

# Top tips for managing procure to pay compliance



## Disclaimer

While we hope you'll find this discussion helpful, this session is for informational purposes only and is not legal or tax advice.



# Avalara

## Safe harbor statement

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# 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 the **full duration** of the webinar
  - Attend at least 50-minutes to qualify



## Downloading Certificate

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

CPE POLL  
QUESTION #1

To what extent do you agree or disagree with the following statement: My

- business has a strong knowledge of our consumer use tax obligations

Meet your presenters

# Meet our presenters



**Kael Kelly**

*General Manager*

Avalara



**Dave Williams**

*Director, Product Management*

Avalara



**Matthew MacNeil**

*Director, Technical Consulting*

Avalara



# Agenda

- 1 > Procure to pay compliance & Avalara
- 2 > Filing 1099 forms from your vendors
- 3 > Managing vendor exemptions with ease
- 4 > Catching vendor errors before they become a liability
- 5 > Q&A



Procure to pay  
compliance & Avalara



Vendors



You



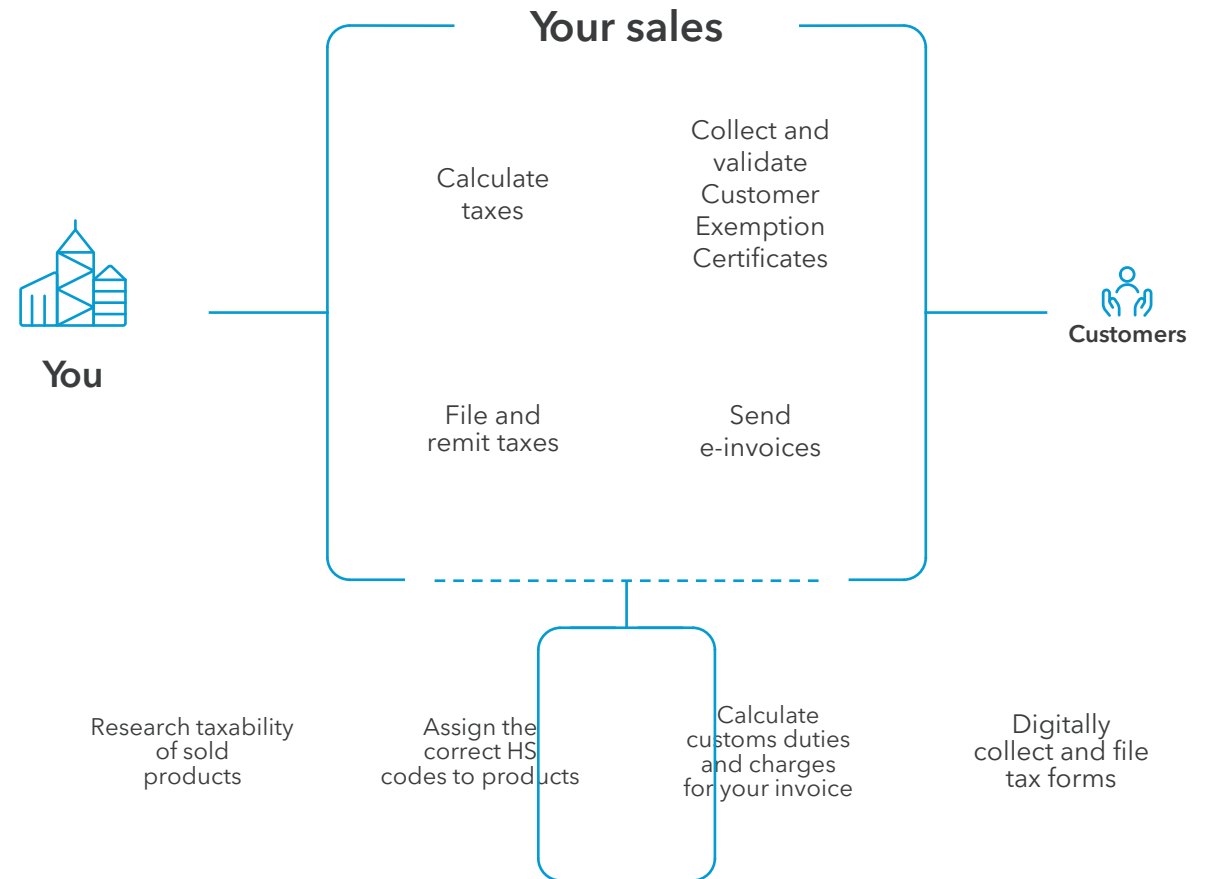
Customers

Comply with  
business  
licenses & tax  
registrations

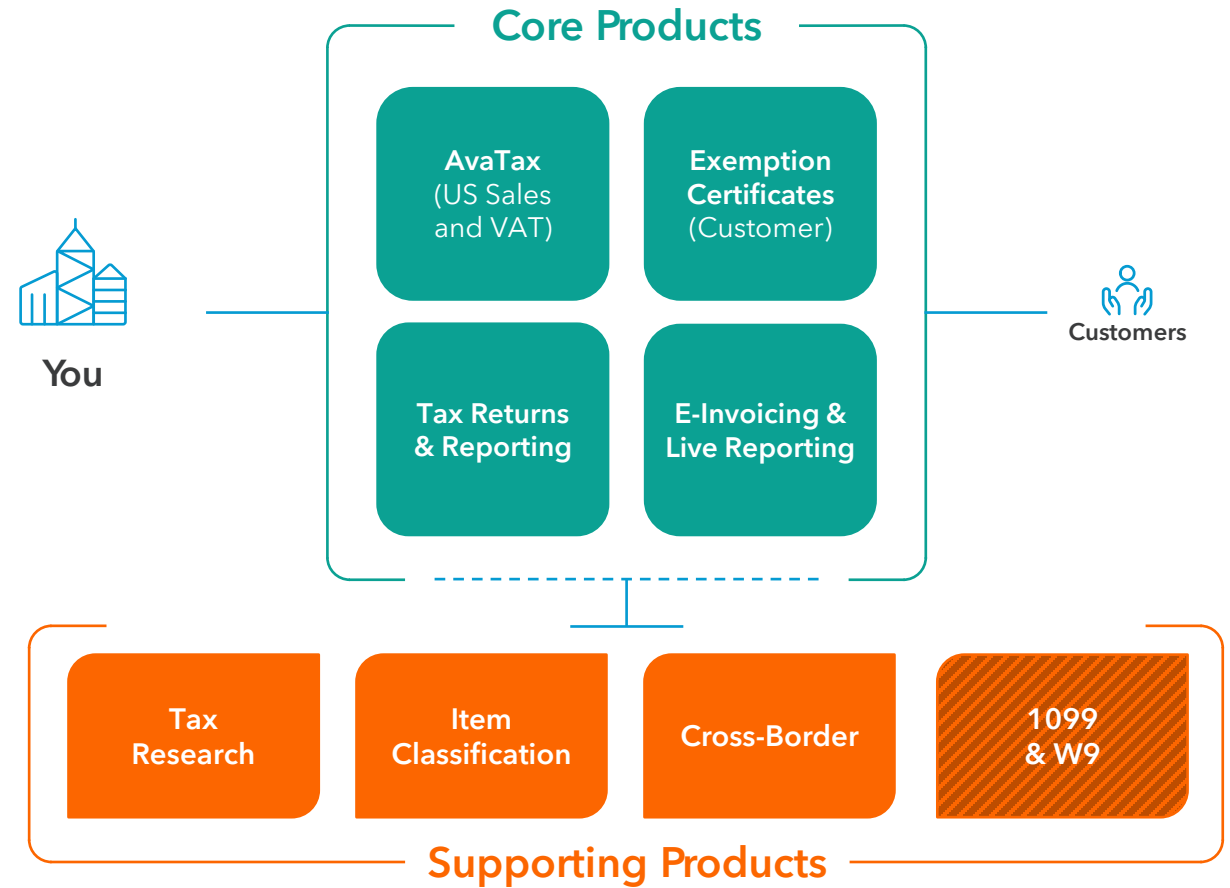
Assess your tax  
compliance risk  
and submit  
voluntary  
disclosures

