

# The 5 toughest areas of tax compliance—and how to manage them



# Disclaimer

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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
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## Downloading Certificate

- 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



Aaron Hill

Senior Solution Engineer

Avalara

Aaron has over 18 years of Tax Technology and Automation experience, supporting various fortune 1000 clients, with a specific focus in the manufacturing and retail space.

During that period, he has focused on several sales channels, such as Retail/POS/eCommerce, ERP, Custom Integrations, and Compliance implementation experience.

Aaron has held several roles during his career supporting sales, professional services, implementation, and training through webinars, speaking engagements and on-site presentations.

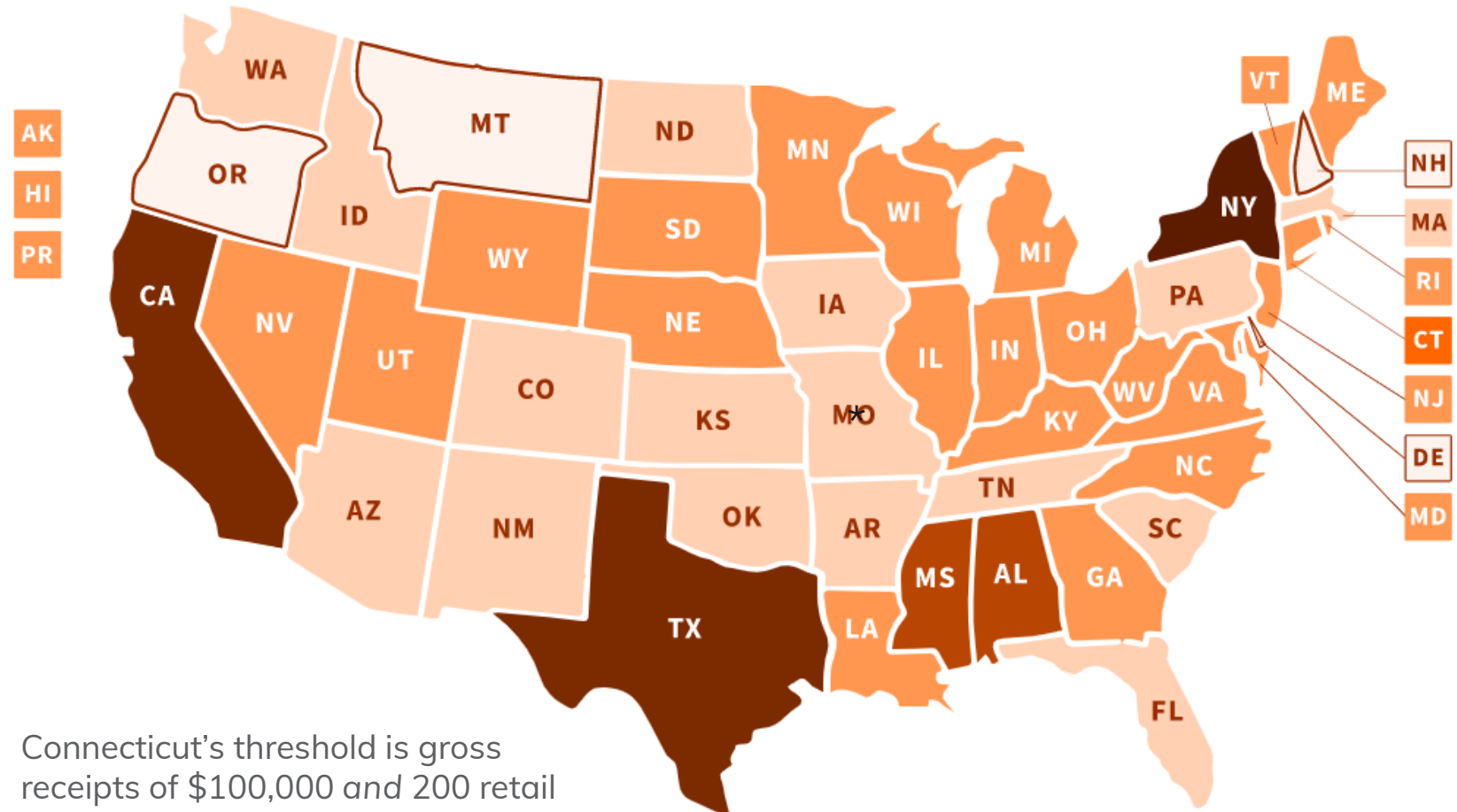
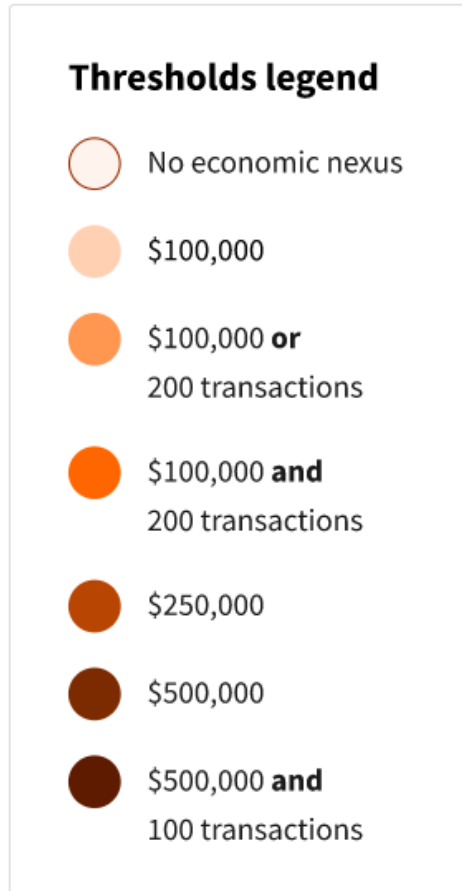
# Agenda

- 1 > Legislative changes
- 2 > Exemption certificates
- 3 > Drop shipping
- 4 > Audit readiness
- 5 > International sales and tax
- 6 > Q&A

