Avalara | ET CIO

GLOBAL EXPANSION 2026

Turning tax complexity into finance control

U.S. sales and use tax readiness among India-based IT services, hybrid managed services, SaaS, and digital product companies



Guide

Contents

Introduction 3
Executive summary 4
U.S. sales tax expansion 7
SaaS and digital taxability 8
Indian firms' U.S. exposure 10
Transaction classification risk 12
Finance-led tax ownership 14
Audit evidence gap 16
Finance as control layer 17
Connected tax stack 19
Tax control maturity 22
Control build path 23
Tax decision rights 24
System integration gaps 25
Advisor decision capture 26
Tax control KPIs 27
AI tax governance 28
Leadership self-check 30
Priority actions 31
Conclusion: Scalable U.S. control 33

Introduction

This report is based on a structured quantitative survey of **103 organisations** with varying revenue sizes, U.S. market exposure, and compliance maturity. The research focused on India-based and India-operated organisations serving U.S. customers, with this report applying a focused lens to **IT services, hybrid managed services, SaaS, and digital product companies**.

Respondents included finance leaders, tax managers, controllers, compliance officers, accounting leaders, and senior decision-makers responsible for cross-border tax, finance operations, billing, reporting, compliance, risk management, advisor coordination, data quality, ERP readiness, and automation decisions.

Percentages are reported by survey question and should not be added across different questions. Some figures represent categories within a single-response question, while others represent standalone findings or related exposure signals. Where figures are related but non-additive, this report treats them as operating evidence rather than as one combined distribution.

This report also uses **Avalara Tax Changes 2026: A Tax Compliance Guide for Businesses** to place the survey findings in the wider U.S. market context. The guide is used for external market insight on sales tax base expansion, digital and B2B service taxability, sourcing complexity, audit scrutiny, rate-change volume, global e-invoicing, AI-supported tax administration, and automation-led compliance transformation.



Executive summary

The Shift

India-based IT services, hybrid managed services, SaaS, and digital product companies are entering a more complex phase of U.S. growth.

Their U.S. revenue can scale without a large physical footprint in the country. They can sell cloud access, renew subscriptions, support enterprise customers, deliver implementation services, provide managed services, bill usage, offer APIs, and sell digital products from India. Economic nexus means that revenue or transaction activity alone can create U.S. state-level sales and use tax obligations.

The issue is no longer whether U.S. tax is complex. The issue is whether finance, tax, billing, compliance, data, IT, advisors, ERP systems, and technology partners can control that complexity as U.S. revenue expands across states.

The U.S. market signal

The U.S. sales tax environment is moving closer to the revenue models used by technology and services companies.

Avalara Tax Changes 2026 notes that sales tax is a major and relatively stable state revenue stream, while many states are under fiscal pressure. It also notes that most states exempt many services even though services account for more than **two-thirds** of U.S. economic activity. This creates pressure on states to broaden the sales tax base beyond traditional goods and into services, software, digital activity, and technology-enabled transactions.

That shift is already visible. Nine U.S. states expanded their sales tax base in 2025, including changes affecting digital products, data and IT services, software publishing, data processing, marketplace services, and B2B services. The strongest examples for this audience are Maryland, Texas, and Washington, where state action has moved closer to software, data, IT, digital, and business-service revenue models.

The market insight is clear

The U.S. is moving from taxing where companies are physically present towards taxing how digital and service-led revenue is consumed, classified, billed, sourced, and evidenced across states.

What the survey proves

The survey shows a clear gap between U.S. exposure and finance-tax control.