Manage  
property tax  
assessments  
and returns

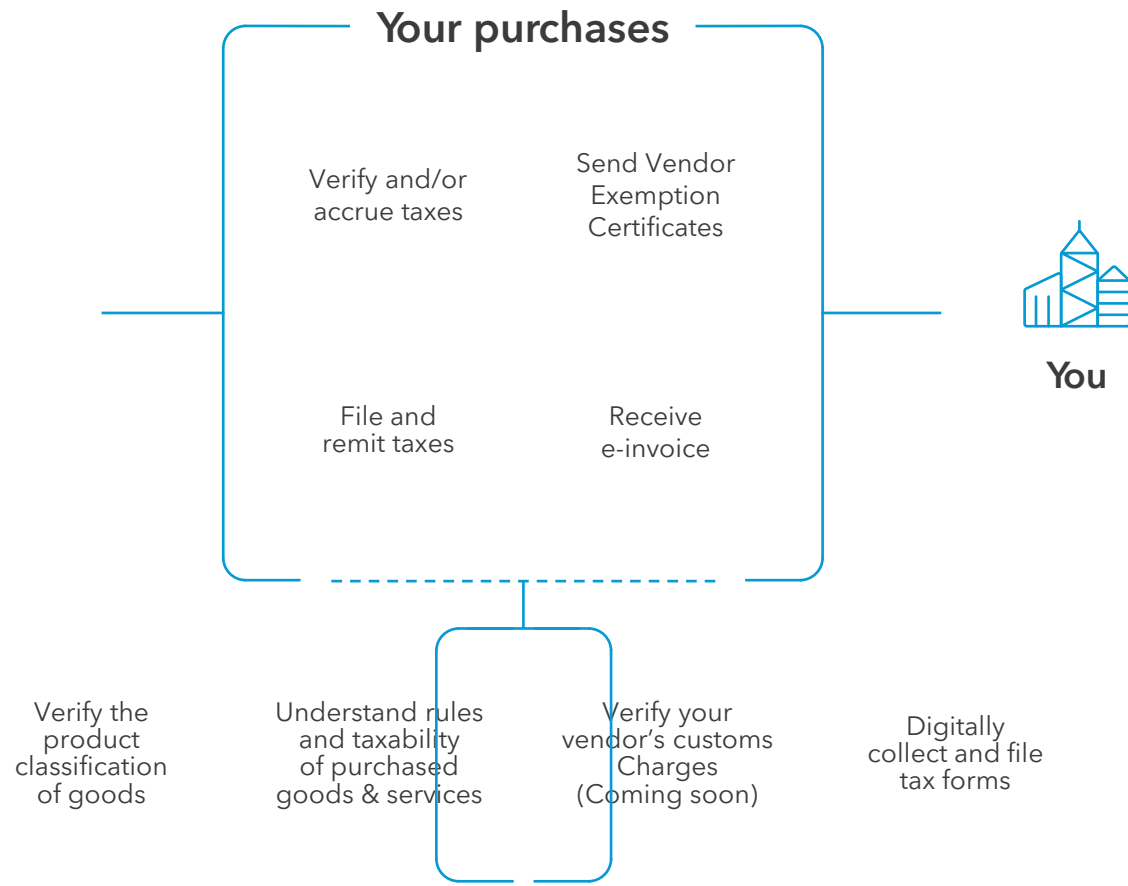
# Avalara sales compliance products



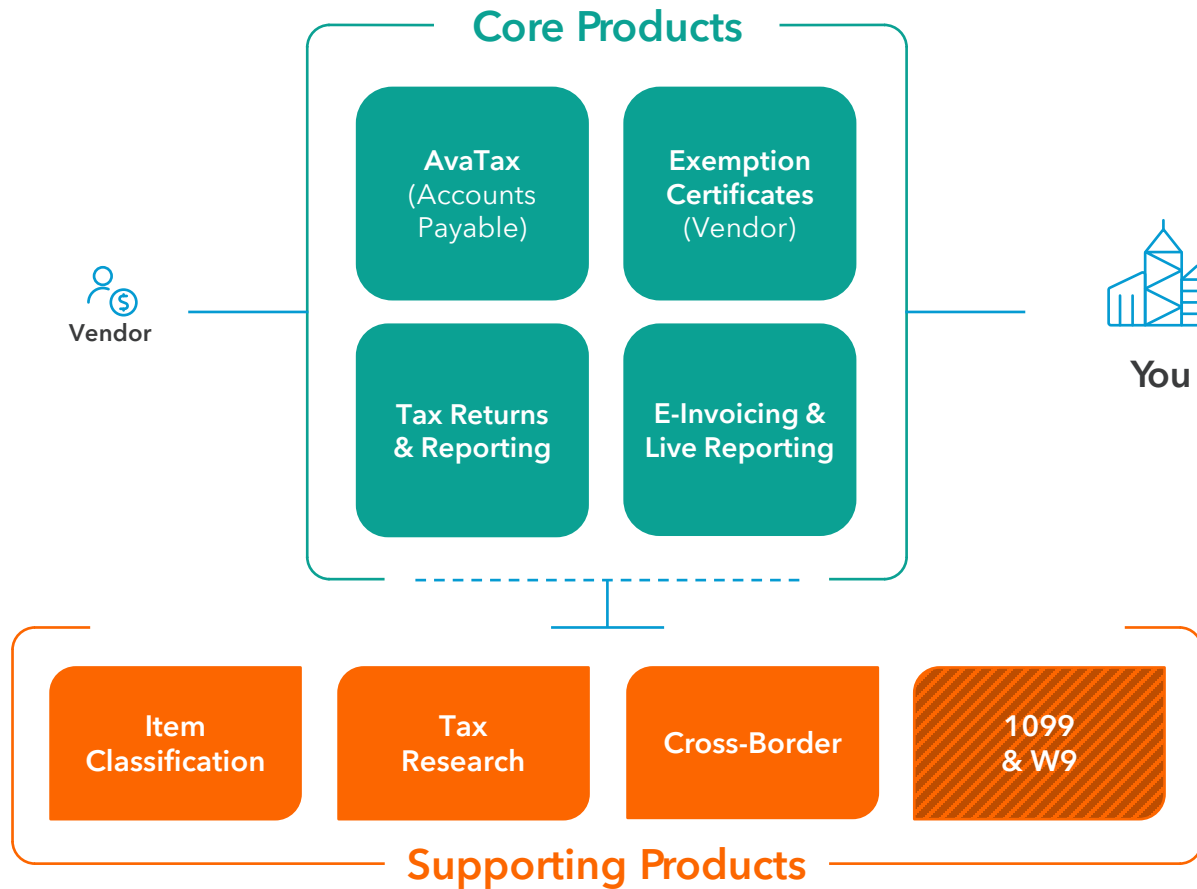
# Avalara sales compliance products



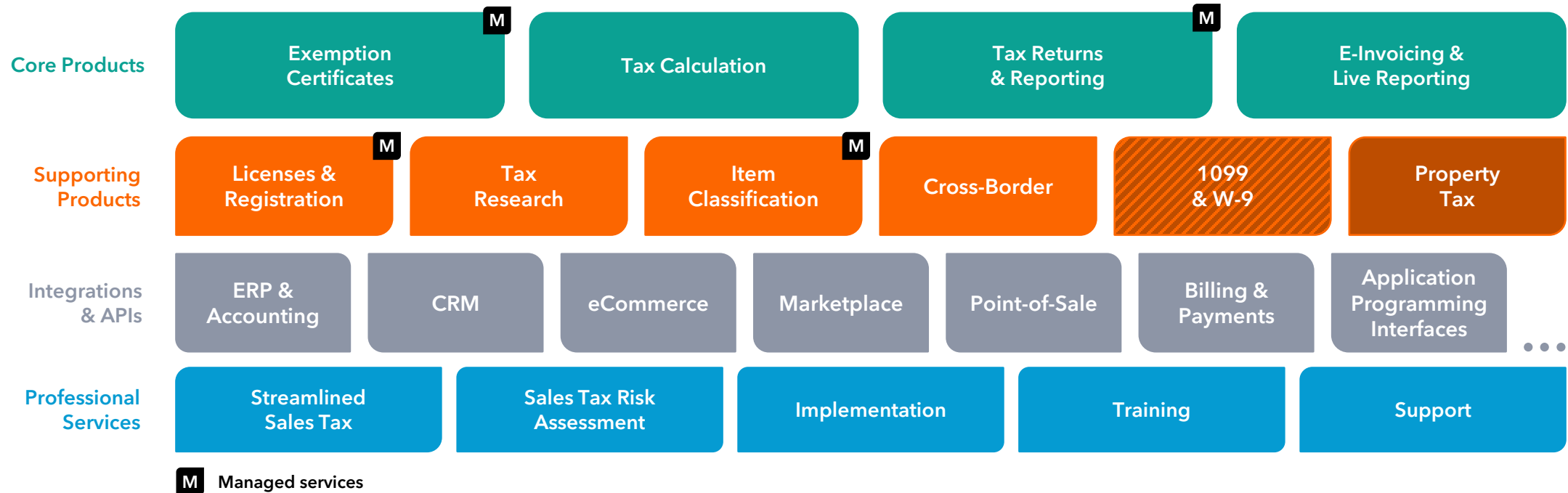
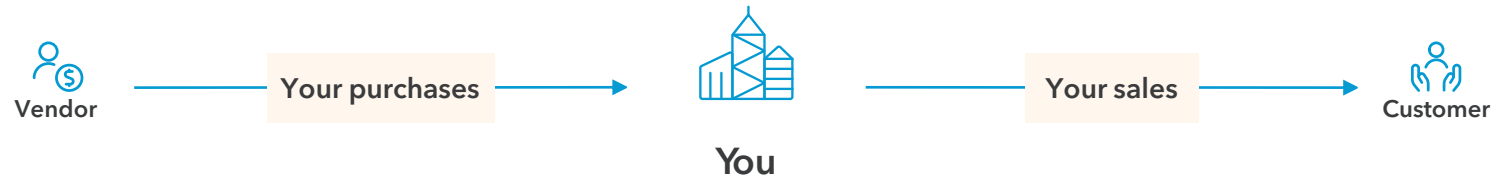
# Avalara procurement compliance products



# Avalara procurement compliance products



# Avalara products and services





1099 & W-9 reporting for  
your vendors

# What is a 1099? What is a W-9?

**IRS Form 1099:** Filed annually to the IRS (and many states) to report non-employee payments paid to an individual or vendor.

**IRS Form W-9:** Used to request the correct Taxpayer Identification Number (TIN) from a vendor/company/individual for which non-employee income was or will be paid during a calendar year. Also certifies that they are not subject to backup withholding (W-8 for a non-U.S. entity)

**Who is issued a 1099?** Direct payments to non-W-2 employees, typically not C or S Corp, paid >\$600.

Common examples:

- **Vendors or contractors** (e.g., caterers, repair technicians, remodeling contractors, etc.)
- **Freelance creatives** (e.g., writers, graphic designers, photographers, etc.)
- **Professional service providers** (e.g., consultants, lawyers, accountants, tax advisors, etc.)

1099-NEC

- **Party that received interest payments - statement for interest paid;** payers must issue to any party to whom they paid at least \$10 of interest to during the year

1099-INT

- **Parties that process payment card transactions through third-party networks** like VISA, Mastercard, PayPal or Square; also, networks like Uber and Airbnb
- Example: Marketplace seller or Uber driver
- Required for >200 transactions through the card or network and over \$20,000 in payments

1099-K

**CHALLENGE:**

# State requirements

3 examples as of 2023

**Combined State/Federal (CF/SF) program:** AL, AR, AZ, CA, CO, CT, D.C., DE, GA, HI, ID, IN, KS, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NJ, NM, NC, ND, OH, OK, PA, SC, WI.

States that do not participate in the CF/SF program: FL, IA, IL, KY, OR, RI, TN, UT, VA, WV, VT, DC



## California

Requires direct filing of forms 3921/3922 even if you participate in the Combined Federal/State Filing Program.