Legislative changes

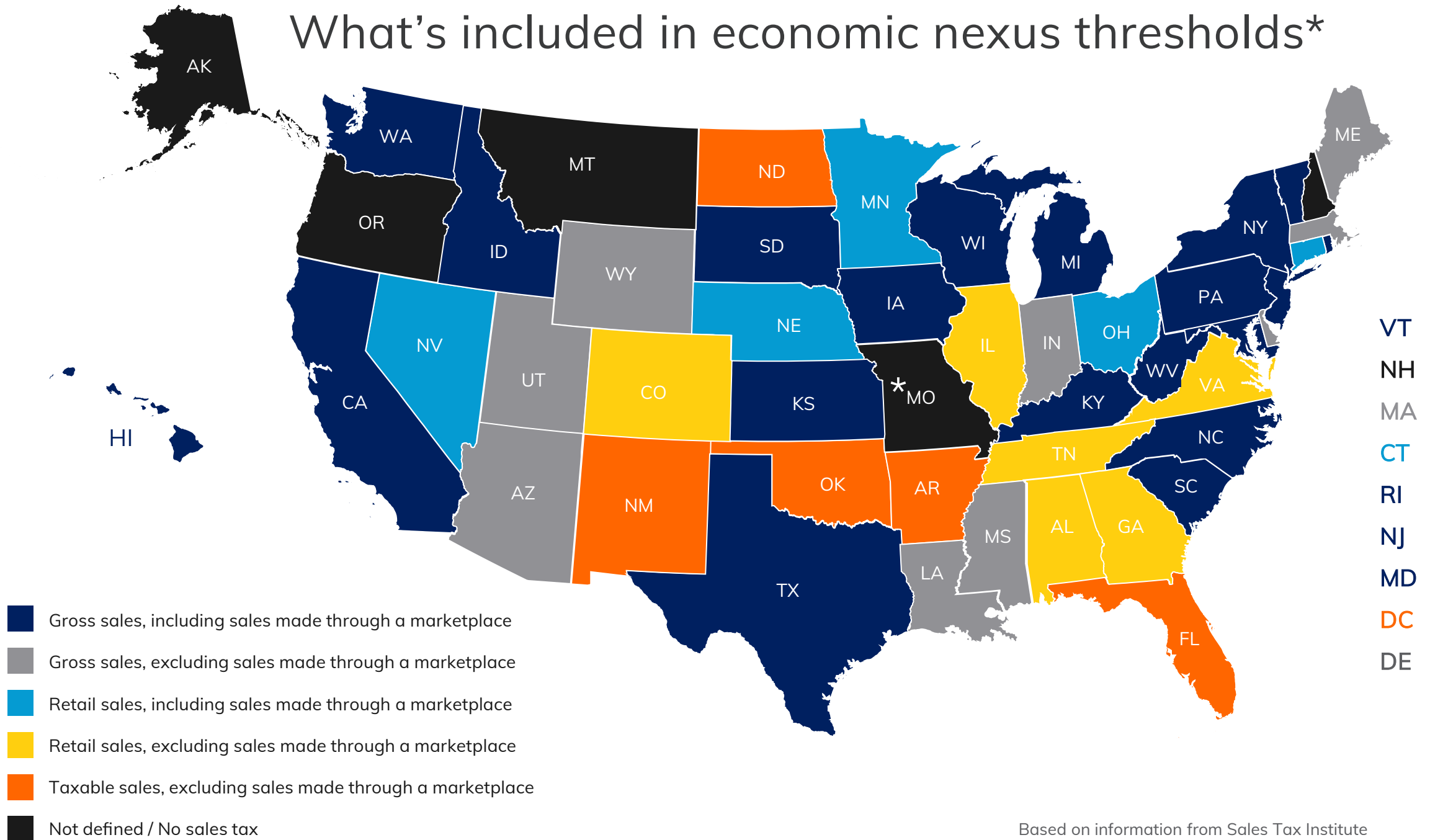


# Economic nexus by state



- Connecticut's threshold is gross receipts of \$100,000 and 200 retail transactions
- New York's threshold is \$500,000 and 100 transactions

# What's included in economic nexus thresholds\*



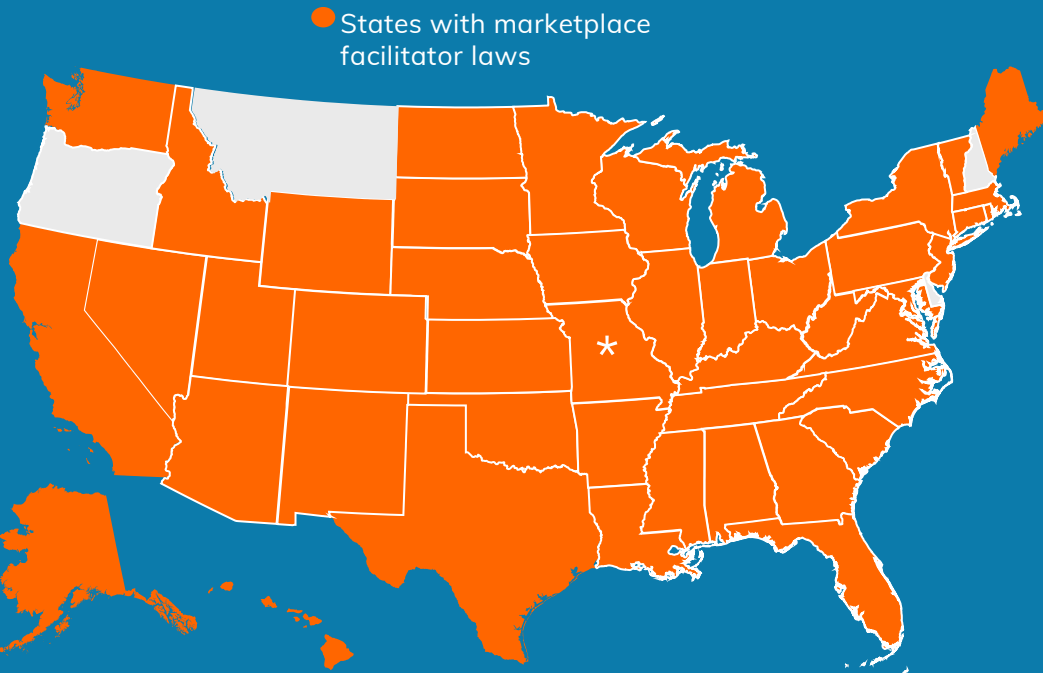
## MARKETPLACE FACILITATOR LAWS

# The responsibility to collect and remit sales tax lies with facilitators

45 states, plus Washington, D.C., Puerto Rico, and some localities in Alaska have adopted marketplace facilitator laws.

These laws require marketplace facilitators to collect and remit sales tax on behalf of their third-party sellers.