Compliance function	Product	Features
U.S. revenue exposure is widespread	**93% report U.S. revenue exposure**	U.S. sales tax readiness is relevant to most surveyed organisations
U.S. revenue is material	**48% generate more than 50% of global revenue from U.S. customers**	The U.S. is a core revenue market, not a secondary geography
Multistate exposure is the real risk	**46% report nexus exposure across more than 6 U.S. states**	Compliance must be managed as a multijurisdiction operating issue
Nexus uncertainty remains visible	**12% are unsure of nexus status**	Some organisations may not know where obligations are active or emerging
Finance carries much of the accountability	**51% report finance as the primary owner**	Finance owns the outcome, but tax, billing, compliance, advisors, systems, and data teams need shared visibility
Automation-led ownership is rare	**5% report automation platforms as the primary owner**	Compliance remains largely people-driven
Nexus monitoring is behind the risk profile	**17% use automated monitoring; 44% rely on manual tracking; 31% use reactive or inconsistent approaches**	Obligations may be identified after thresholds are crossed
Invoice tax treatment remains weak	**53% use manual or flat-rate calculation; 22% use automated tax engines**	Billing accuracy and tax treatment remain exposed to manual error
Audit confidence is limited	**18% report full audit-readiness confidence**	Filing activity does not always translate into defensible evidence
AI adoption is conditional	**Leading barriers include lack of proven tools at 22%, ERP integration complexity at 20%, and audit defensibility concerns at 20%**	Leaders want reliability, integration, traceability, and human oversight

The leadership takeaway

The report's central finding is the mismatch between **multistate exposure** and **process maturity**.

46% of respondents report nexus exposure across more than six U.S. states, but only **17%** use automated nexus monitoring. That gap shows that U.S. revenue is scaling faster than the operating model built to govern it.

That model cannot be built by finance alone. It requires **finance, tax, IT, data teams, ERP owners, billing operations, advisors, and tax technology partners** to work from the same operating architecture.

For India-based IT services, hybrid managed services, SaaS, and digital product companies, the answer is not more manual review. It is a finance and tax control model that connects:

Revenue > Nexus > Classification > Billing > Filing > Notices > Evidence > Automation



That model cannot be built by finance alone. It requires **finance, tax, IT, data teams, ERP owners, billing operations, advisors, and tax technology partners** to work from the same operating architecture.

17% Use automated nexus monitoring

46% Face Multi-State Nexus Exposure

U.S. sales tax expansion

The U.S. remains commercially attractive for India-based technology and services companies. It is also becoming more difficult to manage from a finance and tax standpoint.

A commercial leader may see one U.S. revenue number. Finance and tax teams see a fragmented operating environment: **50** state systems, over 12000 local jurisdictions, different taxability rules, different sourcing positions, different filing requirements, and different audit expectations.

Avalara Tax Changes 2026 shows why this environment is becoming more demanding. It notes that many states are reassessing revenue sources, that sales tax is a major and relatively stable state revenue stream, and that sales tax laws have not kept pace with a services-led economy. The report also states that the sales tax base has been shrinking since the late **1970s**, while services account for more than **two-thirds** of U.S. economic activity.

For technology and services companies, the implication is direct. States are not only changing rates. They are widening the kinds of transactions that may be taxable.

Rate changes create calculation pressure. Taxability changes create operating-model pressure because companies must understand what is being sold, where the customer uses it, how it is billed, and whether the treatment can be supported later.

This is why U.S. sales and use tax has become a control issue. The finance question is no longer only:

Are we filing where required?

The stronger question is:

Can we prove that the transaction was classified, sourced, billed, filed, and documented correctly?

SaaS and digital taxability

The most important U.S. market development for this audience is the expansion of sales tax into digital and B2B services.

Avalara Tax Changes 2026 reports that **nine** states expanded their sales tax base in **2025**. Several changes are directly relevant to IT services, hybrid managed services, SaaS, digital products, APIs, data services, software publishing, and platform-led revenue. Louisiana began taxing digital products. Maryland started taxing data or IT services and software publishing services. Texas expanded taxable data processing to include internet hosting and website-related data activity. Washington applied retail sales tax and retailing B&O tax to a broad set of digital and business services.

Maryland

IT services, software publishing services

Maryland, Texas, and Washington matter because they show the policy direction.

Maryland began taxing data, IT, and software services in **2025**, including computing infrastructure providers, data processing, web hosting, software publishing, and computer systems design. Avalara Tax Changes 2026 notes that a company's broad business activity code does not determine sales tax treatment; businesses must compare the services they provide against Maryland's taxable activity descriptions. It also notes that SaaS not purchased or licensed solely for use in an enterprise computer system may be treated as a taxable digital product at Maryland's full **6%** sales and use tax rate.

