Avalara

Evaluating AI-powered tax compliance automation for the software industry: A buyer's guide

Key criteria for choosing the right tax technology solutions for your business



Guide

Contents

Trends driving urgency to automate tax compliance 4

The business value of tax compliance automation for software companies 9

Tax compliance solution evaluation criteria checklist 11

The Avalara advantage: Different by design 13

Avalara tax compliance solution matrix 15

Take the next step with Avalara 21

Introduction

The global software market is accelerating, with projected growth of 11.5% CAGR from 2025 to 2034, making tax compliance for the industry both more complex and more consequential. Software businesses face mounting scrutiny as tax authorities revisit how SaaS, digital services, and AI-driven technologies are classified and taxed. Staying compliant now requires not just scale but precision.

The speed at which tax rules and rates change globally can be difficult for businesses to manage. As tax bases and enforcement models evolve, systems and processes that aren't designed to adapt continuously often struggle to keep pace, increasing operational strain and compliance risk over time.

Tax compliance automation, supported by AI-enabled capabilities, can help businesses manage growing compliance demands more effectively by improving efficiency, reducing risk, and increasing visibility across tax obligations.

This guide provides a structured framework for evaluating, comparing, and selecting tax compliance automation solutions aligned with your compliance requirements, operational complexity, and growth priorities.





Trends driving urgency to automate tax compliance

Increasing complexity of tax regulations

Historically, software taxability centered on downloads or physical delivery, but that framework no longer reflects how modern software businesses operate. As software, SaaS, digital services, and technology-enabled offerings become more embedded in everyday commerce, tax authorities are expanding definitions of what is taxable and increasing scrutiny of how these offerings are classified, sourced, and reported.

This shift is not driven by isolated rule changes but by broader structural changes in how governments define and enforce tax policy. States are steadily broadening sales tax bases to include digital and business services, applying new interpretations to existing statutes, and issuing evolving guidance that directly affects software companies. Compliance obligations are changing faster, becoming less predictable, and growing more difficult to manage with manual processes or static tax logic.



Key tax compliance developments affecting software businesses:

- **Sales tax bases are expanding to digital offerings.** More jurisdictions are taxing digital products, SaaS, data processing, IT services, and software-related services.
- **Digital services and software can be subject to overlapping tax categories.** The same software or service may be subject to multiple tax types or industry-specific rules, such as SaaS licensing versus streaming taxes.
- **Economic nexus is becoming more complex for software companies.** As taxability expands to software and digital services, revenue-based thresholds can trigger obligations sooner than expected.
- **Multiple points of use (MPU) rules are overlooked.** Many businesses don't realize multistate software usage can be allocated based on the user's location, leading to unnecessary sales tax overpayments.
- **E-invoicing and real-time reporting are becoming mandatory.** Software companies must ensure ERP, billing, and AP systems can support structured invoicing and real-time data exchange.
- **VAT in the Digital Age (ViDA) accelerates the shift to continuous compliance.** Phased EU requirements reinforce near-real-time reporting for cross-border transactions.
- **Tax authorities are scrutinizing emerging technologies, including AI.** Newer software models are being evaluated under evolving tax frameworks.
- **Laws like Washington ESSB 5814 show broader taxation of digital activities.** Governments are expanding tax coverage across technology-enabled services.



> **The landscape of global business and tax compliance is becoming increasingly complex, driven by the growth in tax regulations and the digital economy. Organizations must embrace technology and ensure effective data management to navigate this challenging environment successfully.**

— Kevin Permenter, Senior Research Director, Enterprise Applications, IDC

Source: IDC MarketScape

Automation and AI efficiency

Keeping pace with evolving tax regulations can become increasingly difficult for organizations as requirements affect multiple systems and workflows at once. Manual processes and legacy systems often struggle to keep tax logic aligned across transactions and systems, particularly for subscription- and usage-based billing models.

With Avalara Agentic Tax and Compliance™, organizations can handle repetitive tasks, analyze large volumes of transaction data for compliance risks, and access near-real-time insights, helping improve efficiency and support accuracy in tax reporting.

Built as an agentic interface, Avi, Avalara's AI-powered assistant, enhances this intelligence further by observing tax data, recommending next steps, and, within clearly defined guardrails, helping support routine actions under the supervision of internal teams.

