accounting back office
- ✓ Reduce the effort required to meet monthly compliance reporting requirements, enabling the tax analyst to focus on value added opportunities





COMPLIANCE CLOUD



Free Risk Assessment Tool



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- Resources ^
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WHERE TO FILE

Free economic nexus assessment

Find out where you may have sales tax obligations

Tool

Economic nexus guide

Understand how economic nexus laws are determined by state

Sales tax laws

See which nexus laws are in place for each state

STAY UP TO DATE

Resource center

Learn about sales and use tax, nexus, Wayfair

Small business FAQ

Get answers to common questions about each step of the tax compliance process

New

Avalara Tax Changes 2023

Our annual guide to nexus laws and industry compliance changes

NEW



STEP 1 OF 3

Select the states where you make sales

Check all states where you make sales but don't have a sales tax permit, don't collect sales tax, and don't file sales tax returns.

Existing customer?

[Sign in to your Avalara account](#) for a better way to review your sales tax obligations

Select all

Next

- | | | | |
|--------------------------------------|----------------------------------------|-----------------------------------------|-----------------------------------------|
| <input type="checkbox"/> Alabama | <input type="checkbox"/> Indiana | <input type="checkbox"/> Nebraska | <input type="checkbox"/> Rhode Island |
| <input type="checkbox"/> Alaska | <input type="checkbox"/> Iowa | <input type="checkbox"/> Nevada | <input type="checkbox"/> South Carolina |
| <input type="checkbox"/> Arizona | <input type="checkbox"/> Kansas | <input type="checkbox"/> New Hampshire | <input type="checkbox"/> South Dakota |
| <input type="checkbox"/> Arkansas | <input type="checkbox"/> Kentucky | <input type="checkbox"/> New Jersey | <input type="checkbox"/> Tennessee |
| <input type="checkbox"/> California | <input type="checkbox"/> Louisiana | <input type="checkbox"/> New Mexico | <input type="checkbox"/> Texas |
| <input type="checkbox"/> Colorado | <input type="checkbox"/> Maine | <input type="checkbox"/> New York | <input type="checkbox"/> Utah |
| <input type="checkbox"/> Connecticut | <input type="checkbox"/> Maryland | <input type="checkbox"/> North Carolina | <input type="checkbox"/> Vermont |
| <input type="checkbox"/> Delaware | <input type="checkbox"/> Massachusetts | <input type="checkbox"/> North Dakota | <input type="checkbox"/> Virginia |
| <input type="checkbox"/> Florida | <input type="checkbox"/> Michigan | <input type="checkbox"/> Ohio | <input type="checkbox"/> Washington |
| <input type="checkbox"/> Georgia | <input type="checkbox"/> Minnesota | <input type="checkbox"/> Oklahoma | <input type="checkbox"/> Washington, DC |
| <input type="checkbox"/> Hawaii | <input type="checkbox"/> Mississippi | <input type="checkbox"/> Oregon | <input type="checkbox"/> West Virginia |
| <input type="checkbox"/> Idaho | <input type="checkbox"/> Missouri | <input type="checkbox"/> Pennsylvania | <input type="checkbox"/> Wisconsin |
| <input type="checkbox"/> Illinois | <input type="checkbox"/> Montana | <input type="checkbox"/> Puerto Rico | <input type="checkbox"/> Wyoming |

Select all

Next

Key Takeaways

Audits can happen to anyone. Because a company may be a small business, it doesn't make it any less prone to an audit.

Best-in-Class companies leverage sales tax software providers to achieve superior results.

Emulate the Best-in-Class to expand your sales footprint.



Thank you!

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