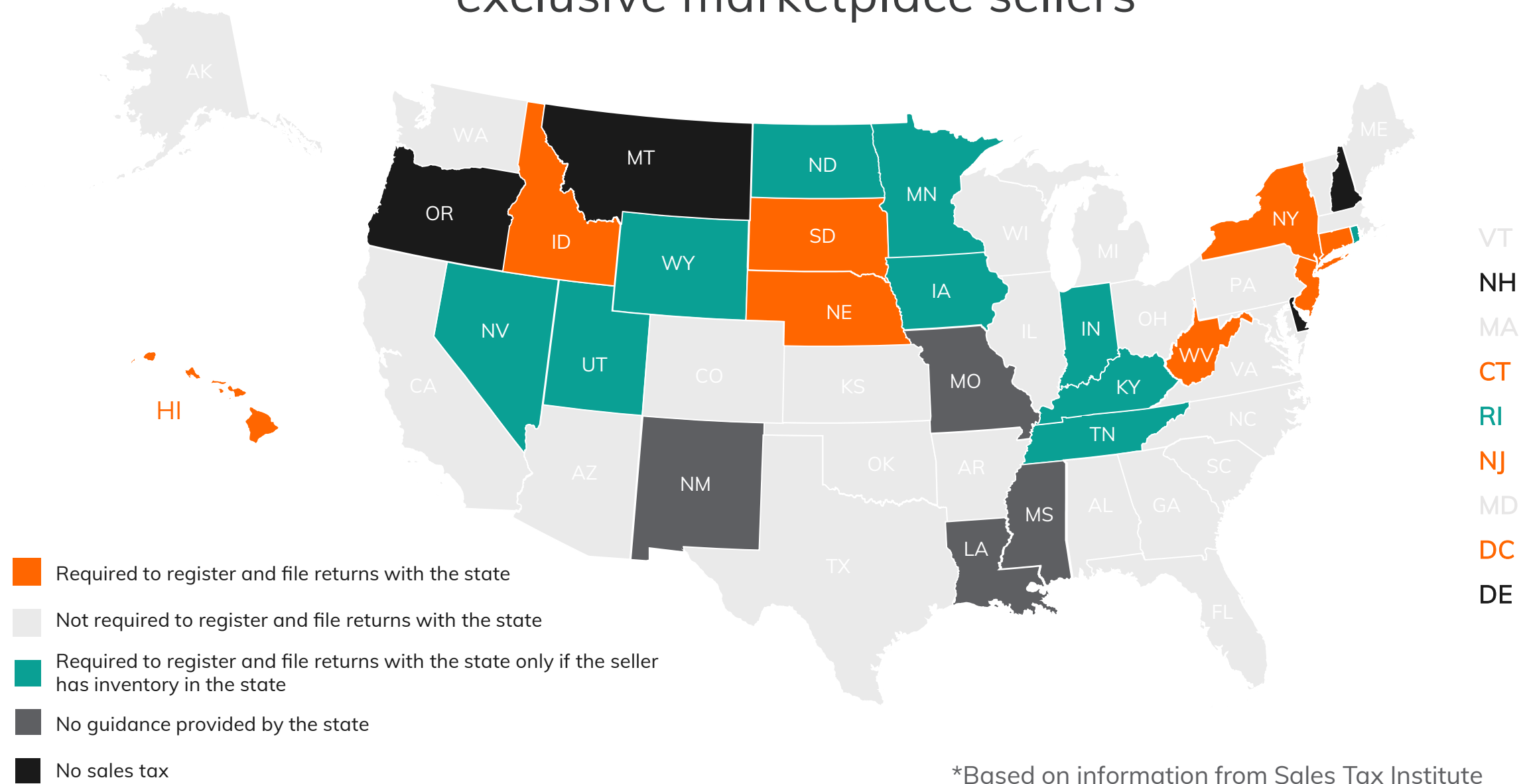
States are refining marketplace facilitator laws to include food delivery, lodging, etc.



\*Missouri goes into effect January 1, 2023



# Registration and return requirements for exclusive marketplace sellers\*



\*Based on information from Sales Tax Institute



# SST: A simpler sales tax system

- ✓ State level administration of local sales and use taxes
- ✓ Rate simplification
  - One general state rate per state, with a second rate (which could be zero) on food and drugs
  - One single local rate per jurisdiction
- ✓ No caps and thresholds
- ✓ Uniform treatment of sales tax holidays
- ✓ Uniform drop-shipping rules
- ✓ Simplified electronic tax returns

## Why use a Certified Service Provider

- ✓ Free registration in 25 states
  - ✓ Free rate-calculation for each transactions
  - ✓ Free filing
  - ✓ Audit protection
  - ✓ Uniform definitions and rules
- \* Non-CSP-compensated sellers are required to pay for registration, calculations, and returns.

# Exemption certificate management

# Customer exemptions

Managing INCOMING compliance documents while minimizing audit risk



Reduces risk of exposure



Streamlines management across the document life cycle



Supports modern APIs and business applications



# What should you ask yourself

- How many states are you / do you need to register in for sales tax compliance?
- What % of your customers/business are exempt?
- How do you plan to collect/update documentation?
- What does that customer experience look like?
- Is your current process scalable?
- Do you have or are you planning to create or improve your online B2B experience?
- What is the quality of the documents you have now?
- Can you afford to delay orders or lose business?
- Do you have the tax compliance expertise to insure what is collect is accurate and valid?





# What can you expect with Avalara Exemption Certificate Management Pro (ECM Pro)?



## Front-end UX

- › Simplified user interface integrated within the Avalara platform
- › Customer Exemption & Vendor Exemption certificate management
- › Automated certificate review and validation (OCR)
- › Automated tax ID validation
- › Integrated TTR tax law and exemption content



## Back-end Platform

- › Additional certificates and forms supported
- › Deeper integration with AvaTax (for customers with AvaTax accounts)
- › No data migration necessary for AvaTax Exemption or CertCapture customers



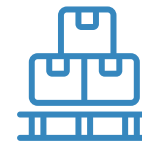
## Risk & Security

- › Avalara Identity
- › SOC 2 Type 1 & 2 compliant

Drop shipping

When a manufacturer accepts an order from a retailer, and the manufacturer delivers the goods to the customer on behalf of the retailer in a state where the manufacturer and customer have nexus.

# Drop shipments defined



## Manufacturer (Third Party)

Manufacturer/originator/supplier of goods, the “Drop Shipper”