Looking ahead, AI and automation are reshaping how organizations manage compliance. Danny Fields, Chief Technology and Customer Operations Officer at Avalara, predicts that continuous, real-time compliance will replace periodic filings as governments demand instant visibility into transactions. According to Fields, "Compliance will evolve to be a continuous state beyond quarterly reporting. Continuity during disruption is now part of regulatory trust."



Government-mandated e-invoicing

Governments worldwide are increasingly requiring electronic invoicing to improve tax reporting, reduce fraud, and increase transparency. More than 60 countries already have e-invoicing mandates in place, and adoption continues to expand.

E-invoicing requirements are also evolving beyond invoice digitization alone. Initiatives such as ViDA are introducing near-real-time reporting expectations, changing how transaction data must be validated, transmitted, and stored. This shift places greater emphasis on accurate, structured, and auditable invoice data.

Because these mandates apply at the transaction level, they impact businesses across industries, including software companies operating subscription, usage-based, and cross-border billing models. Organizations issuing invoices in regulated jurisdictions must comply with jurisdiction-specific formats, transmission methods, and reporting timelines, often across billing, ERP, and finance systems.

While the U.S. currently lags behind other regions in adopting formal e-invoicing mandates, progressive steps are being taken to prepare for broader adoption. As global reporting models continue to advance, U.S.-based organizations, particularly those with international operations, must be prepared to meet e-invoicing requirements today while remaining adaptable to future domestic mandates.



> **E-invoicing is more than a matter of compliance – it's about driving greater efficiency and innovation for future growth. As the market continues to evolve, organizations will have to be proactive in understanding regulatory changes, their impact on operations, and the merits of different vendors in this space to ensure they have the right solutions in the right markets at the right time.**
>
> **— Charles Aladesuru, Research Manager, European Enterprise Applications, IDC**

> **Automating data helps businesses make faster, more informed decisions. This benefit is especially critical in fast-paced business environments, allowing finance and tax managers to seize time-sensitive opportunities or mitigate risks before they escalate.**
>
> **— Shagun Malhotra, Financial auditor and process consultant**



Greater need for data-driven decision-making

Tax data is becoming increasingly critical for businesses to manage compliance. As governments expand taxes on digital goods, services, and advertising, organizations need clearer visibility into how tax obligations affect revenue, pricing, and growth decisions.

By automating tax compliance, businesses can gain more timely and accurate insight into tax liabilities, helping identify patterns, anomalies, and opportunities for optimization. These insights can support strategic growth decisions by improving consistency and reducing uncertainty across transactions, systems, and jurisdictions.

Financial experts such as Deloitte and PwC widely recognize that tax compliance processes are well-suited for automation due to their rule-based and data-driven nature. When paired with AI-powered technology, automation can reduce manual effort while improving the quality, consistency, and usability of tax data across the organization.

The business value of tax compliance automation for software companies

While every business is different, software businesses face distinct tax challenges tied to how digital products, services, and revenue models are taxed across jurisdictions. As a result, criteria for evaluating tax compliance automation solutions often focus on the following value drivers.

1. Improved efficiency and accuracy

- Support timely updates for tax law changes at the local, state, and international levels
- Apply appropriate tax rates, exemptions, and rules consistently across transactions and jurisdictions
- Help ensure accurate tax treatment across different software delivery models, including SaaS, licenses, downloads, and bundled offerings
- Improve consistency in tax application across high transaction volumes and peak periods with fluctuating transaction activity
- Support clearer classification of software products, digital services, and embedded services that may be taxed differently

2. Reduced risk and enhanced compliance

- Provide access to comprehensive audit trails and supporting documentation across transactions, returns, and adjustments
- Improve visibility into tax liabilities and compliance status with advanced reporting and analytics
- Help identify compliance risks, exceptions, and optimization opportunities
- Support high standards for data security and privacy
- Reduce sales tax overpayments on software purchases by identifying vendor errors and allocating usage to the appropriate jurisdictions



