

Sales tax compliance 101

A beginner's guide



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



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- > Download the certificate once you qualify
 - > Find the Earn Certification box
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- > Those that qualify will also receive their certificate in a post-event email

Meet your presenter



Ronny Fritz

Senior Product
Solutions Engineer

Avalara

Ronny has worked at Avalara in various roles for almost 20 years. With more than 35 years' experience managing and directing business solution sales through the channel of VARs, consultants and CPAs, Ronny brings a proven record of success in creating value for businesses and developing relationships for business technology providers. Ronny has provided sales and marketing expertise to diverse ERP vendors, including as a consultant at KPMG and Deloitte & Touche.

Agenda

- 1 > Why sales tax matters
- 2 > Sales tax basics
- 3 > When to collect — Got nexus?
- 4 > The 5 steps to managing sales tax compliance
- 5 > Tips to streamline sales tax management

Why sales tax matters

SALES TAX

Significant source of revenue for states

22 states receive more than $\frac{1}{4}$ of their annual tax collections from sales tax.**

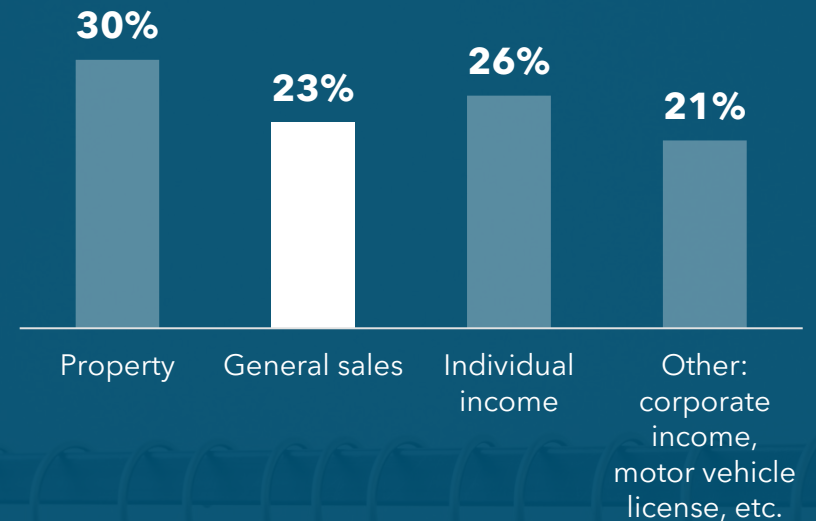
- > Sales tax is governed at the state level. Each state sets its own sales tax rates and laws.
- > Sellers collect sales tax directly from consumers and then remit it back to the taxing jurisdiction where it's owed (state and/or local level).

“PASS-THROUGH” TAX

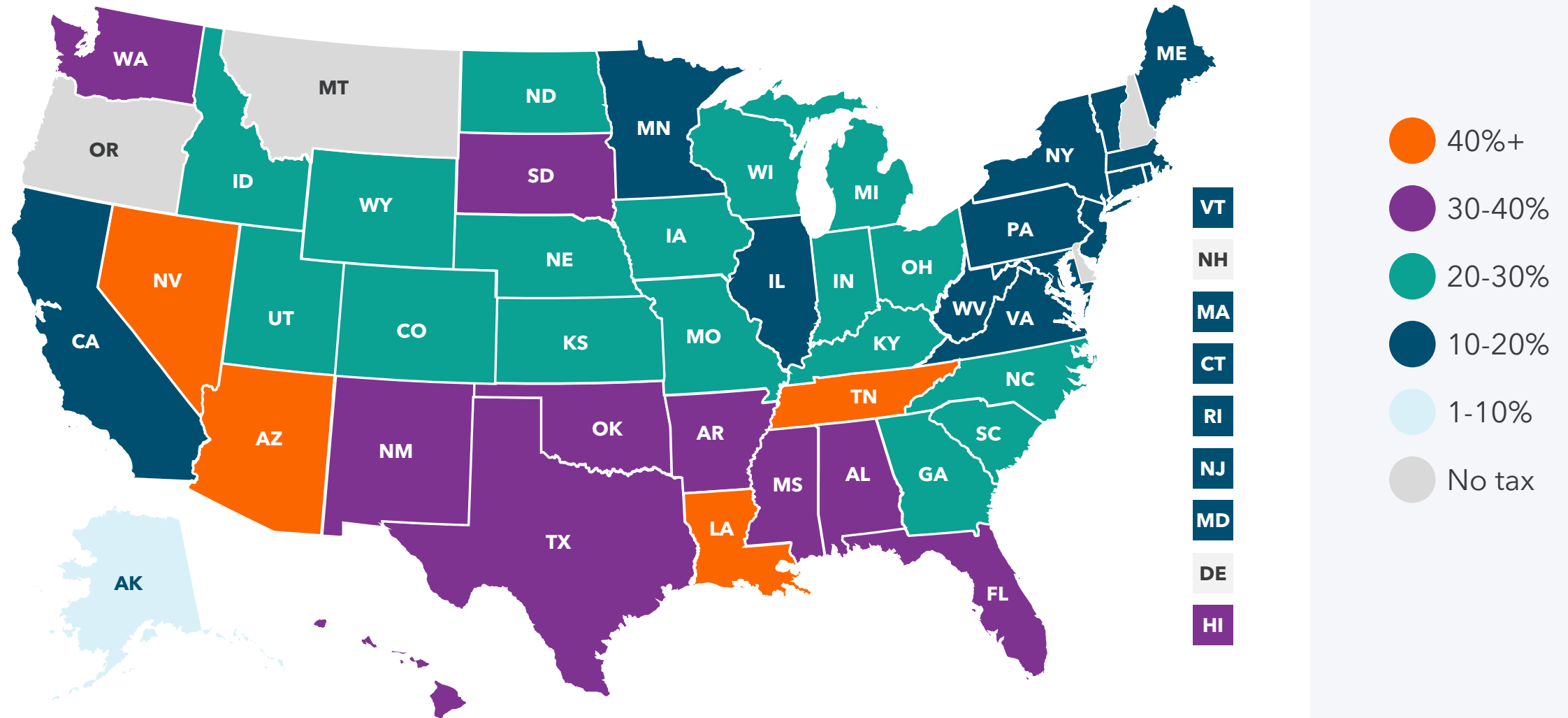
*[Tax Foundation, Sources of States and Local Tax Collection 2020](#)