## Oklahoma

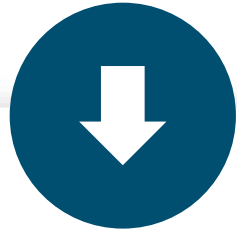
Although the website lists the Combined Federal/State Filing Program as an acceptable option for filing 1099s, the 1099-NEC is not included and must be filed directly.

## South Carolina

If any state income tax was withheld, 1099s must be burned to a CD-ROM in the antiquated IRS format and mailed to the Dept of Revenue.

**CHALLENGE:**

# IRS requirements are a moving target



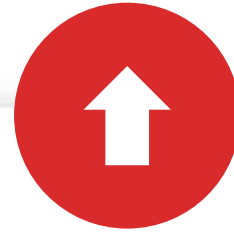
## 10 forms

Electronic filing reduced  
from 250 forms

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Small businesses are  
most impacted

Electronic filing is a  
requirement



## Penalties

Collected by IRS are  
increasing this year

## CHALLENGE

# IRS requirements are a moving target

The federal and state regulations for compliance are constantly changing and being rewritten



## 1099-K reporting changes

Payments made via third-party payment platforms (VISA, Mastercard, PayPal, Square, etc.; includes networks like Uber & Airbnb)



For 2023 filing season, a 1099-K form will not be required unless a **taxpayer receives over \$20,000 and has more than 200 transactions in 2023**



The IRS now plans to phase in the lower threshold, instituting a threshold of **\$5,000 for tax year 2024**



IRS has **yet to provide a new effective date** for the \$600 threshold

**CHALLENGE:**

## Rejected filings

Humans who copy and paste are prone to error



If legal names are **misspelled or inaccurate**, the form can be rejected



**Incorrect TIN numbers** are the most common reason for rejected IRS filings



Many filers forget to **enter a state ID** on their forms

# Risks associated with W-9 & 1099



Providing an incorrect tax ID for vendors when filing a 1099

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Notified by IRS and must rectify with vendor, otherwise business will incur penalties



W-9 was never collected

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Fined \$50 – \$280 per missing W-9



Manually managing your own W-9 or 1099 collection and storage

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Security must be up to par; W-9s include VERY sensitive information