3. Streamlined process

- Automate tax calculations, filings, and audit preparation
- Reduce time spent on manual tasks such as managing certificates or researching tax updates
- Support more accurate use tax accrual for software and digital services purchased across jurisdictions
- Support consistent and transparent tax treatment across channels and transaction types, including domestic and cross-border activity
- Enable a more unified approach to compliance across sales, purchasing, and returns processes

4. Ease of integration

- Integrate with existing ERP, accounting, CRM, ecommerce, billing, procurement, and point-of-sale systems
- Offer APIs for custom integrations or legacy system support
- Adapt to system changes, upgrades, and evolving technology stacks as business needs evolve

5. Scalability for growth and complexity

- Scale to handle increased transaction volumes, seasonal or cyclical demand, and expansion into new jurisdictions
- Manage multiple tax types, including VAT, GST, and customs duties
- Adjust to changes in software revenue models, go-to-market strategies, and global expansion plans without slowing growth

> **In a time of rapidly accelerating innovation, the potential to transform compliance is immense. But companies need a more comprehensive end-to-end data strategy in order to fully leverage new tech such as AI.**
>
> **— Nolan Ogden, U.S. Tax Chief Technology Officer**
>
> **Source: PwC**



Tax compliance solution evaluation criteria checklist



When evaluating tax compliance solutions, businesses should look for capabilities that help meet and maintain compliance obligations in a changing regulatory landscape.

This includes solutions that combine automation with advanced AI features, supported by appropriate human oversight, to enable key compliance workflows within the systems businesses already use. Avalara Agentic Tax and Compliance™ combines intelligent automation, trusted tax content, and configurable controls to help your business manage compliance activities more effectively.

Agentic AI and automation capabilities

- ☐ AI assistants that monitor tax data, suggest actions, and help execute routine tasks
- ☐ Explainable recommendations that clarify why each action is proposed
- ☐ Configurable controls aligned with your business policies and workflows
- ☐ Ability to learn from your data patterns while relying on trusted Avalara tax content

Tax calculation and management

- ☐ Tax rate determination for sales and use tax, VAT, GST, and customs duties
- ☐ Exemption validation and application for software, digital services, and embedded solutions
- ☐ Consistent tax calculation across subscription, usage-based, and hybrid billing models
- ☐ Accurate determination of tax responsibility in multi-party and platform-based software transactions

Compliance automation

- ☐ Regular updates to tax rates, rules, and regulations
- ☐ Automated filing and remittance of tax returns
- ☐ Simplified nexus tracking and threshold monitoring
- ☐ Support for ongoing compliance adjustments as transactions, returns, and corrections occur
- ☐ AI-powered answers and tax insights with Avi for Tax Research

Audit and risk management

- ☐ Comprehensive record-keeping for all transactions and sales channels
- ☐ Tools to manage and validate exemption and MPU-related certificates
- ☐ Documentation to simplify external audits
- ☐ Anomaly and pattern detection that may indicate audit risk
- ☐ Maintenance of clear audit trails for multichannel and cross-border transactions

International tax management

- ☐ Automated VAT, GST, and customs duty compliance in 190+ countries
- ☐ Supported cross-border sales with accurate landed cost calculation, including duties and import taxes
- ☐ Accurate classification and reporting for cross-border shipments
- ☐ Regulatory compliance with e-invoicing and live reporting mandates

Reporting and analytics

- ☐ Advanced dashboards for tax liability, credit tracking, adjustments, and filing status
- ☐ Data insights for compliance and optimization
- ☐ Reporting that supports post-filing review, audit preparation, and reconciliation
- ☐ Risk identification features to help prioritize issues across jurisdictions and digital revenue streams

Scalability and flexibility

- ☐ Ability to handle growth in transaction volumes, subscription activity, and usage-based billing
- ☐ Capability to grow with the business and accommodate new regions or markets
- ☐ Guided implementation options, onboarding tools, and support to accelerate time to value
- ☐ Flexibility to adapt to changing business requirements
- ☐ Compliance workflow customization for software-specific operational needs

Integration and ease of use

- ☐ Integration with existing ERP, accounting, CRM, ecommerce, and revenue management systems
- ☐ Consistent tax logic across all integrated systems
- ☐ APIs and other tools for custom integrations
- ☐ In-product guidance, documentation, and training resources to support user adoption
- ☐ Simplification of existing processes and reduced maintenance