Texas

Internet hosting, website-related data

Texas expanded its treatment of data processing. The amended rule defines taxable data processing as computerised entry, retrieval, search, compilation, manipulation, or storage of data or information. Avalara Tax Changes 2026 notes that marketplace-provider activities such as compiling analytics, maintaining transaction records, or storing seller listings have been treated as taxable data processing services since 1 October 2025.

Washington

IT, software services

Washington applied retail sales tax and retailing B&O tax to several business activities effective 1 October 2025, including custom software, customisation of prewritten software, custom website development, information technology services, advertising services, security monitoring, live presentations, and temporary staffing services. Avalara Tax Changes 2026 also notes that businesses involving advertising, technology, and services should reassess revenue streams and purchases because sourcing and treatment are complex.

These examples do not mean every technology or services transaction is taxable.
That would be an overstatement. The correct conclusion is sharper:

Technology and service-led revenue now requires transaction-level classification discipline.

Revenue models and why tax treatment is becoming harder

SaaS

States may distinguish between enterprise use, individual use, software access, and digital product treatment



IT services

Data, hosting, software publishing, system design, and support services may fall into taxable categories in some states



Hybrid managed services

Bundles may combine software, monitoring, analytics, support, implementation, and human services delivery



APIs and data services

States may treat these as software access, data processing, digital services, or information services



Digital products

Taxability may depend on product type, delivery method, customer use, and sourcing



Marketplace services

Platform fees, analytics, listing storage, transaction records, and seller services may create separate taxability questions





Broad labels such as "SaaS," "IT services," "managed services," or "digital products" are not enough. Leaders need to know what was sold, where it was used, how it was invoiced, and how the state treats that transaction.

Indian firms' U.S. exposure

The survey confirms that U.S. sales and use tax is not a theoretical or future issue for the organisations studied.

93% of respondents report U.S. revenue exposure. **48%** generate more than **50%** of global revenue from U.S. customers. Only **7%** report no U.S. exposure.

This matters because U.S. sales tax readiness cannot be treated as a marginal compliance topic when the U.S. is a core revenue market. It affects billing, reporting, customer experience, advisor cost, audit readiness, and finance leadership confidence.

The strongest signal is multistate exposure. **46%** of respondents report nexus exposure across more than six U.S. states. That figure matters more than the broader **68%** figure because it shows that nearly half of surveyed organisations are already operating, or should be preparing to operate, in a multijurisdiction compliance environment.

These figures are related exposure signals and should not be added together. The leadership headline is the **46%** multistate exposure figure because it changes the operating requirement.