## Retailer (Vendor)

The entity/seller who has the relationship with the customer



## Customer

End user, the final purchaser

# Drop shipments explained



## Manufacturer (Vendor)

Wholesaler/distributor (middleman) between the retailer and customer



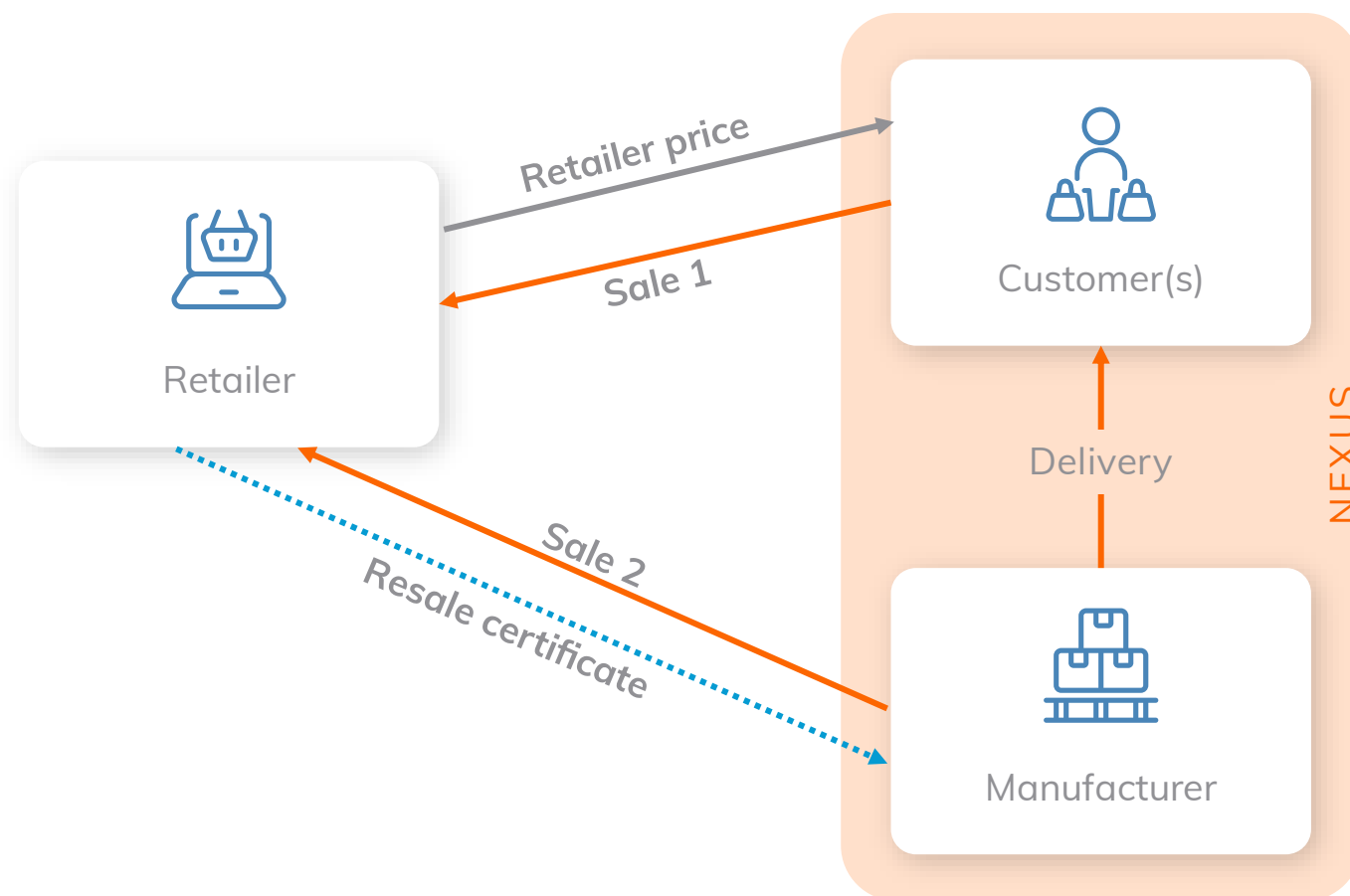
## Retailer (Third Party)

Manufacturer/originator of goods, the “Drop Shipper”



## Customer

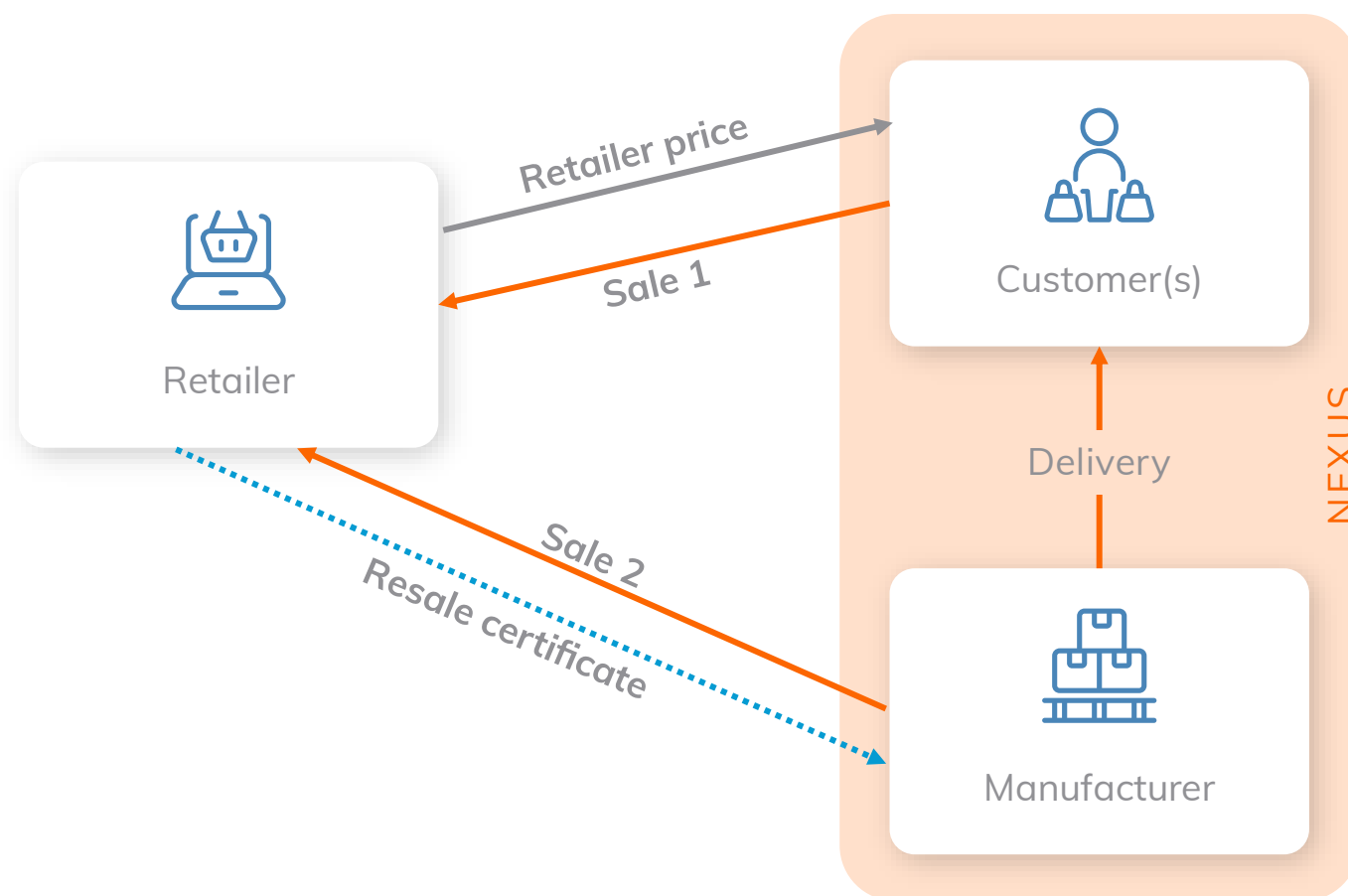
End user, the final purchaser



# Drop shipping

Just because you're shipping,  
doesn't mean you're drop  
shipping (from a tax perspective)

- ✓ **Sale 1:**  
If Sale 1 occurs without Sales 2, there is no drop shipping—normal rules apply. If the retailer has no nexus, there is no tax charged.
- ✓ **Sale 2:**  
If Sale 2 occurs without Sales 1, there is drop shipping—normal rules apply. If the retailer has no nexus, tax will apply until a certificate is received.

