



Solution Provider Solves Sales Tax Complexities Using Software + Services

Overview

Country or Region: United States

Industry: Professional services—
Software engineering

Customer Profile

Avalara is a solution provider focusing on transactional tax services. The company, located on Bainbridge Island, Washington, has about 100 employees.

Business Situation

Avalara recognized a need for affordable sales tax calculation and compliance services by small and mid-sized businesses.

Solution

Avalara created AvaTax, a sales tax calculation service that is built on a software-plus-service model using Microsoft® technology.

Benefits

- Smaller businesses benefit from an affordable sales-tax services
- Customers save valuable time and resources while reducing exposure to possible audits
- Solution provider sees rapid business growth

“The software-plus-services approach allows us to provide small and mid-sized organizations with the ‘big business’ protection of sales tax automation without breaking their budgets.”

Marshal Kushniruk, Vice President of Customer Experience and Strategic Accounts, Avalara

Calculating the correct sales tax for each transaction can be burdensome for companies doing business on the Internet or across states. To address the problem, a company called Avalara created AvaTax, a software-plus-services solution that delivers advantages such as flexibility and cost savings by integrating Internet-based data with existing enterprise software. Built on Microsoft® products, AvaTax uses Web services to deliver accurate, up-to-date sales tax rates to financial or enterprise-planning applications used by businesses. AvaTax lets businesses use their choice of software while avoiding the time, expense, and complexities related to researching and performing their own tax calculations. AvaTax is also helping Avalara as more businesses and state agencies look for ways to streamline the sales tax collection process using solutions based on the software-plus-services model.

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Situation

Doing business on the Internet or in multiple states or provinces provides lots of opportunity for growth and profits. It also creates serious business challenges. One of the biggest is ensuring that a company charges its customers the proper sales taxes during a transaction—an onerous compliance task that grows increasingly difficult as an organization’s customer base becomes more and more dispersed.

To protect against the consequences of noncompliance, large corporations with IT and tax departments usually turn to complex, expensive software applications that can cost hundreds of thousands of dollars or more. For big companies, it’s a cost of doing business.

But for smaller companies, the expense and complexity of implementing and maintaining these systems make them impractical. The alternative—assigning personnel to manually research and maintain rates for multiple jurisdictions—isn’t much better. Most small companies can’t afford to spend time, money, and personnel resources on non-revenue-generating activities. Even worse, such a system is at risk for human error. Customers may complain if they’ve been overtaxed, or the reverse problem may occur, with government agencies conducting tax audits.

This situation opened up an opportunity for Avalara, which was founded in the late 1990s to provide sales tax calculation engines for enterprise companies.

“There are about 12,500 tax jurisdictions in North America, and thousands of changes to rates, boundaries, and product taxability every year,” says Marshal Kushniruk, Vice President of customer experience and strategic accounts for Avalara, a 100-

employee company located near Seattle on Bainbridge Island, Washington. “A company selling to a customer in one location might have to be aware of city and state taxes, and if they sell to another customer across the street from the first one, they might have to know about stadium taxes or transit taxes.

“It can be a real nightmare for small and medium-sized businesses,” he says. “Few companies are—or wish to be—tax experts, but they all still need tax expertise. So businesses may have to devote five or 10 people full time simply to stay on top of tax rates. It turns into a huge resource burden, yet the solution doesn’t necessarily shield a company from the risks of noncompliance.”

Solution

Avalara executives wanted to offer a solution that would provide the best capabilities of client-based software and Internet-based services. The goal was to offer customers a choice in deploying and managing their tax calculation solution. After attending conferences and getting enthusiastic responses from hundreds of potential customers interested in such a solution, Avalara created AvaTax, a software-plus-services solution built on Microsoft® products and technologies that is targeted to small and medium-sized businesses.

AvaTax is a Web-based sales tax management service that works seamlessly with leading accounting and enterprise resource planning (ERP) applications used by many small and mid-sized companies, including several Microsoft Dynamics™ products such as Microsoft Dynamics GP, Microsoft Dynamics NAV, and Microsoft Dynamics AX business software. AvaTax also works with a wide range of e-commerce applications. The Avalara service attaches to these applications through

“connectors,” which are small pieces of software that integrate with the Avalara Web services over the Internet. Avalara offers a software development kit that provides a tool for creating connectors to other financial applications, ERP systems, point-of-sale, and e-commerce systems used onsite by businesses.