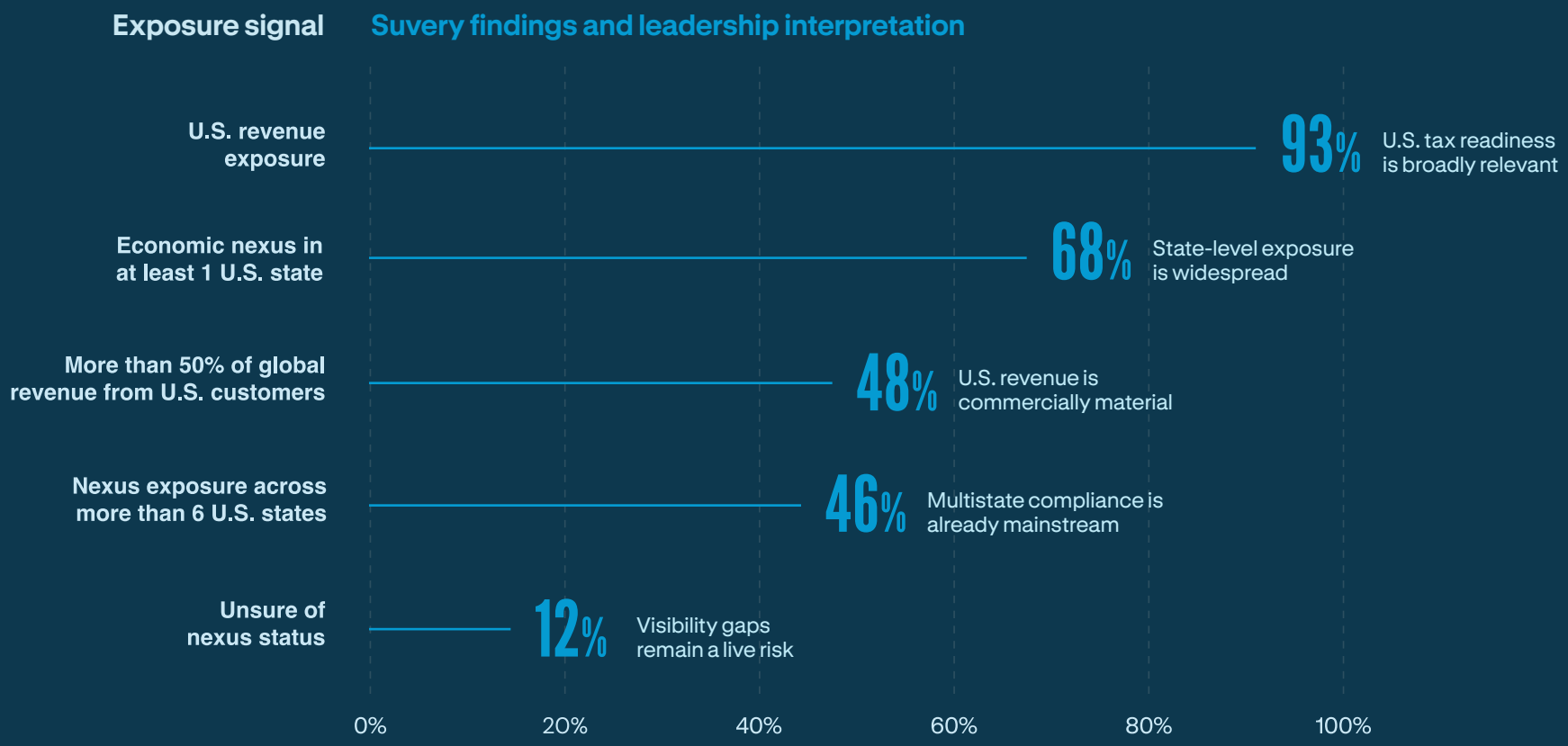
At that level, compliance cannot depend on occasional review, individual spreadsheets, advisor-led reconstruction, or informal billing assumptions. It requires current data, clear ownership, consistent treatment, and defensible records.



SURVEY FINDINGS

Exposure Signals & Leadership Interpretation

Analysis of U.S. revenue exposure and nexus status among surveyed organizations.



Transaction classification risk

Nexus tells a company where obligations may exist. Classification tells the company what those obligations mean.

That distinction is now critical for IT services, hybrid managed services, SaaS, and digital product companies. A company can know it has nexus in a state and still apply the wrong treatment if it cannot classify the transaction properly.

Modern technology contracts make that harder. A SaaS contract may include platform access, implementation, onboarding, customer support, API usage, premium service tiers, and usage-based fees. A managed services agreement may combine software, monitoring, consulting, analytics, support, and operational delivery. A digital product company may sell downloads, subscriptions, data feeds, API access, or platform transactions.

The tax question is not, “Are we a SaaS company?” or “Are we an IT services company?” The relevant question is more precise:

What did the customer buy, where was it used, how was it invoiced, and how does the state treat that transaction?

Sourcing makes this more difficult. Avalara Tax Changes 2026 explains that sourcing digital services is challenging because businesses and tax authorities must determine who uses what and where, especially when services are consumed in more than one state. The report also explains that multiple points of use (MPU) exemptions can shift responsibility to the buyer only under specific rules and only in certain states.



That is why classification cannot sit only in advisor memos. It must connect to contracts, product catalogues, customer data, invoice logic, billing systems, exemption records, and audit evidence.

Misclassification is now as serious as missed nexus.