**[Tax Foundation, State Tax Collections Per Capita, 2021](#)

STATE AND LOCAL TAX REVENUE BY SOURCE, FISCAL YEAR 2021*



How much does your state rely on sales tax?*



*Tax Foundation, State Sales Tax Reliance, 2018

**POLL QUESTION
#1**

**> How does your business
currently manage sales
tax?**

Sales tax basics

WHAT'S TAXABLE?

Sales tax is all about...



THE
WHERE



THE
WHO



THE
WHAT

Most states tax *some* services, but a few tax *many* services.

What's taxable:

- > Tangible Personal Property (TPP)
- > Services (in some states)
- > Goods
- > Software (in some states)

BROADLY TAX SERVICES:

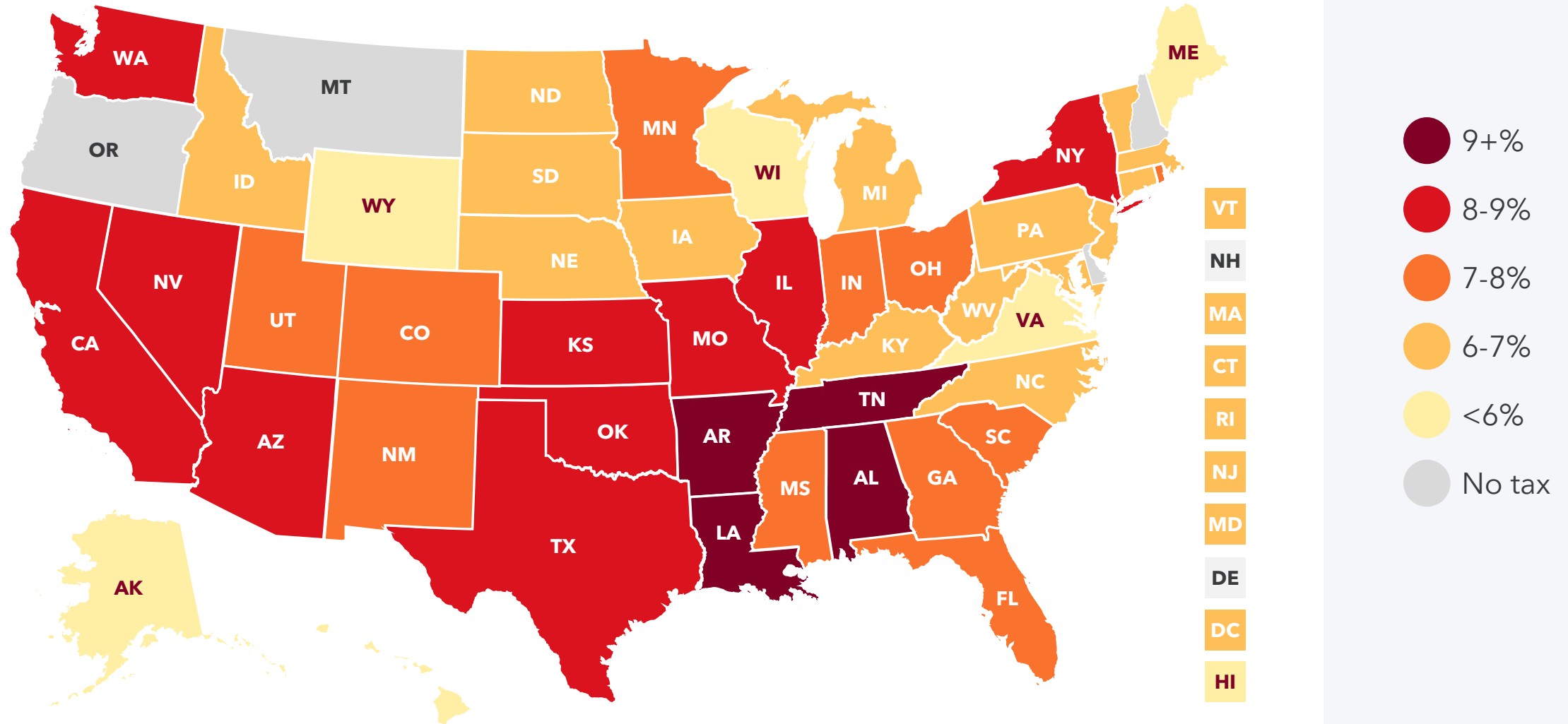
- > Connecticut
- > Hawaii
- > New Mexico
- > South Dakota
- > West Virginia