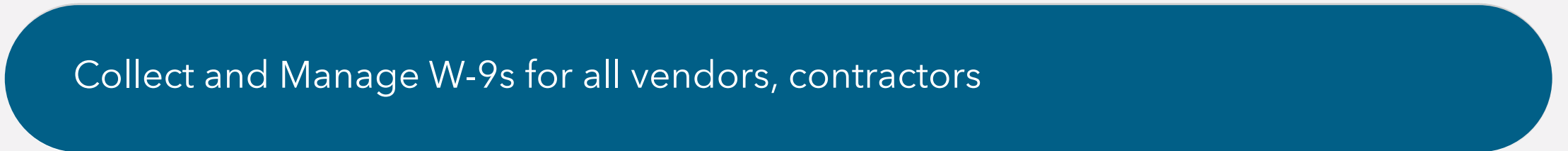
# A year-round process



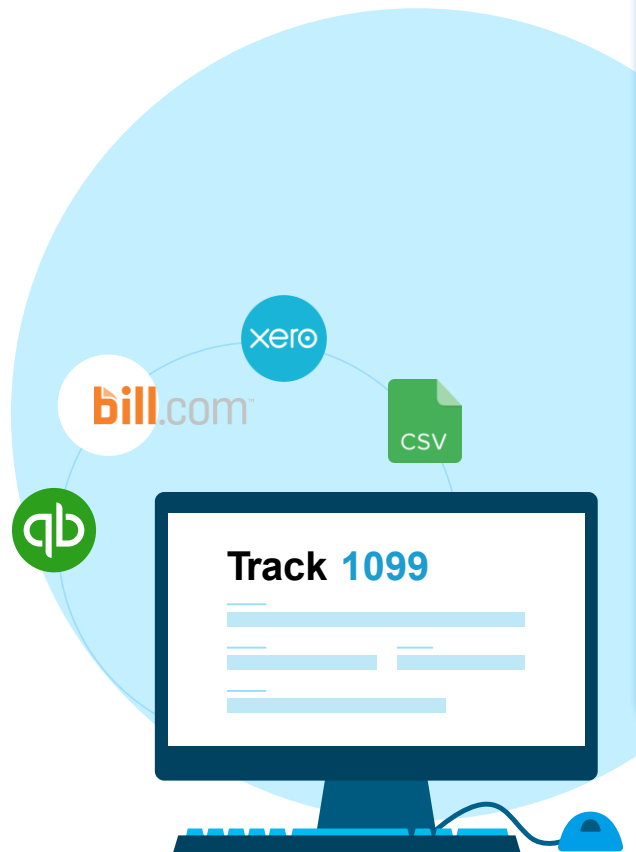
**1099s**



**W-9s**



# Avalara 1099 & W-9 Solution



## Simplified Vendor Management



### Collect W-9s

Email campaigns,  
TIN validation,  
website/portal  
integration

## Holistic Process, End-to-End



### Manage 1099 & W-9s

Secure central  
repository, auto-  
populate W-9 data  
to 1099s

## IRS & State Filings



### E-file to the IRS & States

Automated,  
paper-free, auto-flag  
SSN/TIN errors

Avalara 1099 demo

CPE POLL  
QUESTION #2



How does your business  
manage consumer use  
tax obligations?

# Managing vendor exemptions



[NEWS & TIPS](#) | [EXEMPTIONS](#) | [RETAIL](#)

## D.C. Court Affirms the Denial of Refund Claim for Hospital

The District of Columbia Court of Appeals affirmed the denial of George Washington University Hospital's (GWUH) refund claim for nearly \$1,000,000 in sales tax collected between 2016 and 2019.

GWUH purchased prepared meals during the 2016 and 2019 tax periods with the intention of being resold. While D.C. requires sales tax to be paid on tangible personal property, D.C. Code § 47-2001 states that a purchaser is exempt from paying sales tax if purchase will be resold to the end consumer. However, the purchaser is required to provide the seller with a resale certificate at the time of purchase and GWUH did not follow the statute to claim the exemption for resale.

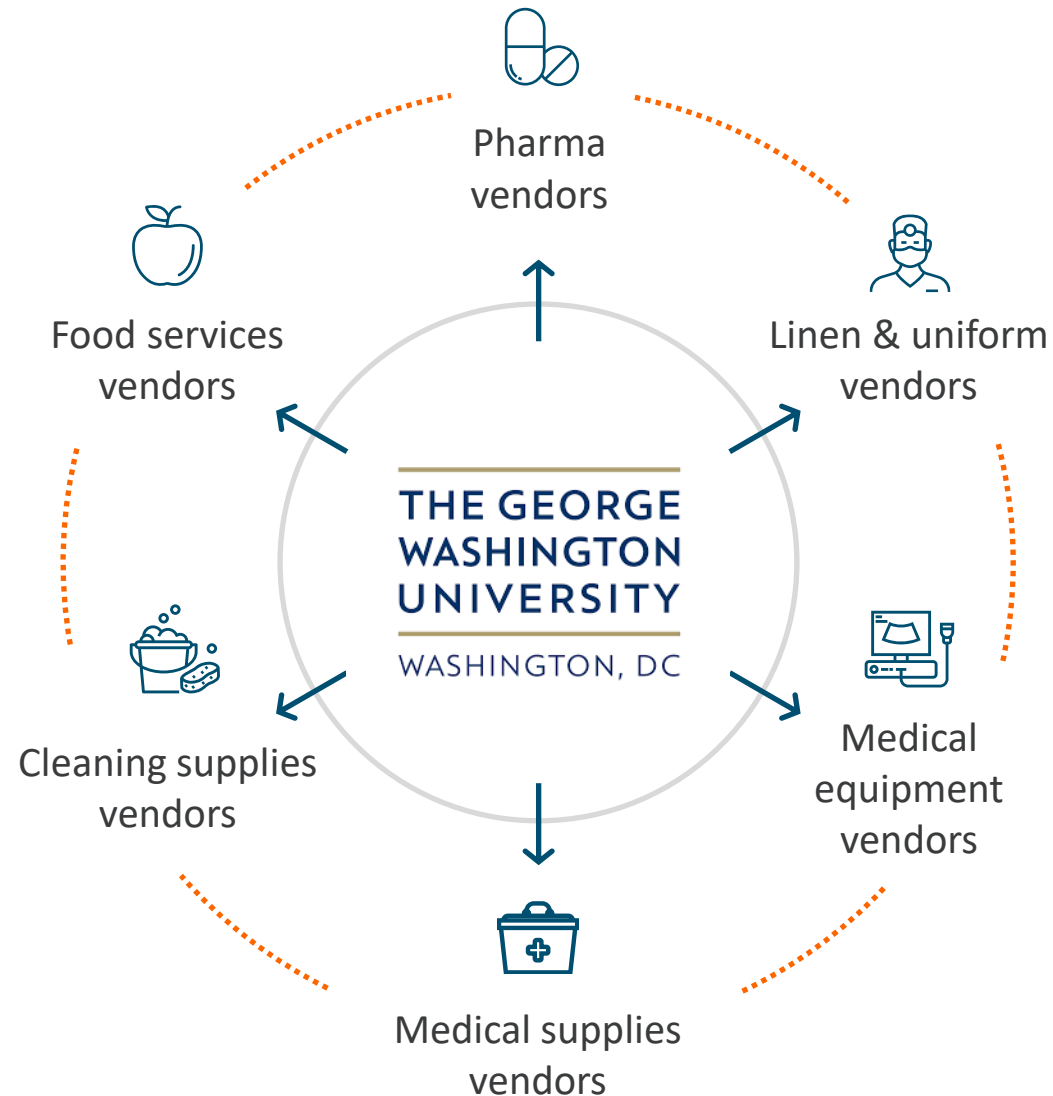
Subsequently, GWUH filed a claim for a refund with the Office of Tax and Revenue (OTR) who denied the claim due to the divergence from the statute. The D.C. Court of Appeals affirmed the OTR's decision.