Security and data protection

- ☐ Robust security features to protect sensitive tax and financial data
- ☐ Compliance with data protection regulations (e.g., GDPR)
- ☐ Secure handling of W-9, 1099, vendor, and contractor information
- ☐ Controls over how automation tools access and store tax and transaction data

Cost and ROI

- ☐ Total cost of ownership, including licensing, implementation, ongoing support, and maintenance
- ☐ Potential return on investment through efficiency gains and reduced compliance risk
- ☐ Long-term cost implications, including how well the solution scales, adapts to regulatory change, and avoids technical debt as technology evolves

Vendor reputation and reliability

- ☐ Track record and reputation of the software provider
- ☐ Testimonials from other enterprise customers
- ☐ Financial stability and longevity of the vendor
- ☐ After-sale support and ongoing services to support long-term success
- ☐ Evidence of ongoing investment in tax content, technology, and advanced automation systems

The Avalara advantage: Different by design

Avalara's tech-forward solutions and industry expertise offer comprehensive tax compliance support for businesses. Avalara combines automation, regularly updated tax content, and Agentic Tax and Compliance™ to help software companies manage compliance requirements more efficiently.

Extensive integration partnerships

Avalara serves and supports more than 200,000 direct and indirect customers in more than 75 countries through a global partner network of technology platforms, systems integrators, tax experts, and accountants. With more than 1,400 signed partner integrations and robust APIs, Avalara connects seamlessly with the systems software businesses rely on, including ERP, billing, revenue management, ecommerce, and finance platforms. This integration-first approach helps ensure tax logic stays aligned across subscription, usage-based, and multi-entity environments as businesses scale.

Feature-rich products and services

Our solutions are designed to address the specific tax challenges software businesses face, from determining taxability for SaaS, digital services, and embedded offerings to managing economic nexus, sourcing rules, and multi-jurisdiction compliance. Built for high-volume and high-variability billing environments, Avalara's software supports recurring revenue models, usage-based pricing, and global operations.

Avi, Avalara's AI-powered assistant for tax and compliance, helps monitor tax data, surface potential anomalies, recommend next steps, and assist with routine tasks under appropriate oversight. For software businesses, this can mean greater consistency in tax treatment, faster issue resolution, and reduced manual effort as offerings and regulations evolve.

SERVED

200k+ direct and indirect customers in 75+ countries

MANAGES COMPLIANCE ACROSS

12,000+ U.S. sales and use tax jurisdictions

TAX CONTENT FOR

190+ countries



Expert help when you need it

Engage managed services for support and guidance on setting up tax automation for your business. Many of our enterprise and premium solutions include or offer this option. Avalara Certified Implementation Providers are experienced at setting up our products in your ERP, ecommerce, and billing systems. Avalara tax experts can help with audits, risk assessments, voluntary disclosure agreements, back taxes, and other complex requirements.

Comprehensive compliance solutions

Avalara offers a variety of additional applications and integrations that enhance the core functionality of our tax compliance solutions. Software businesses can tailor solutions to support direct sales, marketplace and platform models, reseller relationships, cross-border transactions, and global e-invoicing and reporting requirements. Industry-aware solutions help align tax automation with the regulatory expectations and operational realities most relevant to software, SaaS, and digital services businesses.

Highest reliability and security standards

Avalara's 24/7 security operations center, application security protocols, and Security Incident Response Team (SIRT) provide around-the-clock support to protect the integrity of your data. Our platform and cloud services are continuously monitored and maintained by dedicated engineers. Avalara has documented SOC 2 compliance across key solutions, including Avalara AvaTax, Avalara Managed Returns, Avalara Managed Returns for Accountants, and Avalara Exemption Certificate Management in order to help reduce risk and keep customer data safe.



DURING CYBER WEEK 2025
Thanksgiving Day (11/27) to Cyber Monday (12/1)

AVATAXPROCESSED

1.14B API calls

AND

9,124 API calls per second at its peak

SUPPORTED BY

1,400+ signed partner integrations

6M+ returns processed and filed in 2024

Avalara tax compliance solution matrix



Avalara solutions help businesses manage core tax compliance functions with speed, consistency, and control. Select products use Avi, Avalara's AI-powered assistant, to support key workflows and reduce manual effort.