Strategic tax compliance framework

Key control questions for service offerings



1 SaaS access
Is it software, a digital product, a service, or enterprise-use software?

2 Implementation
Is it separately stated, bundled, taxable, exempt, or dependent on software treatment?

3 Support
Is it linked to taxable software or treated as a separate service?

4 API access
Is it software access, data processing, digital service, or another category?

5 Managed services
Which elements are software, human service, monitoring, analytics, data processing, or support?

6 Marketplace services
Are platform fees, listings, analytics, transaction records, or seller services taxable?

7 Usage-based fees
Does the company know where the customer receives the benefit or uses the service?

Finance-led tax ownership

The survey shows that **51%** of respondents report finance as the primary owner of U.S. sales and use tax compliance. **5%** report automation platforms as the primary owner. **12%** report no clear ownership, while **32%** use other models, including external advisors, Big Four firms, specialist tax teams, or mixed ownership. These figures form a single response distribution.

Finance ownership is logical. U.S. sales and use tax sits close to revenue reporting, billing, reconciliation, filing calendars, advisory cost, audit readiness, and controls. The problem is that ownership does not equal control.

The process gap is visible in the survey. Only **17%** use automated nexus monitoring. **44%** rely on manual tracking, **31%** use reactive or inconsistent approaches, and **8%** use other or unclear models. These figures form a single response distribution.

A finance-led model can still be fragmented. Nexus may be tracked in spreadsheets. Product taxability may sit in advisor emails. Billing logic may sit inside ERP or subscription systems. Notices may arrive in individual inboxes. Filing records may sit with external providers. Evidence may be scattered across folders.

Ownership and leadership implication

Finance function owns compliance

51% Finance carries primary accountability

Automation platform is primary owner

5% Platform-led control remains limited

No clear ownership

12% Governance and handoff risk remain

Other ownership models

32% Responsibility is distributed across advisors, specialist teams, or mixed models

Nexus tracking approach and operation risk

Automated monitoring

17% Operating risk
Better suited to continuous threshold visibility

Manual tracking

44% Dependent on spreadsheets, periodic reviews, and human discipline

Reactive or inconsistent tracking

31% Exposure may surface only after thresholds are crossed or notices arrive

Other or unclear models

8% Ownership and process maturity may be unclear



Invoice tax application and operating risk

Manual or flat-rate calculation

53%

Higher risk of incorrect rates, inconsistent treatment, and reconciliation effort

Automated tax engine

22%

Stronger transaction-level control where properly configured

Other, unclear, not tracked, or no tax applied

25%

Treatment may be undefined, inconsistent, or not visible

This is the central fault line:

46% report nexus exposure across more than six states, but only **17%** use automated nexus monitoring.

Invoice-level treatment shows the same maturity problem. **53%** of respondents use manual or flat-rate tax calculation, **22%** use automated tax engines, and **25%** fall into other, unclear, not tracked, or no-tax-applied categories. These figures also form a single response distribution.

Manual tax application is not a narrow billing issue for these sectors. A single invoice may include software access, implementation, API usage, managed services, support, data services, platform charges, and usage-based fees. If treatment is manual or simplified, the company may create inconsistent billing, reconciliation work, customer questions, advisor rework, and audit exposure.

Audit evidence gap

Only **18%** of respondents report full confidence in audit readiness. That finding matters because it exposes the difference between compliance activity and defensibility.

A company can submit returns and still lack confidence that it can prove the positions it took. For technology and services businesses, proof often sits across multiple systems: contracts, product descriptions, invoices, customer location records, nexus records, exemption certificates, advisor decisions, filings, notices, and support documentation.

The external environment makes this more important. Avalara Tax Changes 2026 notes that departments of revenue are using audits and technology to identify noncompliance. It also states that all sales tax returns filed with the Tennessee Department of Revenue undergo some form of review or audit, and that Illinois can assess a **15%** tax rate on destination-sourced transactions if a taxpayer fails to provide the information needed to determine location.

That changes the operating standard. Audit readiness is not simply whether a filing was submitted. It is whether the company can reconstruct the decision chain.