NARROWLY TAX SERVICES:

- > Alabama
- > Florida
- > North Carolina
- > Oklahoma
- > Utah

How high are sales taxes in your state?

January 2023: Combined state & average local sales tax rates*



*Tax Foundation, State and Local Tax Rates, 2023

WHY SALES TAX MATTERS

Sales tax compliance challenges

- › Statutory requirements
- › Rates and rules in constant flux
- › 100% non-revenue generating activity



When to collect –
Got 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.

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

**POLL QUESTION
#2**

**> How much annual revenue
does your business
generate?**

All 45 states

with a state sales tax have adopted economic nexus.

Thresholds vary state-by-state.



MORE ON ECONOMIC NEXUS

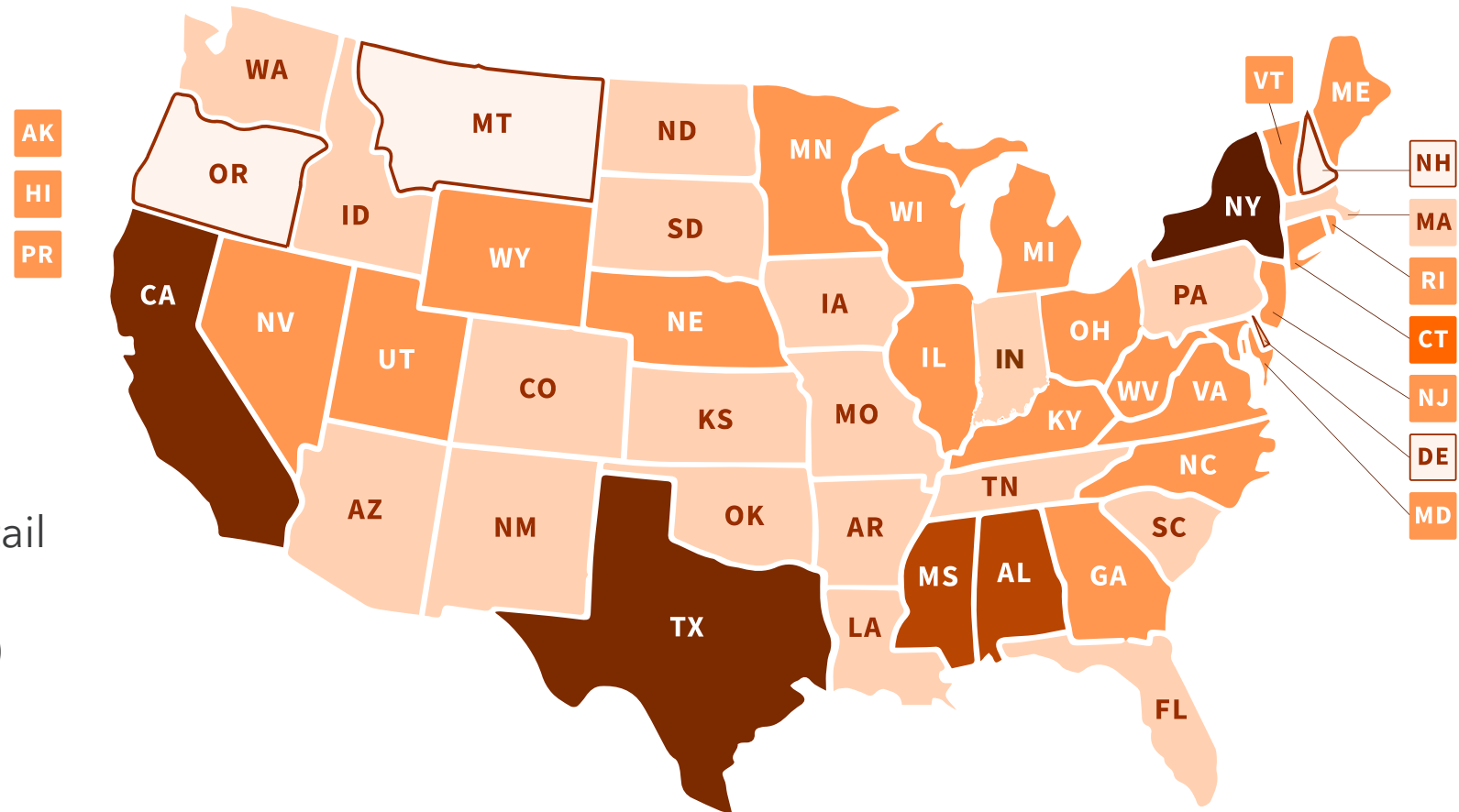
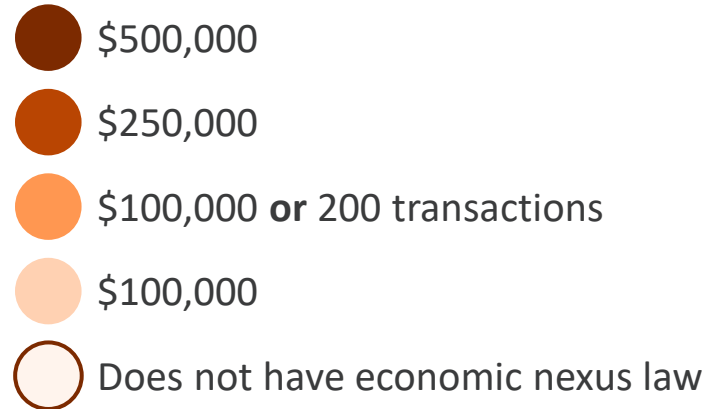
South Dakota v. Wayfair