To claim exemptions it is important to follow the statutes as defined, for example, D.C. Code § 47-2010 clearly outlines the need for a resale certificate at the time of purchase. This left GWUH's legal team to argue specific semantics of other clauses in D.C. code. These arguments largely failed because D.C. Code § 47-2010 is a flat rule, and tax collected in this situation without a resale certificate is not considered erroneously or illegally collected.

This case also illustrates the necessity of certificates beyond the legal requirement. Certificates serve a very important role in the documentation for the seller and the purchaser, not just governing authorities. Thoughtful investigation into your sales tax requirements prior to purchasing or selling

# Vendor Exemptions from GWU's perspective as a buyer

Example



## Vendor exemptions:

- > Enables **buyers** to proactively, and intelligently send Exemption Certificates to vendors
- > Ensures tax isn't paid when it shouldn't be and is paid when it should



# Vendor Exemption Management



Adds **control** to procurement process

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**Minimizes** time and need for tax expertise

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Allows **web-based automation** and process centralization

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Creates **pre-populated** certificates (signature)





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**Improves** vendor/supplier relationship, creates **more efficient** buying process

- > Automates vendor exemption management workflow
- > Supports efficient use of business resources
- > Enables Centralized Storage
- > Improves supply chain agility and efficiency

# Vendor Exemptions Addresses Buyer Challenges

| Buyer                             |  Send                                                                                                       |  Manage                                 |  Validate                    |  Workflows                      |
|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>Before Scenario</b>            | <ul style="list-style-type: none"> <li>• Don't know when and what to send</li> </ul>                                                                                                         | <ul style="list-style-type: none"> <li>• Certs stored in various formats and locations</li> </ul>                          | <ul style="list-style-type: none"> <li>• Inability to validate company cert information in real time</li> </ul> | <ul style="list-style-type: none"> <li>• Need cert in advance of PO/invoice</li> </ul>                             |
| <b>Challenges/Risks</b>           | <ul style="list-style-type: none"> <li>• Missing cert could result in tax charges</li> <li>• Incorrect certificate increases use tax liability</li> <li>• Disrupts purchase cycle</li> </ul> | <ul style="list-style-type: none"> <li>• Not accessible when needed</li> </ul>                                             | <ul style="list-style-type: none"> <li>• Expired certs may lead to sales tax erroneously charges</li> </ul>     | <ul style="list-style-type: none"> <li>• Credit &amp; re-billing</li> <li>• Order delays</li> </ul>                |
| <b>Vendor Exemptions Solution</b> | <ul style="list-style-type: none"> <li>• Intelligently determines correct forms &amp; reason for exemptions</li> <li>• High volume send velocity</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Visibility to vendors &amp; exemptions</li> <li>• Storage and delivery</li> </ul> | <ul style="list-style-type: none"> <li>• Ensures correct company information and controls</li> </ul>            | <ul style="list-style-type: none"> <li>• Approval workflows Tax/AP</li> <li>• Control vendor onboarding</li> </ul> |

# Vendor Exemption Management demo

CPE POLL  
QUESTION #3



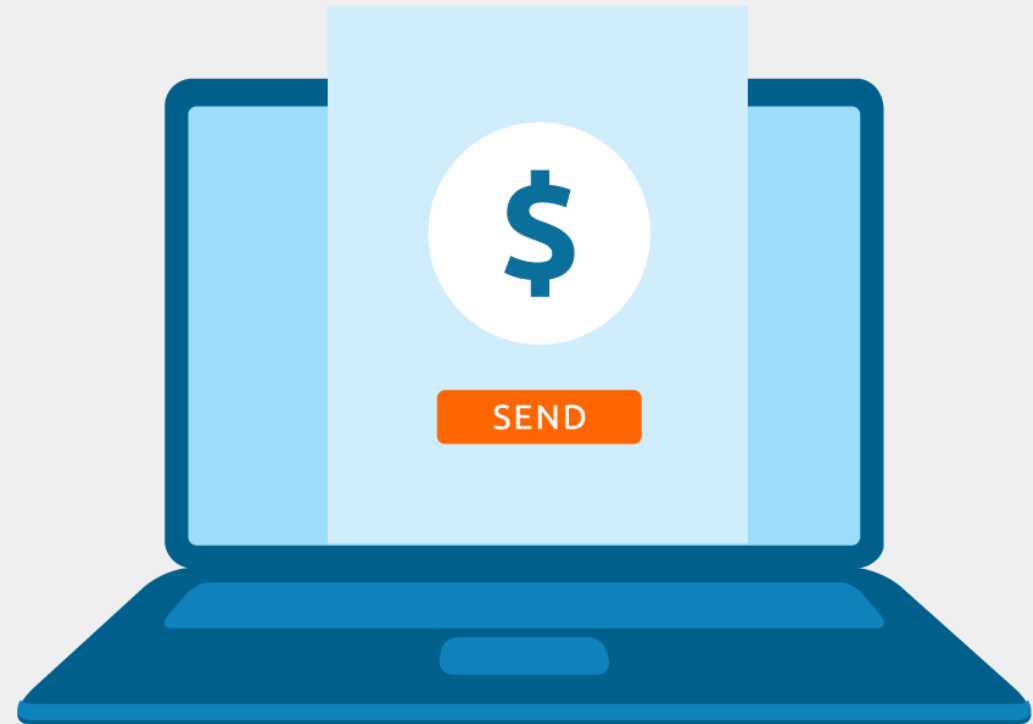
If your business handles consumer use tax manually, which strategies do you currently employ?

Catching vendor errors

## PROCURE TO PAY PROCESSES

### Overview

- > Use tax gets complex when buyers are responsible for paying tax on purchases
- > Manually managing exemption certificates may result in overpayment of taxes, putting vendors at risk
- > Filing tax returns is complicated and stressful since you need to determine which of the many forms to fill



# What is consumer use tax?



## Consumer Use:

The tax that is owed by a buyer when they are not taxed the full amount owed on a purchase by the seller.

Change of disposition (usage reason or location) can also trigger the tax.

### Typical examples:

- > Out-of-state vendor did not collect any or all owed tax
- > Purchase was originally put in inventory and was going to be resold, but instead was used
- > Purchased in one jurisdiction, put into service in another

### Less common examples:

- > Free giveaways
- > Internal service distribution
- > Movement of fixed assets