Evidence requirements and why it matters



Customer location
Supports nexus, sourcing, and invoice treatment



Invoice records
Shows how treatment was applied at transaction level



Filing records
Preserves rationale and prevents repeated interpretation



Contract terms
Explains what was sold and whether offerings were bundled



Nexus records
Shows when and why state obligations were identified



Notice history
Shows receipt, ownership, response, and closure



Product and service classification
Supports taxability decisions by state



Filing records
Confirms submissions, periods, and state obligations



Exemption certificates
Supports exempt or multiple points of use treatment where applicable

Finance as control layer

U.S. sales and use tax complexity is changing the role of finance.

The traditional finance model was built to record revenue, support billing, manage close, coordinate filings, and involve advisors when interpretation was needed. That model works when exposure is limited, product treatment is stable, and obligations can be reviewed periodically.

The U.S. environment is moving in the opposite direction. Exposure is state-specific. Product and service treatment is changing. Digital and B2B services are moving into scope. Sourcing depends on where customers use or receive the benefit of a service. Audit readiness depends on records that connect contracts, invoices, customer location, classification, filings, notices, and advisor decisions.

That environment requires finance to operate differently.

Finance must move from **periodic reporting** to **continuous control**.

This does not mean finance owns every tax decision alone. It means finance becomes the operating layer that connects revenue, billing, tax, compliance, advisors, systems, and evidence.



Traditional finance role

- Report U.S. revenue
- Support billing
- Coordinate tax filings
- Rely on advisor interpretation
- Maintain records after the fact
- Review issues periodically
- Consider automation as efficiency



Future finance requirement

- ✓ Monitor U.S. revenue by state, customer, product, and threshold
- ✓ Control invoice treatment before errors become reconciliation issues
- ✓ Connect filings to nexus, billing logic, notices, and evidence
- ✓ Turn advisor input into reusable, searchable decision history
- ✓ Build audit evidence into the transaction and filing workflow
- ✓ Detect exposure, exceptions, and missing data continuously
- ✓ Use automation as a control layer for monitoring, routing, and evidence

The survey shows why this shift is necessary. **46%** of respondents report nexus exposure across more than six U.S. states, but only **17%** use automated nexus monitoring. **53%** still use manual or flat-rate invoice tax calculation, while only **18%** report full confidence in audit readiness.

Those figures describe more than a compliance gap. They describe a finance operating gap. This is the future-of-finance implication. As U.S. complexity grows, finance cannot remain only the function that reports what happened. It must become the function that helps control what is happening.

The future finance function is not defined only by how quickly it closes the books. It is defined by how well it controls live revenue exposure across markets, systems, and obligations.

The future finance model needs five capabilities

1 Exposure sensing

What it means

Finance can see where U.S. revenue is creating state-level obligations

2 Revenue classification

What it means

Finance, tax, and advisors can map SaaS, services, APIs, data products, and managed services to state treatment

3 Billing control

What it means

Invoice logic reflects customer location, product treatment, exemption status, and review triggers

4 Evidence-by-design

What it means

Contracts, invoices, nexus records, filings, notices, and advisor decisions are captured as part of the process

5 Intelligent workflow

What it means

Automation and AI help detect thresholds, route exceptions, retrieve evidence, and accelerate review without replacing judgement

Connected tax stack

U.S. sales and use tax complexity cannot be solved by finance effort alone. It requires a connected technology stack that links commercial activity to tax decisions before those decisions become billing errors, filing gaps, notices, or audit issues.

For India-based IT services, hybrid managed services, SaaS, and digital product companies, U.S. revenue often moves through several systems before finance can assess tax exposure. Customer data may sit in CRM. Contracts may sit in contract systems. Product and service definitions may sit in product catalogues or billing tools. Invoices may be generated through ERP or subscription platforms. Tax decisions may sit with advisors. Evidence may sit across files, emails, and shared folders.

That system fragmentation is the real operating problem.

The future finance stack must connect **revenue, customer location, product classification, nexus thresholds, billing logic, filing status, notices, advisor decisions, and audit evidence**. Without that connection, finance remains dependent on manual review even when individual systems are mature.