changed sales tax for businesses

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

- › The Court ruled in favor of South Dakota and expanded the **physical presence standard** set forth in *Quill Corp. v. North Dakota* and *National Bellas Hess, Inc. v. Department of Revenue of Illinois*.
- › 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.

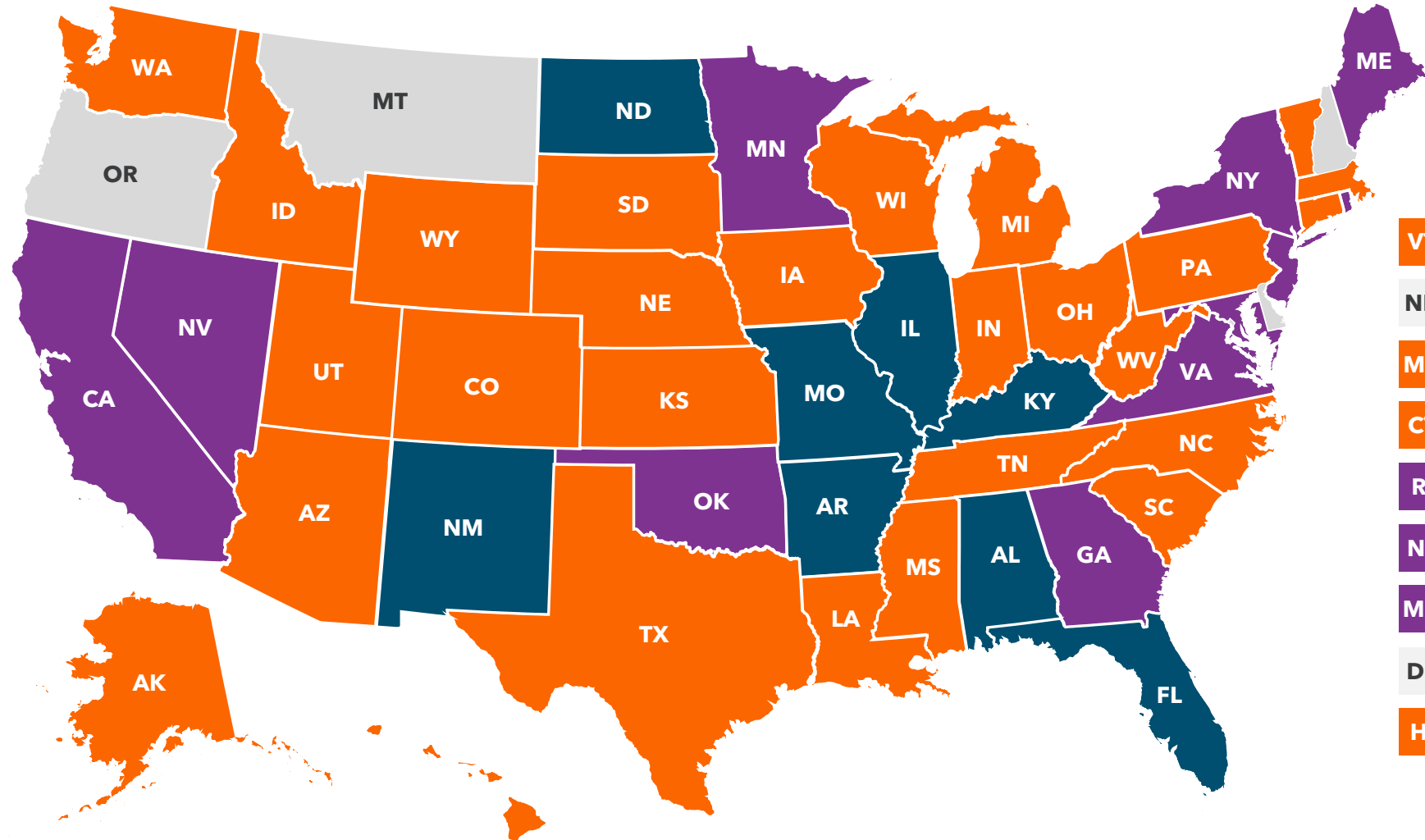
A current look at economic nexus thresholds by state



- > 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.