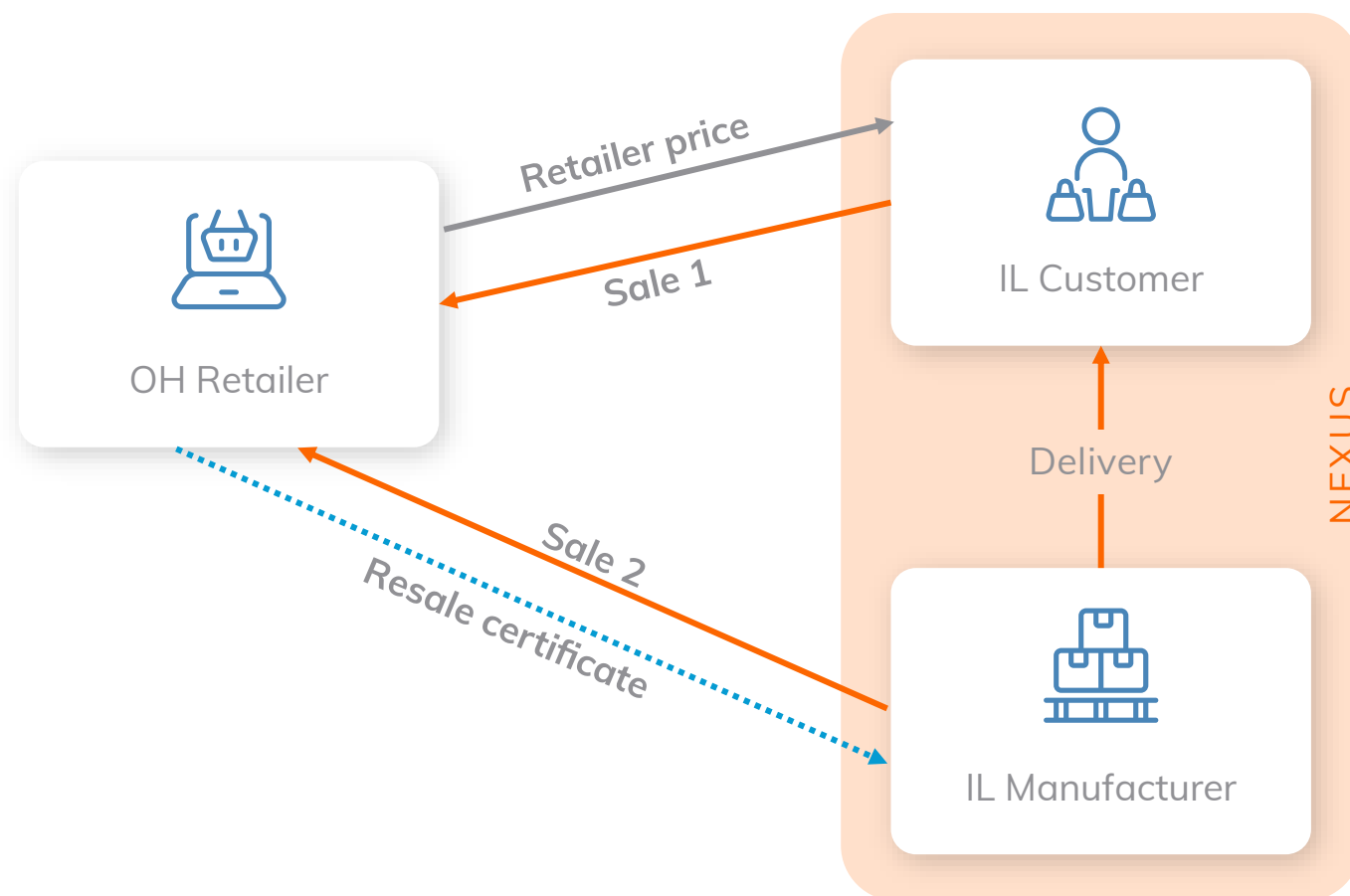


# Drop shipping example

## Scenario

- Our customer in Illinois place an order with us
- We contact 3rd party for drop ship to Illinois
- We do not have nexus in Illinois. Drop shipper does have nexus in Illinois
- Drop shipper charges us sales tax in Illinois
- We charge our customer, but Avalara does not calculate sales tax since we have not met that state's threshold.

Who's on the hook for sales tax?



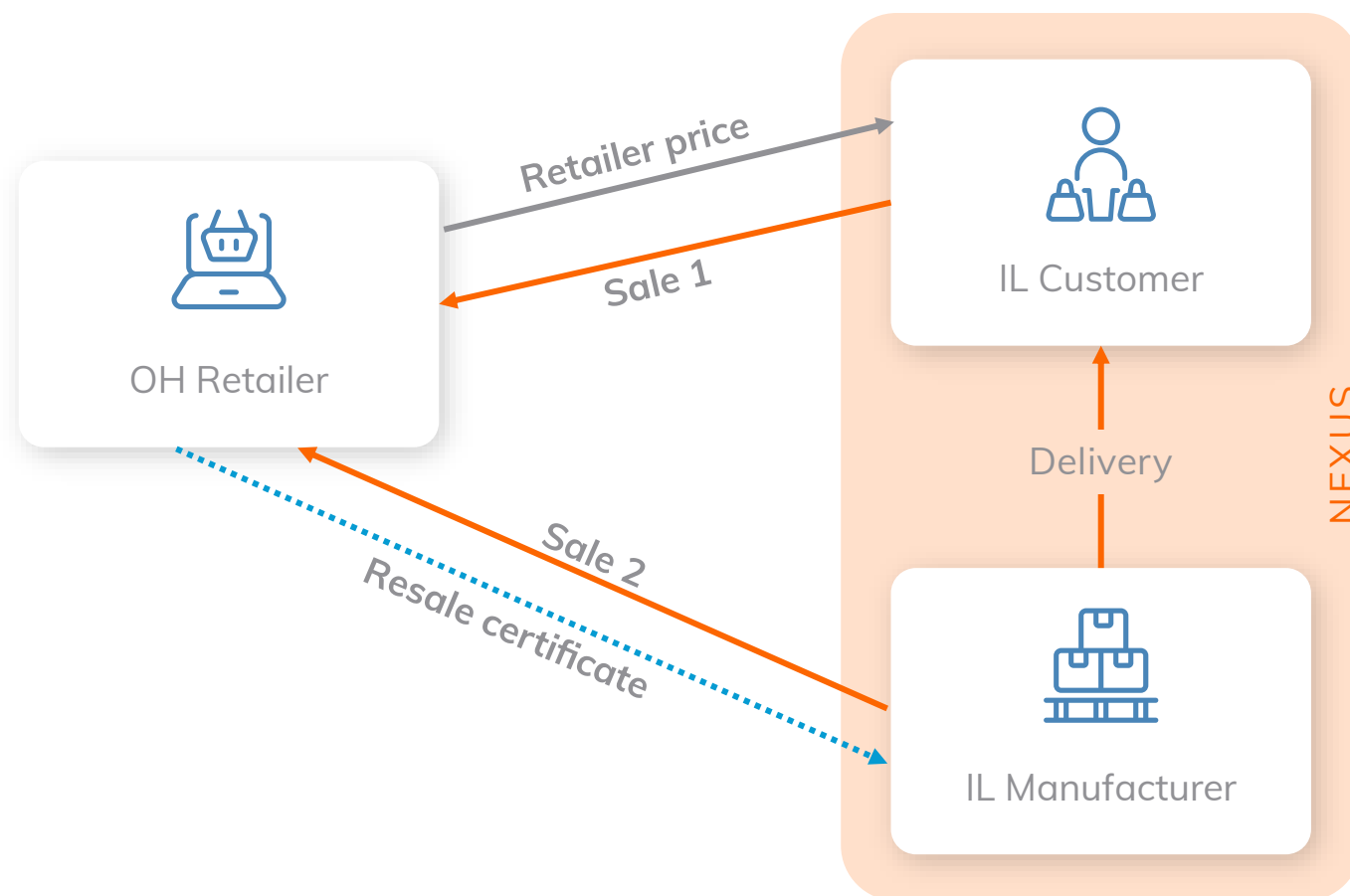
# Drop shipping example

## Scenario

Who's on the hook for sales tax?