AvaTax performs several steps that involve both the software and service aspect of the solution. After AvaTax is integrated into a company’s accounting or ERP systems, it uses a Web service to automatically validate a customer’s address against a database of U.S. addresses that are certified by the Coding Accuracy Support System (CASS).

AvaTax then provides a correct sales tax calculation for every transaction that is recorded by a company’s financial or ERP software. Protected by Secure Sockets Layer (SSL) encryption, the Web service connects the company’s software—including its business rules and metadata—

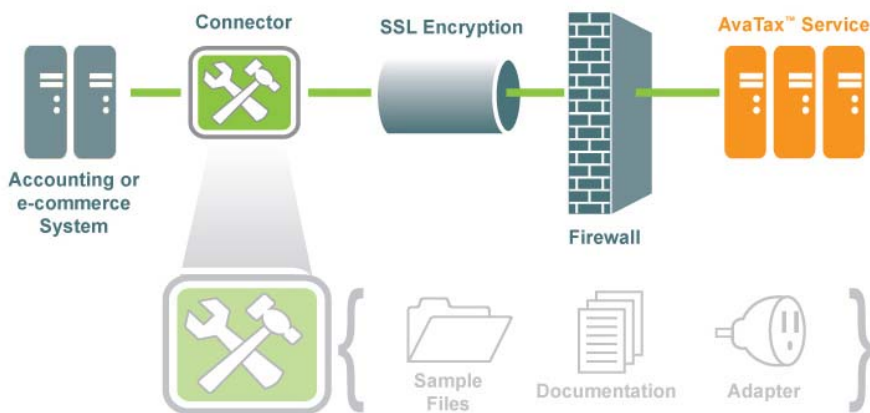
with databases maintained by Avalara. It looks up the appropriate jurisdictional tax rate data for a specific address, applies sourcing and product taxability rules, and returns the tax rate data with transactional detail to the customer’s client software. The process is typically completed in less than one second.

The Avalara databases, which are continually updated, contain information to support sales, use, and VAT tax calculations. The Avalara solution enables functions such as exemption processing, management of product taxability, handling split rates, and establishing maximum tax rates. Avalara also provides electronic filing and remittance services.

Once transactions are performed, they are moved to a secured data store and eventually to an off-site backup database, which is maintained to give businesses access to historical records. Avalara provides companies with detailed reports for all transactions, including the relevant customer and invoice with line item details, exemption information, jurisdictional information, and a detailed breakout of rates and taxes by specific jurisdiction. It also provides a secure, Web-based console through which customers can perform tasks such as managing users and user rights, producing reports and approving liability worksheets.

In addition, Avalara provides a corporate tax return system called AvaFile. It allows tax departments to view, modify, and approve returns for submission to any tax jurisdiction in North America. Avalara not only takes care of the forms needed for each jurisdiction in which a company taxes customers, but also remits the liability on their behalf. Avalara guarantees that returns are filed in the correct format and at the correct time.

The AvaTax solution from Avalara combines client-side code that integrates with business applications and Web-based services to simplify tax calculations for businesses.



We do the tax research, and collect a few pennies on each transaction. The sales-plus-services approach using Microsoft technologies is profitable for us, and our customers save time and money while expanding their ability to do business nationally."

Andrea Anderson, Director of Marketing, Avalara

Benefits

Avalara has created a compelling offering that is helping it rapidly grow its business. By adopting a software-plus-services model for its solution, Avalara can deliver a number of benefits to its customers—and to itself. Avalara customers can take advantage of automated tax calculation and reporting services that, in the past, have been reserved mostly for large enterprises, thereby saving money and time formerly spent on manual procedures.

Smaller Businesses Benefit from Affordable Service

The rapid growth of Internet-based businesses in the past few years, when added to the thousands of small and mid-sized companies delivering services and products across state borders, presents a strong base of potential customers for Avalara.