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

Exempt sales in economic nexus thresholds



- Exempt sales included
- Exempt sales excluded
- Split (exempt services excluded)
- No state sales tax

The 5 steps to managing sales tax compliance

The 5 steps to managing sales tax compliance



UNDERSTAND

Know where your business must collect and remit sales tax



REGISTER

Register to collect and remit sales tax



CALCULATE

Calculate the correct sales tax amount based on taxability rules by jurisdiction



TRACK

Track and manage exempt sales



REMIT

Remit sales tax to the tax authority

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STEP 1

Know where your business must collect and remit sales tax

Overview:

- › Ensure you understand the business activities that can trigger an obligation to collect tax in a jurisdiction.
- › Stay up to date on law changes that may impact your obligations.
- › Review your business activities often and understand the appropriate next steps when nexus has been established.



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STEP 2

Register to collect and remit sales tax

Overview:

- › You must register once you have a taxing obligation in a jurisdiction.
- › Registration requirements in each jurisdiction are different, including forms, process, and required information.

TYPICAL ITEMS NEEDED

- › Type of business
- › Legal business name
- › Date business was formed
- › Driver license number
- › Social security number
- › State Employer Identification Number
- › NAICS code
- › Projected monthly taxable sales
- › Name and contact information of all managing members, officers and/or partners
- › FEIN



AVALARA SOLUTION

Free
economic nexus
assessment

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STEP 2 CONTINUED

Register to collect and remit sales tax

When registering isn't enough:

- › If you have a prior obligation but haven't registered or started collecting, you may need to take additional steps before registering.
- › This may include backfiling or participating in a Voluntary Disclosure Agreement.
- › Gather necessary items to successfully register in all jurisdictions.



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STEP 3

Calculate the correct sales tax amount

Overview:

- › There are more than 13,000 tax jurisdictions in the U.S.
- › In 2023 alone, there were 85,836 taxability updates in the U.S. and Canada*
 - › 98,910 U.S. sales tax holiday rule updates*
- › Each jurisdiction has different tax rates and product taxability rules.
- › Even within jurisdictions there can be nuances.

*Avalara data



13,000

tax jurisdictions

in the U.S.*

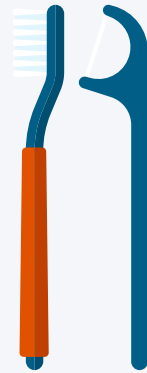
Product taxability challenges

● 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



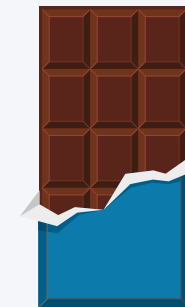
Takeout in Colorado

- Straws
- Cups, cup lids



Ice cream in Maryland

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



Candy bars in Indiana

- Reese's
- KitKat, Twix

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STEP 3 CONTINUED

Calculate the correct sales tax amount

Recommended next steps:

- Become familiar with the variables that make up an accurate tax rate.
- Have a solution in place to be able to quickly and easily charge the correct rate.

TIP

When determining sales tax, it's important to understand the difference between "bill to" and "ship to" sourcing rules.

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STEP 4

Track and manage exempt sales

Overview:

- › Businesses can be exempt from paying sales tax for a variety of reasons.
- › If you as a seller don't charge sales tax on a purchase when you typically would, you need to collect an exemption certificate.
- › Exemption certificates vary by state and scenario.

*Avalara

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SCENARIOS WHEN A SALE MAY BE EXEMPT



Customer has an exemption for specific instance or purchase

Selling to an entity such as a government agency or nonprofit organization



Item being sold is intended for resale where tax will be collected

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STEP 4 CONTINUED

Track and manage exempt sales

Recommended next steps:

- › Determine how often your business handles exempt sales and whether or not this step applies to you.
- › Review your process for requesting, validating, and storing your exemption certificates.

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TIP

If you changed your company name or acquired a new company, you may need new exemption certificates from all your customers.