Tax Calculation

Compliance function	Product	Features
Sales tax	Avalara AvaTax	• Determine rates and rules for sales tax across jurisdictions • Calculate and apply near-real-time tax rates based on geolocation, item taxability, and jurisdictional rules • Apply marketplace facilitator rules to determine correct tax responsibility • Support consistent tax calculation across omnichannel transactions • Ensure accurate jurisdictional mapping and rate application at the point of transaction
Use tax	Avalara AvaTax for Accounts Payable	• Automate consumer use tax compliance for purchases • Identify overcharged or undercharged tax using hybrid real-time and batch processing • Identify the right vendor rules and allocation logic to improve accuracy and reduce manual effort with AI-powered recommendations • Auto-accrue use tax and track overpaid sales tax for credits and refunds • Validate tax on purchases using internal rules and jurisdictional logic • Quickly get set up with AI recommended rules to easily manage your use tax determinations
VAT	Avalara AvaTax	• Calculate VAT for cross-border and domestic transactions • Apply regularly updated VAT rates and rules across countries and jurisdictions • Determine VAT based on transaction type, product taxability, and place of supply • Support complex VAT scenarios, including reverse charge, triangulation, and distance selling

Cross-border duties and customs	Avalara Cross-Border	• Calculate or estimate customs duties and import taxes in real time across 190+ countries • Apply duties and taxes to transaction invoices or checkout flows • Improve accuracy using regularly updated information • Support accurate classification and tariff code application for products
Property tax	Avalara Property Tax	• Centralize real and personal property tax data across all jurisdictions • Automate tax bill management, due date tracking, and return preparation • Apply current rates and jurisdiction-specific rules to calculate property tax obligations • Support audit readiness with built-in document management and reporting tools • Prepare and file returns for real property and tangible personal property
Communications tax	Avalara AvaTax for Communications	• Apply telecom-specific tax rules including USF, E911, TRS, and gross receipts taxes • Support complex billing scenarios with tiered, bundled, and tax-on-tax logic • Enable jurisdictionally accurate tax determination across federal, state, and local levels • Integrate with telecom billing and subscription platforms to ensure consistent tax calculation
Occupancy and lodging tax	Avalara for Hospitality	• Determine occupancy and lodging tax rates in real time by property location • Apply regularly updated jurisdictional rules and taxability criteria for short-term rentals and lodging services • Automate tax calculation across booking channels and property management systems • Prepare and manage lodging tax obligations for multiple locations in one platform • Support consistent compliance across municipalities, counties, and states
Excise tax	Avalara AvaTax	• Apply jurisdiction-specific excise rates and exemptions based on product, unit type, and transaction details • Support calculation for regulated goods such as fuel, tobacco, and alcohol • Automate accrual and reporting as part of the end-to-end compliance workflow

Streamlined Sales Tax (SST)	Avalara Streamlined Sales Tax	• Perform SST-compliant sales tax calculations across all participating states • Apply certified tax content and product taxability rules maintained by the SST Governing Board • Ensure accurate jurisdictional mapping and rate application at the point of transaction • Work in tandem with Avalara Managed Returns for simplified SST return filing and remittance

Tax returns and reporting

Compliance function	Product	Features
Managed returns	Avalara Managed Returns	• File returns, remit payments, and manage notices using a single solution • Access filing schedules and rules in one dashboard • File multi-location returns and remit once across jurisdictions • Automatically extract and sync sales data from multiple platforms • Support amended filings, reconciliations, and post-filing adjustments
VAT reporting	Avalara VAT Reporting	• Automate VAT returns preparation, filing, and remittance • File returns in local languages and formats • Track deadlines and threshold breaches • Support ongoing VAT compliance as cross-border operations expand
Real-time invoice reporting	Avalara E-Invoicing and Live Reporting	• Transmit transaction data to tax authorities in real time or near real time • Convert invoices into jurisdiction-specific digital formats as required by local mandates • File multi-location returns and remit once across jurisdictions • Automatically extract and sync sales data from multiple platforms • Support amended filings, reconciliations, and post-filing adjustments