Because we are dealing with two sales, one between the retailer and customer a second sales between the retailer and manufacturer, the sales tax will depend on whom and how the items are being used in sale 1 and sale 2.

It is possible both sales can have an exemption certificate, hence no sales tax needs to be collected or remitted.



# Drop shipping example

## Point of View

### Manufacturer's POV

Why are they not giving me an exemption certificate if it's so simple? Why is the buyer short paying the tax?

#### Double check:

- › Do you have policies in place for your customer care, tax department, credit department to address the concerns of your client?
- › Do you have the ability to guide your client in filing out the proper exemption certificate?
- › Can you contact your client's customer for information?

### Retailer's POV

Why am I being taxed? I am reselling and the supplier and customer are in another state.

#### Double check:

- › Are you comfortable with your nexus exposure analysis? Have you evaluated your sales in that state to check for economic nexus?
- › Do you understand your customer's use of items being sold? Should you?
- › What do you know about your supplier? Are you applying the customer's point of view?

### Customer's POV

If I buy it from an out-of-state wholesaler, I do not owe taxes.

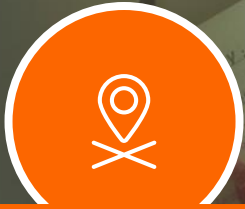
#### Double check:

- › Are the items being purchased tax-exempt? Use tax may apply and you might need to self-assess.
- › If the items are being further resold or used in an exempt manner, you might need to give a certificate to the retailer to add to their no-nexus certificate that will be delivered to the manufacturer.



Audit readiness

# Type of nexus explained



## PHYSICAL NEXUS

Seller has physical presence in the state, e.g., office, warehouse, inventory, remote employees and independent contractors or agents.



## ECONOMIC NEXUS

Seller exceeds a set level of sales and/or transactions activity within a state at a given point in time.



## CLICK-THRU NEXUS

Seller rewards in-state partners or influencers for direct or indirect referrals or leads through website links.



## AFFILIATE NEXUS

A connection between a remote seller and in-state seller that may be related in some way or performs certain work that can be attributed to the remote seller



## MARKETPLACE NEXUS

Marketplace facilitators may be required to collect and remit sales tax instead of the individual seller if it triggered nexus in a state and provides ecommerce infrastructure, customer service, payment processing services, and marketing.

## A GROWING LIST

# Physical Nexus-creating activities:



Payroll



Multi-state locations



Warehouse



On-site field service/repair/supervision



Installation / training



Own/lease/rent real or personal property



Field sales/service staff



Maintain inventory



Affiliates, franchises, partners & influencers



Traveling sales representatives



Commissioned agents or contractors (1099s)



Investors/board members/employees



Marketing/web advertising



Tradeshows



Delivery in company-owned vehicle



## WHY DO BUSINESSES GET AUDITED?

### Common audit triggers

- › Nexus discovery (having nexus and not being registered)
- › Payroll tax or other state and local tax filings (information sharing)
- › Trickle-down referrals through audits of vendors
- › Public information



Internet



Tradeshows



Seller website



Marketplace

- › Leads/list based on certain industries
- › Fulfillment by Amazon (FBA) seller central

# Tips and tricks



## Tax is not paid on an honor system

- › Notification: Do not ignore, respond timely
- › Statute of limitations does not apply if never registered
- › Books and records (lack of)
- › Schedule kick off call / understand your business
- › Be respectful
- › Manage the audit and auditor
- › On a need-to-know basis



## Contacted for audit?

- › Get everything in writing and over communicate
- › Track deadlines
- › Complete the audit as soon as possible
- › Audit findings and draft schedules
- › Appeal
- › Nothing is final
- › Go at it alone or hire a tax expert