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STEP 5 CONTINUED

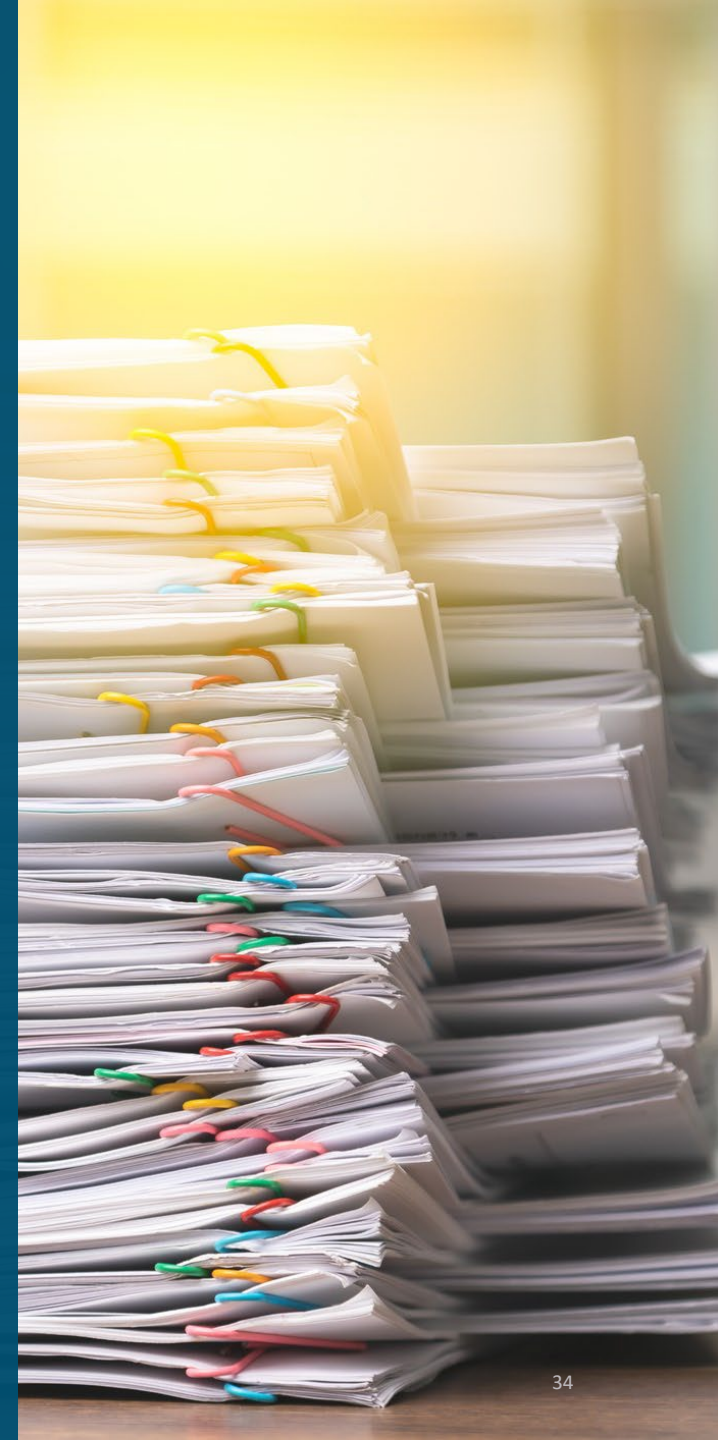
Remit sales tax to the tax authority

Overview:

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

NUANCES OF SALES TAX REMITTANCE

- › Paper remittance vs online remittance
- › Varying remittance due dates
- › Prepayments
- › Handling of tax notices
- › Filing in local jurisdictions
- › Late payment fees
- › Multiple payment methods



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STEP 5

Remit sales tax to the tax authority

Recommended next steps:

- › Review where your business remits tax and ensure you understand each of the nuances for each jurisdiction.
- › Ensure you have a way to easily track and manage filing frequency changes.
- › Review your business activities to see where you might have an obligation.

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The 5 steps to managing sales tax compliance