Streamlined Sales Tax (SST) returns	Avalara Managed Returns	• Get preferred provider support for SST return filing • Automate preparation and filing of SST returns across participating states • Apply certified SST content for jurisdictional accuracy and rule alignment • Remit tax payments and manage SST notices through a single solution
Returns management for accountants	Avalara Managed Returns for Accountants	• Use centralized returns hub for accounting professionals managing client filings • Automate preparation of returns using client-supplied data and prebuilt templates • Track deadlines with auto-generated filing calendars per client and jurisdiction • Manage fixed asset data, depreciation schedules, and assessor form requirements • Support multi-client workflows with role-based access and reporting tools

Compliance documents

Compliance function	Product	Features
E-invoicing	Avalara E-Invoicing and Live Reporting	• Convert and transmit invoice data into country-specific e-invoice formats • Exchange invoice data via national and international networks • Use a single API to manage requirements across multiple countries
Exemption certificate management	Avalara Exemption Certificate Management	• Digitize collection, validation, and storage of exemption certificates • Automate document validation, data capture, digitization, and renewals • Manage resale and exemption certificates across drop-shipping and multi-party transactions • Create and send exemption certificates to vendors

1099 and W-9 filing	Avalara 1099 & W-9	• Digitally collect W-9s and e-file 1099s • Support federal and state filings, corrections, and recipient delivery • Perform real-time TIN validation • Support compliance for vendor, influencer, and contractor payment reporting

Business operations and tax research

Compliance function	Product	Features
Business registration and licensing	Avalara License Management	• Centralize business licenses, permits, and tax registrations • Scale to manage thousands of licenses • Research licensing requirements at federal, state, and local levels
Tax research	Avalara Tax Research	• Access comprehensive, regularly updated tax research • Search tax information specific to company compliance needs • Validate tax decisions with access to expert tax researchers • Use AI-powered tools to quickly identify applicable rates, rules, and taxability decisions across jurisdictions
Tax content	Avalara Tax Content	• Perform tax calculations without an internet connection • Increase accuracy and consistency of tax calculations across locations • Use industry-specific sales and use tax templates • Keep up with ongoing tax rate and rule changes

Nexus assessment and voluntary disclosure	**Avalara AvaTax**	• Monitor economic nexus thresholds with real-time alerts • Visualize where you're approaching or exceeding nexus with dashboards • Automate sales tax registration across multiple jurisdictions • Resolve past liabilities with Avalara's Voluntary Disclosure Agreement (VDA) services • Receive support managing VDA submissions, penalty relief, and jurisdiction negotiations
Item classification	**Avalara Tariff Code Classification**	• Generate universal 6-digit or country-specific 10-digit tariff codes • Scale classification for product catalogs from dozens to millions of SKUs • Capture classification rationale to support audit review • Reduce customs delays caused by incorrect or incomplete classification
Working capital lending services	**Avalara Capital**	• Access flexible working capital directly from the Avalara platform • Apply, get approved, and manage funds without leaving your compliance workspace • Use capital to cover tax payments, government fees, and filing obligations • Avoid cash flow disruptions tied to compliance deadlines • Benefit from transparent, usage-based pricing with no idle charges or hidden fees

Take the next step with Avalara

If you have questions or would like additional information as you evaluate tax compliance solutions for your business, connect with an Avalara tax professional to discuss how automation can support evolving software taxability, complex billing models, and global compliance requirements.

We can also provide the following to assist with RFPs and buying decisions:

- Product demonstrations
- Case studies and references
- Professional and managed services
- Support services details
- Security credentialS
- Pricing and detailed cost breakdownS
- Implementation road map

Disclaimer:

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.

ABOUT AVALARA

Avalara is redefining how businesses manage tax and compliance by embedding AI agents directly into the tools, systems, and workflows where compliance occurs, including ERPs, ecommerce platforms, POS solutions, email applications, and web browsers. Backed by a legacy of 20+ years of providing innovative solutions for tax and compliance, these agents don't just assist — they complete tasks and do the work. Using expertise, speed, and precision, Avalara agents calculate taxes, file returns, validate data, and manage jurisdictional rules and global e-invoicing requirements. With one of the largest and regularly updated collections of tax content, Avalara Agentic Tax and Compliance™ supports millions of businesses worldwide.

Learn why at **Avalara.com**.

Purpose Built | Software