# Consumer use tax challenges

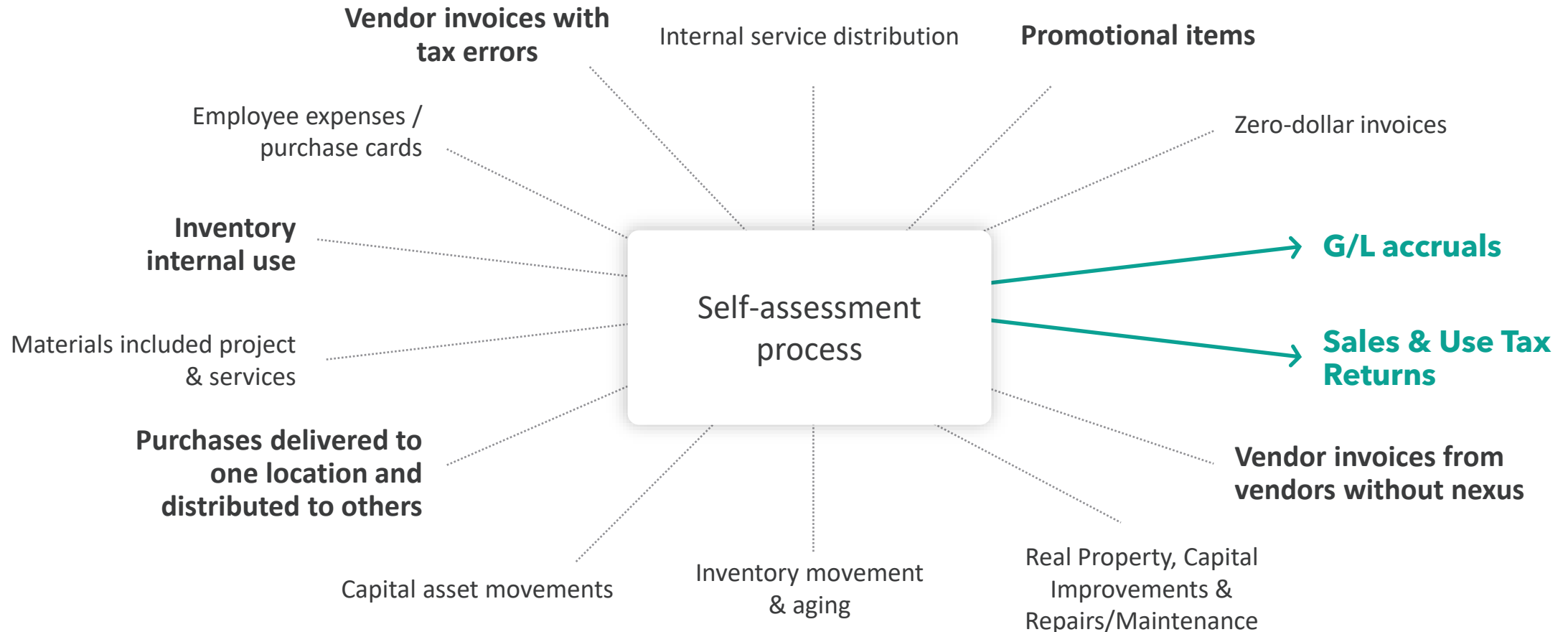
Tax complexity



No automation



High cost AND High risk





# Consumer use tax challenges



Self-assessment is a manual, resource intensive process requiring specialized skills



Use tax rules and rates are complex and subject to change



Integration and automation are difficult: tax triggers come from many sources & data management is complex



Audit risks are high

The image shows three overlapping tax forms. The top-left form is from the State of West Virginia, titled 'STATE OF WEST VIRGINIA State Tax Department, Tax Account Administration Div'. The middle form is from California, titled 'STATE, LOCAL, AND DISTRICT CONSUMER USE TAX RETURN'. The bottom-right form is from Nevada, titled 'NEVADA DEPARTMENT OF TAXATION COMBINED SALES AND USE TAX RETURN'. Each form contains various fields for taxpayer information, tax calculations, and payment details.

# How do companies manage consumer use tax liability?

Overwhelmingly the answer is “with difficulty”

## Strategies to manage varies wildly:

- > Ostrich mode
- > Best guess lump sum payment
- > Manual paper invoice sampling in batch
- > Spreadsheet manual audit (subset of invoices)
- > Manual invoice inspection at time of invoice
- > Programmatic evaluation at time of invoice
- > Internal reverse audit with Support Software
- > External multi-year reverse audit
- > Outsource entire process (big 5 firms)



## Catching vendor errors

- > Most common consumer use tax issues occurs when **vendors omit or incorrectly charge sales tax**
- > **AvaTax for Accounts Payable** checks rates according to jurisdiction, product taxability, and any special rules that may affect the purchase, making it easier for you to manage compliance

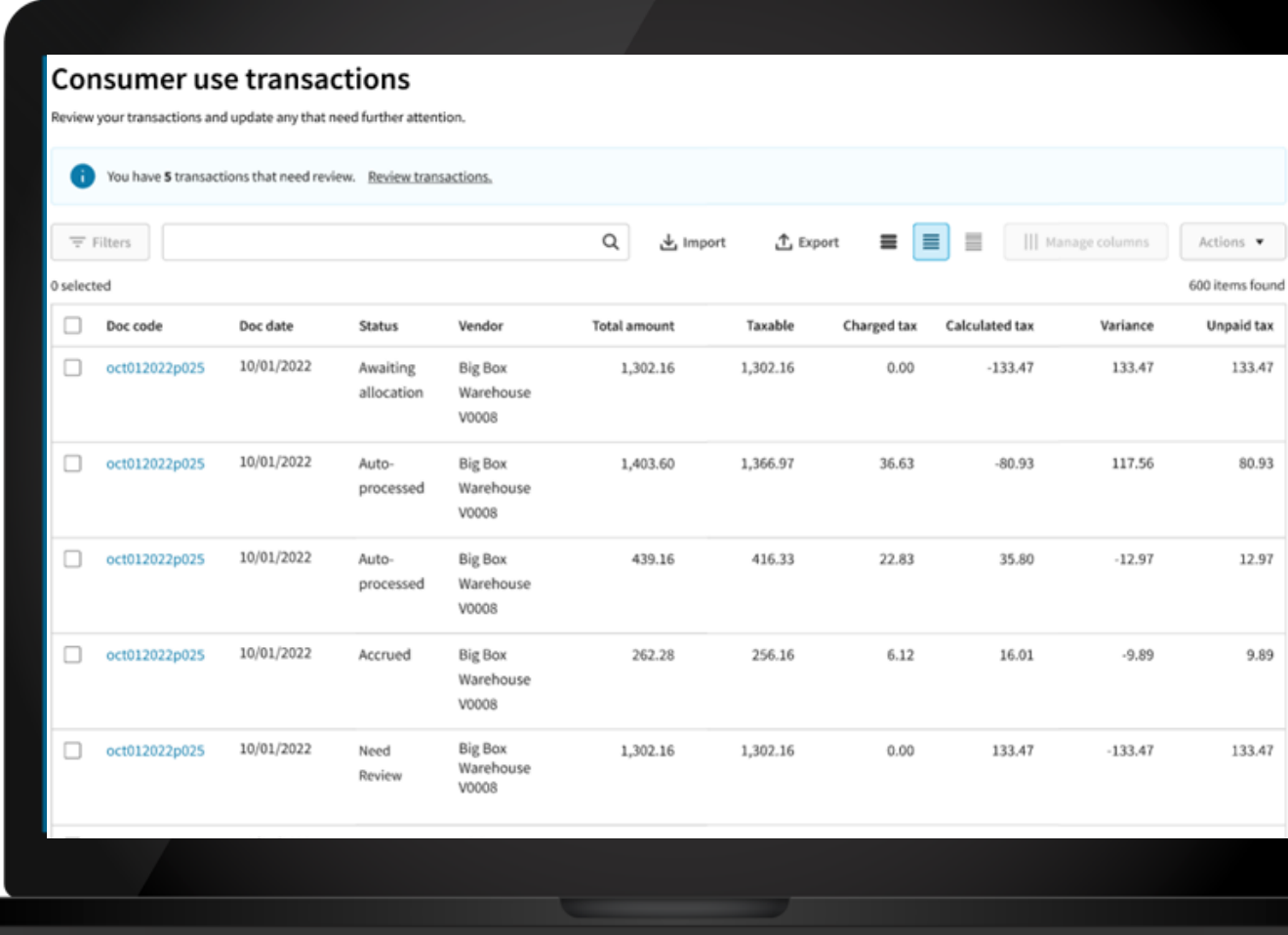


# Introducing...

## AvaTax for Accounts Payable

### Product overview

- Process automation for consumer use tax self-assessment
- Flexible transaction import from any source, including real-time support
- Configurable rules to support automated and semi-automated processes
- Powerful reporting for process control, G/L journal entries, audit trails, and liability analysis
- Integrated with Avalara Returns