1

WHERE

Know where your business must collect and remit sales tax

2

REGISTER

Register to collect and remit sales tax

3

CALCULATE

Calculate the correct sales tax amount

4

TRACK

Track and manage exempt sales

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REMIT

Remit sales tax to the tax authority

Avalara
Nexus Assessment

Avalara
Licensing

Avalara
AvaTax

Avalara
Exemption Certificate
Management

Avalara
Returns

POLL QUESTION
#3



**How automated are your
tax compliance processes?**

Tips to streamline sales tax management

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

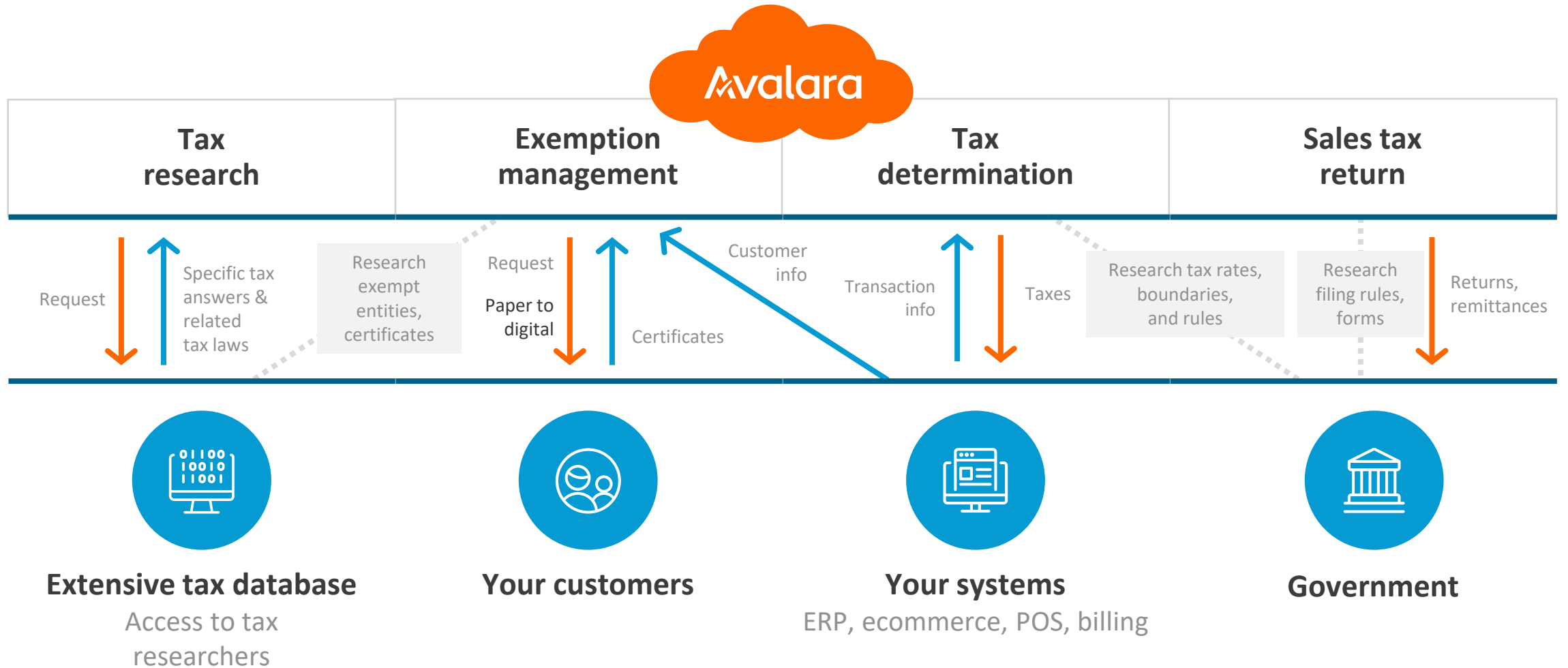


Business growth

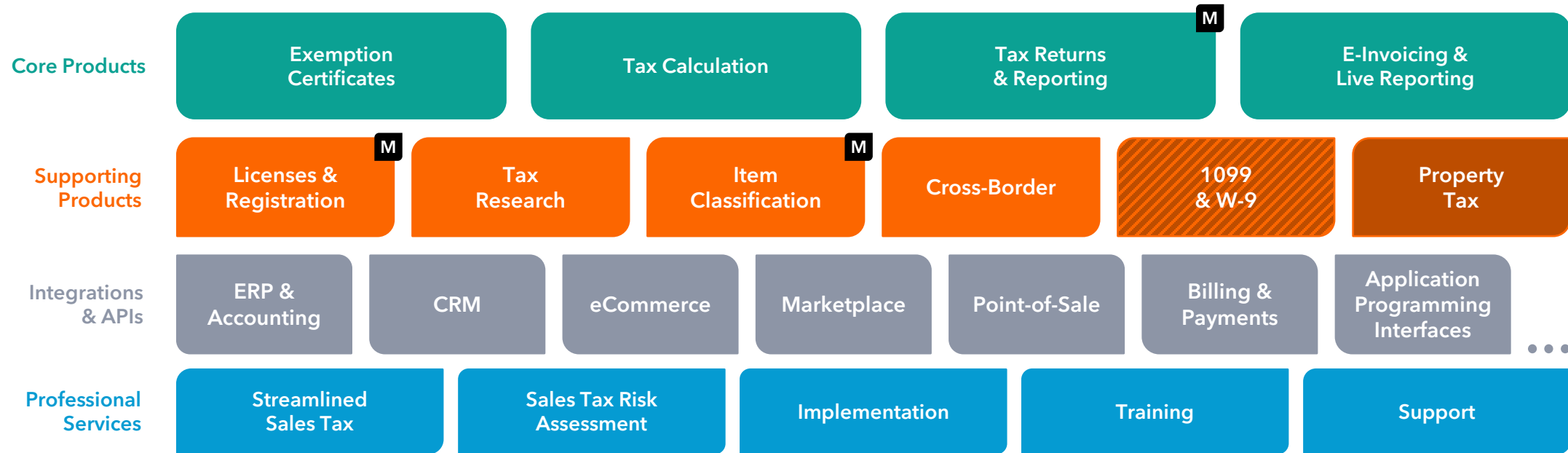
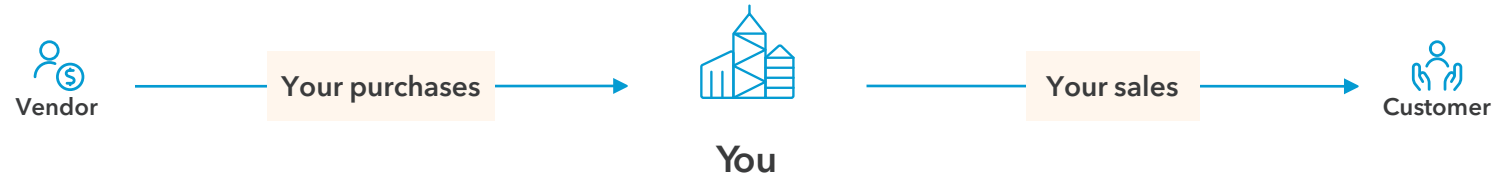
Free up resources to focus on high-value projects