"When we first showed the concept to potential customers, beginning in 1999, the response was overwhelming. It was like a feeding frenzy," Kushniruk says. "We literally had hundreds of companies telling us that they desperately needed a solution like this—a fast and accurate tax calculation service that they could afford.

"The software-plus-services approach," he says, "enables us to provide small and mid-sized organizations with the 'big business' protection of sales tax automation without breaking their budgets, straining their human resources, or compromising on features or functionality in ways that might put their companies at risk. Plus, the service is tightly integrated into the customer's existing business systems and does not disrupt their daily workflow."

Customers Save Time, Resources

Because Avalara does the "heavy lifting" of researching taxes, its customers save on

time and human resources that otherwise be devoted to manual processes.

"AvaTax is very simple for them to use," says Mark Withers, vice president of development for Avalara. "Suppose a company is using Microsoft Dynamics GP as their invoicing system. The AvaTax technology provides a small piece of code that replaces the tax calculation engine in Dynamics GP. When the user prepares an invoice, AvaTax quickly and automatically validates the buyer's address and calculates the sales tax based on research that Avalara has already done on behalf of our business customer."

The speed at which the software works is critical—it takes sub-second time to get the right sales tax data. This performance is crucial for customers, because they might make several adjustments to an invoice before actually submitting it.

Kushniruk adds, "In the past, it might have required three or four hours of labor to locate each sales tax detail for each customer location. Now the software does it automatically and quickly. This solution delivers a huge savings on time and resources for our business customers. And the beauty of it is that once the connector is installed, the business never has to worry about it again."

Customers also save time during tax reporting cycles. The Web-based interface and reporting platform provides various types of reports, including detailed, summary, and exception reports, so that companies can review invoices, see what products were taxed, view any exemptions, and more. AvaFile technology aggregates transaction data, presents the aggregated data for approval, completes electronic or printed returns based on state requirements, remits the returns and

For More Information

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For more information about Avalara products and services, call (877) 780-4848 or visit the Web site at: www.avalara.com

payments to the taxing authority, and provides detailed tax management reports—all easily managed by the client from a single liability worksheet available within a personalized dashboard. Orientation, tax training and notice management services are also provided.

Helps Solution Provider's Growth

The decision to use a software-plus-services model for building its core product offering has provided a huge boost for Avalara.

"In less than four years, we've gained thousands of business customers, with more than 1,000 businesses and more than 20,000 users using AvaTax and its components," says Kushniruk.

Rory Rawlings, Founder and Chief Tax Automation Officer for Avalara, notes that through January 2008, Avalara processed more than 10.5 million transactions in January 2008 alone.

"We filed \$714 million in sales tax returns for January 2008 filings, with \$411 million of that total processed in approximately 7,800 separate filings completed in just two days through our automated remittance service," says Rawlings. In 2007, Avalara broke the \$10 billion barrier for sales tax filings through its electronic filing service, filing an average of 17,000 returns per month.

This kind of growth would have been much more difficult without the software-plus-service model.

Andrea Anderson, Director of Marketing for Avalara, says software-plus-services will become a much more common technology approach for companies and states seeking to simplify the process of collecting taxes on Internet and inter-state sales. She points to Streamline Sales Tax, an initiative by 22 states that are trying to streamline tax collection processes in the age of e-commerce. The initiative sponsors certified vendors using the software-plus-services approach, which can provide the best of both worlds—installed client software and Internet-based information.

"The technology model that these states are certifying is based on Web services, which provides speed and flexibility," she says. "We believe that the software-plus-services model is the best one for handling multi-jurisdictional sales tax issues. It allows customers to use the financial or ERP software of their choice. We do the tax research, and collect a few pennies on each transaction. The sales-plus-services approach using Microsoft technologies is profitable for us, and our customers save time and money while expanding their ability to do business nationally or even globally."

Software and Services

■ Products

- Microsoft Visual C#
- Microsoft Visual Studio 2005 Enterprise Edition
- Microsoft SQL Server 2005

■ Technologies

- Software + Services
- Microsoft ASP.NET

- Microsoft .NET Framework 2.0
- Microsoft SQL Server 2005 Integration Services
- Web Services Enhancements 3.0 for Microsoft .NET
- Web Services
- XML