The screenshot displays the 'Consumer use transactions' interface. At the top, it says 'Review your transactions and update any that need further attention.' Below this, a notification bar indicates 'You have 5 transactions that need review.' The interface includes a search bar, 'Import' and 'Export' buttons, and a table of transactions. The table has columns for Doc code, Doc date, Status, Vendor, Total amount, Taxable, Charged tax, Calculated tax, Variance, and Unpaid tax. There are 600 items found in total.

| <input type="checkbox"/> | Doc code      | Doc date   | Status              | Vendor                  | Total amount | Taxable  | Charged tax | Calculated tax | Variance | Unpaid tax |
|--------------------------|---------------|------------|---------------------|-------------------------|--------------|----------|-------------|----------------|----------|------------|
| <input type="checkbox"/> | oct012022p025 | 10/01/2022 | Awaiting allocation | Big Box Warehouse V0008 | 1,302.16     | 1,302.16 | 0.00        | -133.47        | 133.47   | 133.47     |
| <input type="checkbox"/> | oct012022p025 | 10/01/2022 | Auto-processed      | Big Box Warehouse V0008 | 1,403.60     | 1,366.97 | 36.63       | -80.93         | 117.56   | 80.93      |
| <input type="checkbox"/> | oct012022p025 | 10/01/2022 | Auto-processed      | Big Box Warehouse V0008 | 439.16       | 416.33   | 22.83       | 35.80          | -12.97   | 12.97      |
| <input type="checkbox"/> | oct012022p025 | 10/01/2022 | Accrued             | Big Box Warehouse V0008 | 262.28       | 256.16   | 6.12        | 16.01          | -9.89    | 9.89       |
| <input type="checkbox"/> | oct012022p025 | 10/01/2022 | Need Review         | Big Box Warehouse V0008 | 1,302.16     | 1,302.16 | 0.00        | 133.47         | -133.47  | 133.47     |

# AvaTax for Accounts Payable demo

CPE POLL  
QUESTION #4

> What is the hardest part of  
managing tax compliance for  
your company?

Q&A

# 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 the **full duration** of the webinar
  - Attend at least 50-minutes to qualify



## Downloading Certificate

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



**Avalara**

Tax compliance done right

# What is a W-9?

# What is a 1099?

## IRS Form W-9

Used to request the correct Taxpayer Identification Number (TIN) from a vendor/company/individual for which non-employee income was or will be paid during a calendar year.

## IRS Form 1099

Filed annually with the IRS to report non-employee income paid to the vendor and should use the information collected on a W-9. The 1099 is required if the vendor/company/ individual receives payment for services throughout the calendar year.

**Form W-9**  
(Rev. December 2011)  
Department of the Treasury  
Internal Revenue Service

**Request for Taxpayer Identification Number and Certification**

**Give Form to the requester. Do not send to the IRS.**

Name (as shown on your income tax return)

Business name/disregarded entity name, if different from above

Check appropriate box for federal tax classification:  
 Individual/sole proprietor     C Corporation     S Corporation     Partnership     Trust/estate  
 Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ \_\_\_\_\_     Exempt payee  
 Other (see instructions) ▶ \_\_\_\_\_

Address (number, street, and apt. or suite no.)

Requester's name and address (optional)

Print or type specific instructions on page 2.

OMB No. 1545-0115

**2019**

**Miscellaneous Income**

**Form 1099-MISC**

**Copy 1 For State Tax Department**

VOID     CORRECTED

|                                                                                                                       |                                                   |                                                                                                                                |    |                                       |    |                                                       |    |                                                        |    |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|----|---------------------------------------|----|-------------------------------------------------------|----|--------------------------------------------------------|----|
| PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. |                                                   | 1 Rents                                                                                                                        | \$ | 2 Royalties                           | \$ | 3 Other income                                        | \$ | 4 Federal income tax withheld                          | \$ |
| PAYER'S TIN                                                                                                           | RECIPIENT'S TIN                                   | 5 Fishing boat proceeds                                                                                                        | \$ | 6 Medical and health care payments    | \$ | 7 Nonemployee compensation                            | \$ | 8 Substitute payments in lieu of dividends or interest | \$ |
| RECIPIENT'S name                                                                                                      |                                                   | 9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale ▶ <input type="checkbox"/> | \$ | 10 Crop insurance proceeds            | \$ | 11                                                    |    | 12                                                     |    |
| Street address (including apt. no.)                                                                                   |                                                   | 13 Excess golden parachute payments                                                                                            | \$ | 14 Gross proceeds paid to an attorney | \$ | 15a Section 409A deferrals                            |    | 15b Section 409A income                                | \$ |
| City or town, state or province, country, and ZIP or foreign postal code                                              |                                                   | 16 State tax withheld                                                                                                          | \$ | 17 State/Payer's state no.            |    | 18 State income                                       |    | \$                                                     |    |
| Account number (see instructions)                                                                                     | FATCA filing requirement <input type="checkbox"/> | Form <b>1099-MISC</b>                                                                                                          |    | www.irs.gov/Form1099MISC              |    | Department of the Treasury - Internal Revenue Service |    |                                                        |    |

2. Certify that you are not subject to backup withholding, or  
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income.

2. If you are a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid withholding on your share of partnership income.

Cat. No. 10231X

Form **W-9** (Rev. 12-2011)

# Managing procure to pay compliance with Avalara

1099s & W9s, vendor exemption management, and consumer use tax



Businesses tend to focus on 1099s and W-9s because of the IRS deadlines, but there is so much more to managing vendors than submitting these forms.

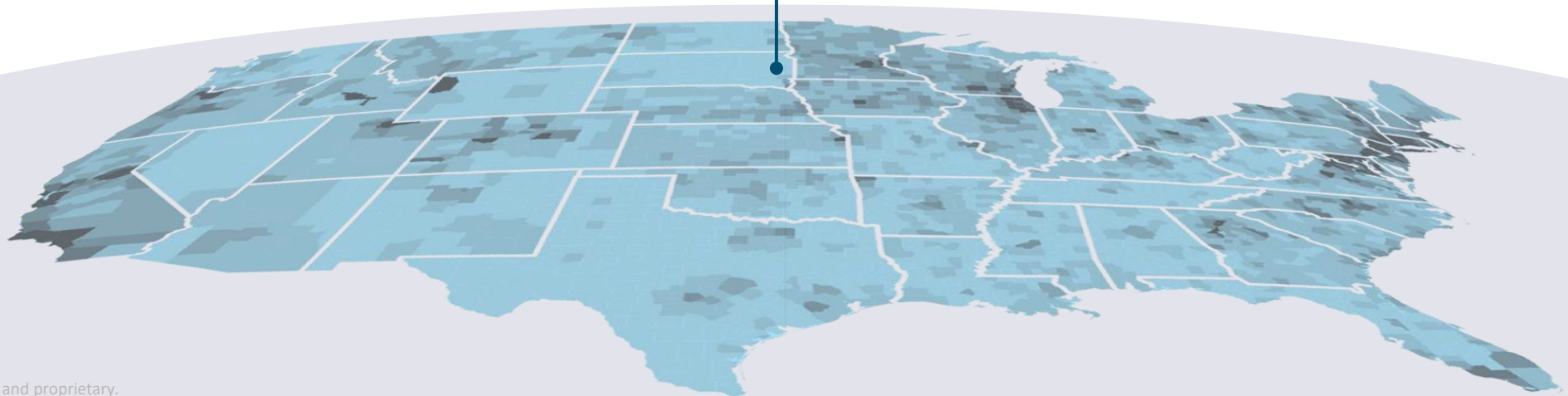
Avalara presents a more holistic option: a solution built for vendor set-up, filing, and management.