END-TO-END SALES TAX COMPLIANCE

Avalara's tax compliance suite



Avalara products and services



^M Managed services

**POLL QUESTION
#3**

**> Would you like a follow-up
from an Avalara tax
automation specialist?**

STREAMLINED SALES TAX INITIATIVE

Free sales tax services for qualifying businesses

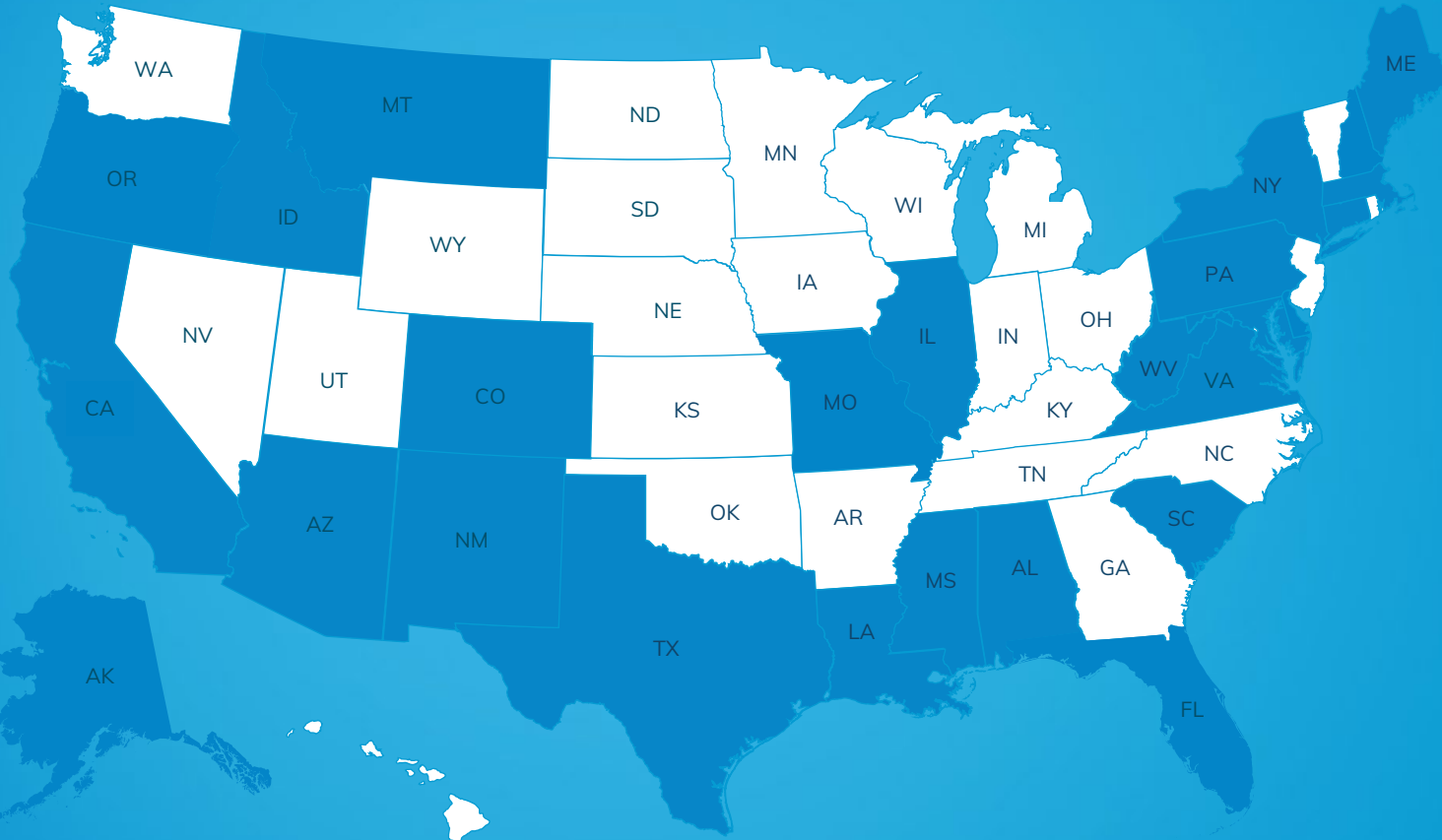


● SST member states

IN UP TO 24 STATES, YOU MAY QUALIFY FOR:

- > Free registrations
- > Free tax calculations
- > Free returns preparation and filing
- > Audit assistance and response
- > Uniform definitions and rules
- > One registration and identification #

Learn more about SST
at Avalara.com/SST



Questions

Avalara

Tax compliance done right

Learn more at Avalara.com