# The 5 steps to managing sales tax compliance



## WHERE

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



## TRACK

Track and manage exempt sales



## REMIT

Remit sales tax to the tax authority

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Nexus Study

Avalara  
Licensing

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AvaTax

Avalara  
Exemption  
Certificate  
Management

Avalara  
Returns

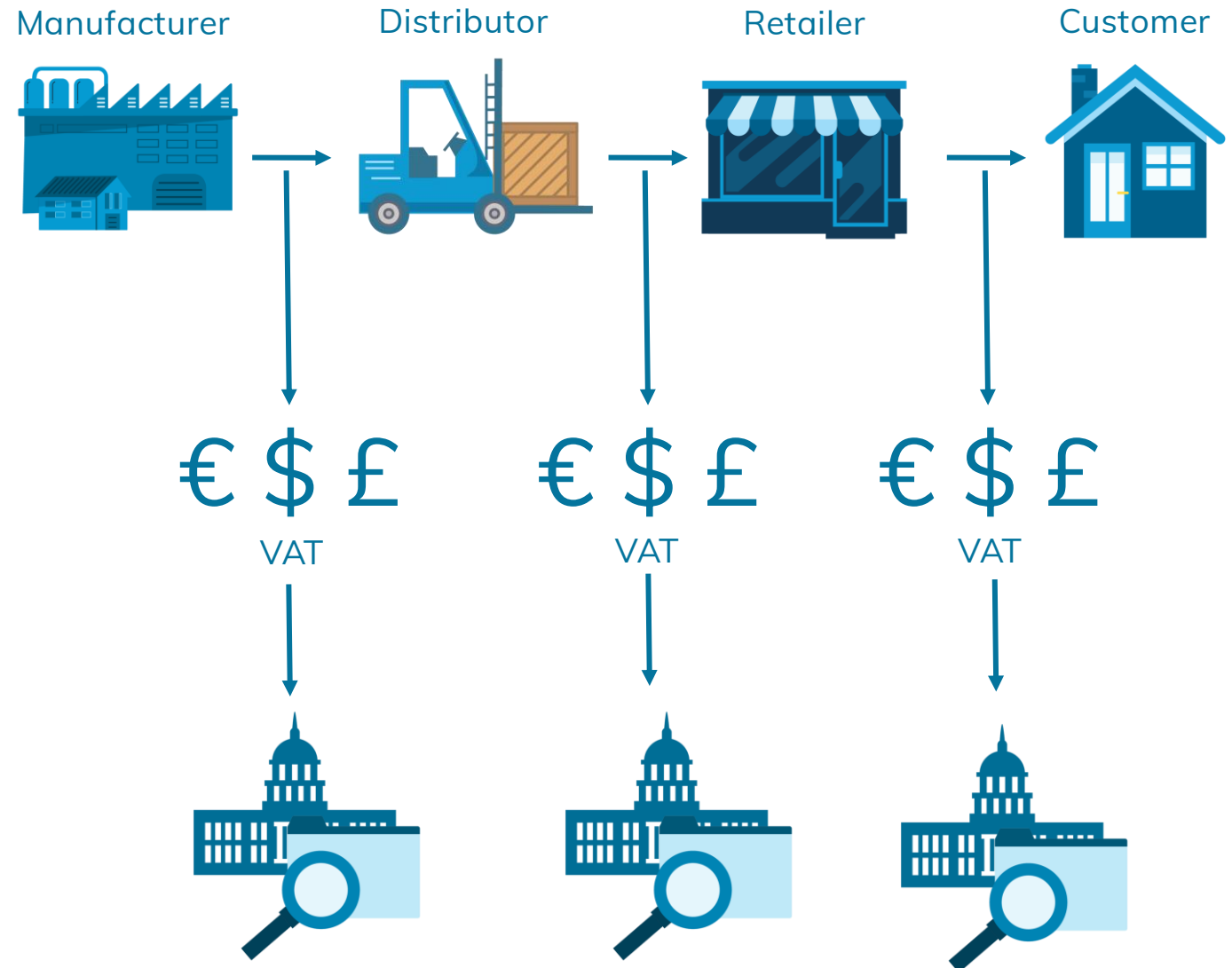
# International sales and taxation

# VAT

## (Value Added Tax)

Value Added Tax (VAT) is a form of consumption tax that is levied on supplies of taxable goods and services.

- › Sellers collect the tax from consumers at the point of sale by adding it to the cost of the product
- › A product's VAT is calculated and collected at each stage of the supply chain
- › VAT is easier to track than the previous tax systems because it's levied at each stage of the supply chain, and all merchants are required to maintain records
- › Over 150 countries use VAT





# E-invoicing

E-invoicing is the process of creating and providing an invoice in a **digital format**.

When provided as **structured data**, an e-invoice allows the recipient to **automatically** insert the invoice data into their accounting or ERP system.

Implementing e-invoicing technology can help your business **comply with regulations**, while **automating processes** in your finance department and **maximizing efficiency**.



80 countries have some form of e-invoicing or digital reporting

# How to prepare for e-invoicing

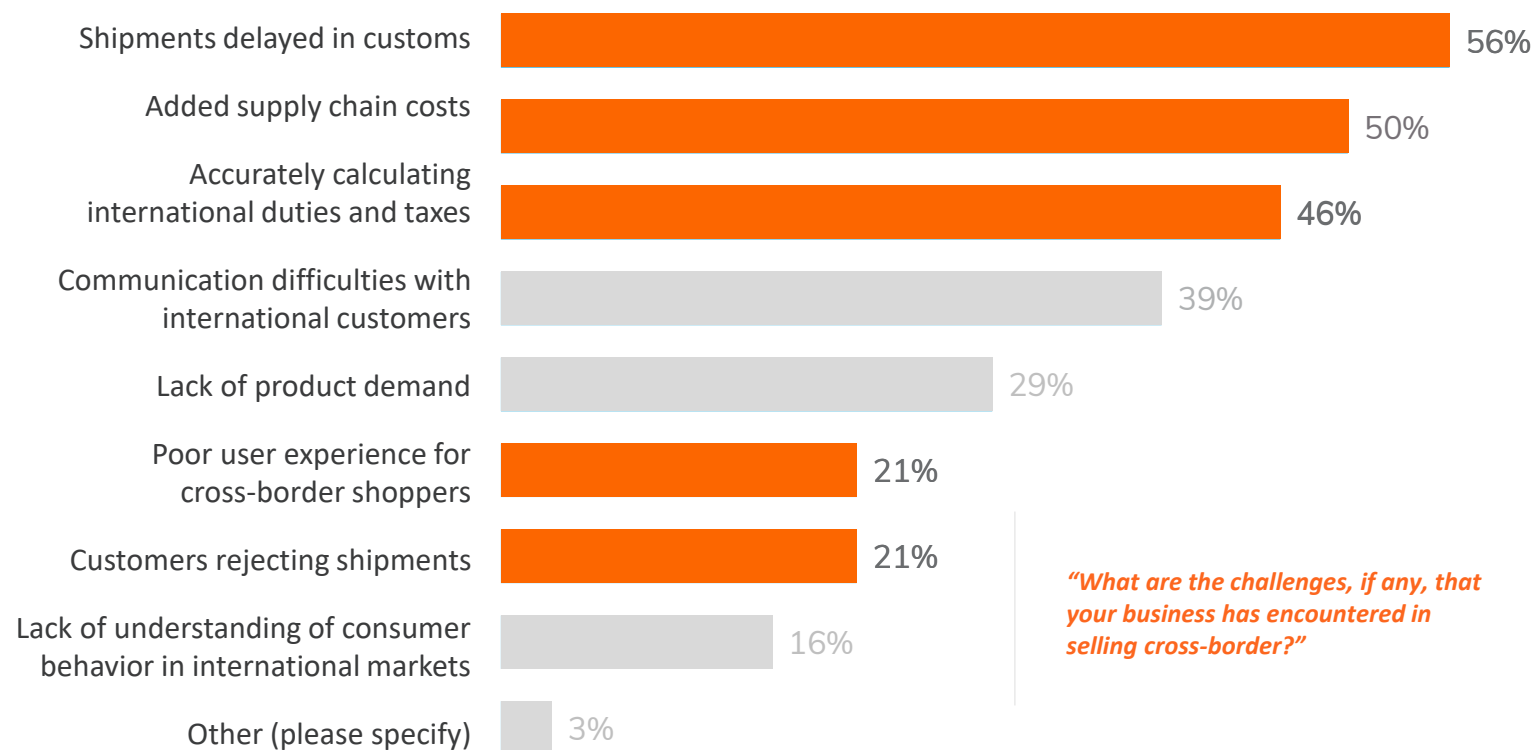
- › Form cross-functional project team and create project plan
- › Learn lessons from other e-invoicing implementations e.g. Italy
- › Create roadmap for e-invoicing mandates, look for synergies and develop strategy
- › Get IT awareness, support and buy-in early
- › C-Suite / Leadership – awareness and budget approval

## Full implementation lifecycle

- › Awareness and discovery
- › Identify all billing and procurement use cases (and systems / platforms)
- › Define requirements – tax and broader business requirements
- › Procurement (and RFP if required)
- › Implementation
- › Testing
- › Go-Live and supplier/customer support

# Cross-border tax complexity & pain points

Compliance is one of the key cross-border challenges online sellers face and has a direct impact on the quality of the customer buying experience