**CHALLENGE:**

# The IRS deadline for filing 1099s is rigid

And late fees can quickly pile up when a company has multiple vendors in its payroll system

**JANUARY 31ST**



## Avalara 1099 & W-9

helps to easily collect W-9s from vendors, manage their information in a central and secure location, and quickly e-file 1099s and other information returns to the IRS.

(The solution also offers recipient e-delivery, e-corrections, postal delivery, address verification, TIN check, and individual state filing.)



# Vendor Exemption Management Features

Simplifies purchasing, reduces credit & re-bills, minimizing tax over-payment



Adds controls & policy enforcement to purchasing across the organization



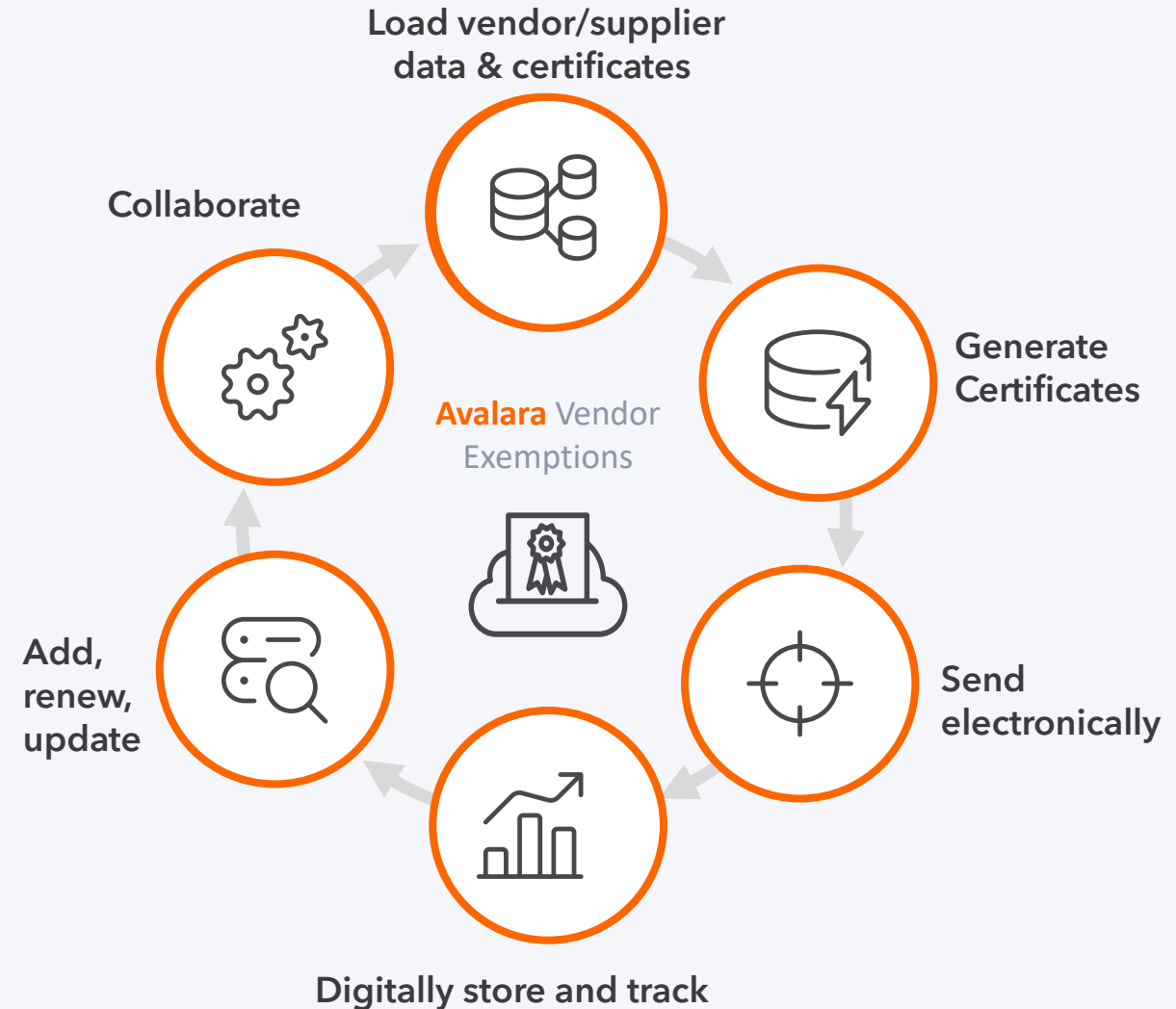
Minimizes need for internal tax expertise



Reduces potential tax overpayment



Improves vendor/supplier relationships by minimizing order delays and incorrect invoicing








# Avalara Vendor Exemption Management

- Centralize & control your tax-exempt procurement processes
- Create and send documents directly to vendors quickly, accurately, and at scale
- Securely collect, store, and manage your exemption certificates
- Manage vendor list & information
- Save time and improve agility
- Reduce credit & re-bills, tax overcharge, hassle and time with suppliers



# Vendor Exemptions Addresses Buyer Challenges

| Buyer                             |  Send                                                                                                 |  Manage                                           |  Validate                                                             |  Workflows                                             |  Analyze exposure                                                                  |
|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Before Scenario</b>            | <ul style="list-style-type: none"> <li>Don't know when and what to send</li> </ul>                                                                                                     | <ul style="list-style-type: none"> <li>Certs stored in various formats and locations</li> </ul>                                    | <ul style="list-style-type: none"> <li>Inability to validate company cert information in real time</li> </ul>                                            | <ul style="list-style-type: none"> <li>Need cert in advance of PO/invoice</li> </ul>                                                      | <ul style="list-style-type: none"> <li>Manually track &amp; identify missing, invalid, or expired certs</li> </ul>                                                    |
| <b>Negative Consequences</b>      | <ul style="list-style-type: none"> <li>Missing cert could result in tax charges</li> <li>Incorrect certificate increases use tax liability</li> <li>Disrupts purchase cycle</li> </ul> | <ul style="list-style-type: none"> <li>Not accessible when needed</li> </ul>                                                       | <ul style="list-style-type: none"> <li>Potential vendor tax liability from expired certs</li> </ul>                                                      | <ul style="list-style-type: none"> <li>Credit &amp; re-billing</li> <li>Order delays</li> </ul>                                           | <ul style="list-style-type: none"> <li>Expired certs may lead to sales tax erroneously charges</li> <li>Labor-intensive, Potential non-compliant purchases</li> </ul> |
| <b>Vendor Exemptions Solution</b> | <ul style="list-style-type: none"> <li>Intelligently determines correct forms &amp; reason for exemptions</li> <li>High volume send velocity</li> </ul>                                | <ul style="list-style-type: none"> <li>Visibility to vendors &amp; exemptions</li> <li>CertExpress storage and delivery</li> </ul> | <ul style="list-style-type: none"> <li>Real-time validation with correct company information and controls</li> <li>User controls by locations</li> </ul> | <ul style="list-style-type: none"> <li>Approval workflows Tax/AP</li> <li>Integration API's</li> <li>Control vendor onboarding</li> </ul> | <ul style="list-style-type: none"> <li>Review vendor information and types of exemptions</li> </ul>                                                                   |



# Tax exemption resale example: Auto supply chain

Seller

**CUSTOMER exemptions** scenario (“I need to collect exemption certificates from my tax-exempt customers.”)

Buyer

**VENDOR exemptions** scenario (“I need to make sure all my suppliers have my tax exemption certificate(s).”)