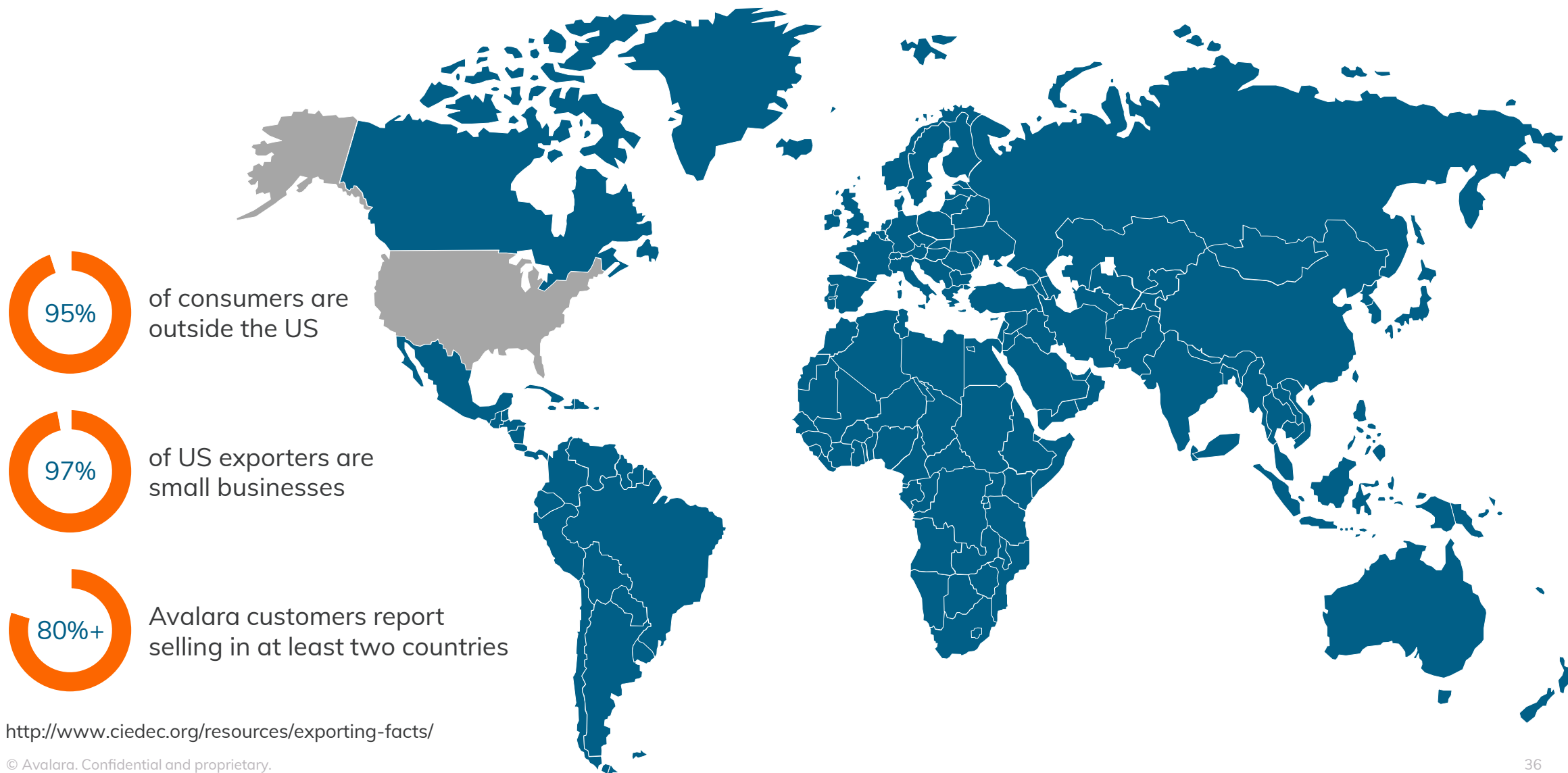


*"What are the challenges, if any, that your business has encountered in selling cross-border?"*



**These are solvable problems** —  
with the right automation solution

# Is selling internationally worth the effort?





# Questions

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# Upcoming events

[avalara.com/webinars](https://avalara.com/webinars)

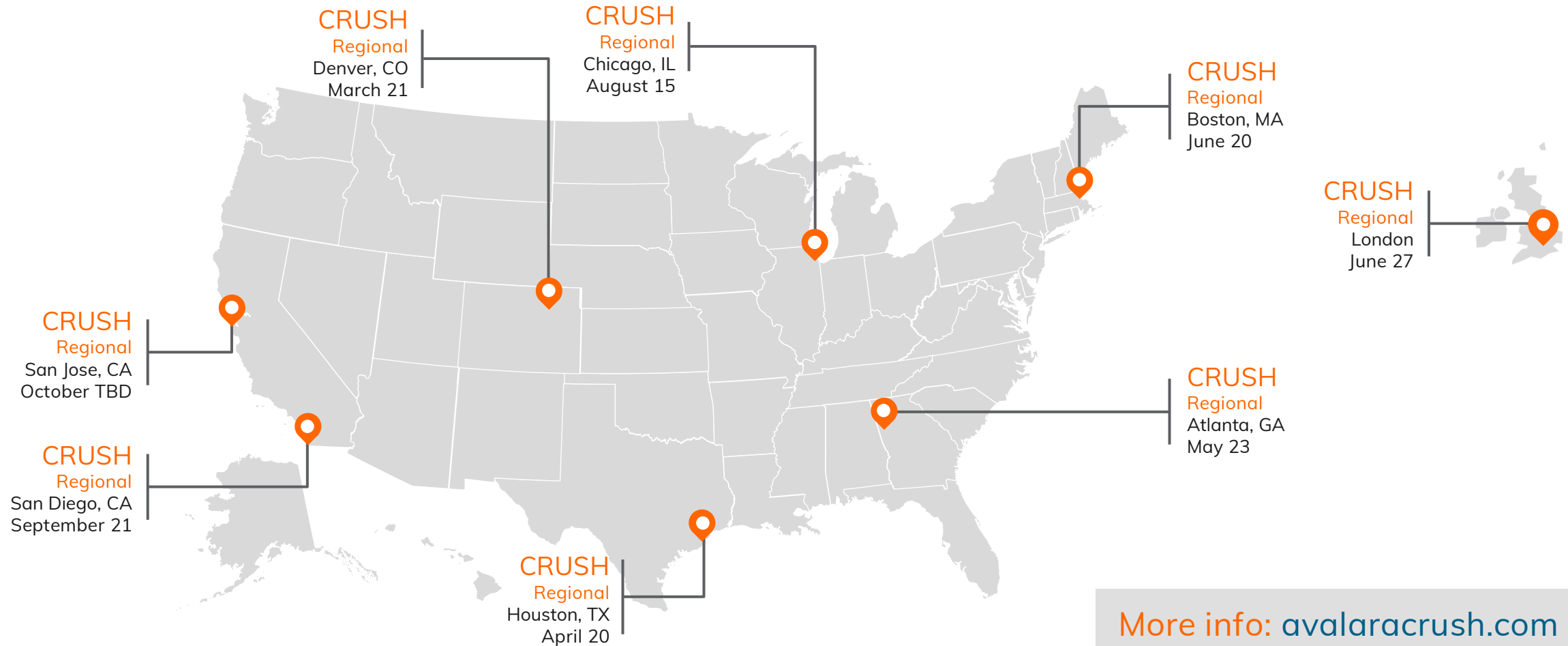
## Webinars

- > 5/17 E-invoicing in the U.S.
- > 5/23 The 2023 state of beverage alcohol compliance





# Join us in-person



More info: [avalaracrush.com](https://avalaracrush.com)

# Avalara

Tax compliance done right