The point is not to add tools for the sake of tools. The point is to create a control layer that allows finance and tax teams to see exposure, apply treatment, route exceptions, and defend decisions without reconstructing the process manually.

Layer	Primary role	What it must enable
ERP	Financial system of record	Revenue, invoices, entities, tax codes, accounting entries, reporting, and close process
CRM	Customer and account system	Customer location, account ownership, customer type, sales activity, and state exposure signals
Billing or subscription platform	Invoice and revenue execution	Subscription billing, usage fees, renewals, tax treatment, invoice logic, and corrections
Product catalogue and contract system	Commercial definition layer	Mapping of SaaS, implementation, support, managed services, APIs, data services, and digital products
Tax automation platform	Tax decision and calculation layer	Nexus monitoring, taxability logic, rate calculation, exemption handling, filing support, and transaction-level audit trail
Data layer or warehouse	Visibility and analytics layer	State-by-state revenue, thresholds, customer spread, exceptions, reconciliation, and management reporting
Workflow layer	Process-control layer	Review tasks, approval routing, notice ownership, advisor requests, deadline escalation, and closure tracking
Evidence repository	Audit-readiness layer	Contracts, invoices, filings, notices, certificates, advisor decisions, assumptions, and supporting records
AI and automation layer	Intelligence layer	Threshold alerts, anomaly detection, classification support, evidence retrieval, notice triage, and reporting acceleration

ERP versus tax automation

ERP is essential, but ERP alone is not the tax control layer. This distinction matters because many companies assume tax transformation can be solved inside the financial system of record.

ERP does well

- ✓ Recording revenue and invoices
- ✓ Managing entities and accounting entries
- ✓ Supporting financial reporting
- ✓ Running billing and close workflows
- ✓ Holding tax codes

Tax automation is needed for

- ✓ Applying jurisdiction-specific tax logic
- ✓ Monitoring nexus thresholds across states
- ✓ Determining taxability by product, service, and location
- ✓ Maintaining rate, rule, sourcing, and exemption logic
- ✓ Creating transaction-level audit trail and filing support

ERP records the financial activity. A tax automation layer interprets that activity against state-level rules and applies the treatment inside billing, filing, and evidence workflows.

What each function must own

Finance

Revenue visibility, billing impact, reconciliation, reporting, and operating control

Tax

Nexus interpretation, taxability positions, filings, notices, audits, and advisor governance

Billing operations

Invoice execution, subscription logic, usage charges, tax-code application, and correction workflows

IT and ERP teams

Integration architecture, system reliability, data flows, access controls, and automation enablement

Data and analytics teams

State-level reporting, threshold dashboards, exception reporting, and visibility across systems

Advisors

Provide interpretation, but their guidance must be captured as reusable decision history

Technology partners

Provide tax rules, calculation logic, nexus monitoring, exemption handling, filing support, and transaction-level traceability

Where Avalara fits in the stack

Nexus visibility

Monitoring where revenue and activity may create state-level obligations

Tax calculation

Applying tax logic at invoice or transaction level

Product and service taxability

Supporting classification and treatment across jurisdictions

ERP and billing integration

Connecting tax logic into systems where revenue and invoices are managed

Exemption handling

Supporting certificate and exemption documentation where relevant

Filing and compliance workflow

Helping reduce manual filing coordination and deadline risk

Audit trail

Connecting transaction decisions, tax treatment, and supporting records

Automation readiness

Creating a cleaner foundation for AI-assisted monitoring, exception routing, and reporting

The strategic point is not that technology replaces finance or tax judgement. It does not. The strategic point is that technology changes where judgement happens. Instead of discovering issues after invoices, filings, notices, or audits, finance and tax teams can identify exposure earlier, route exceptions more clearly, and preserve the evidence needed to defend decisions.

Avalara Tax Changes 2026 makes the wider automation direction explicit. It notes that tax systems worldwide are becoming more digital, more data-driven, and more demanding, and that automation is becoming a baseline for staying competitive and growing globally. It also highlights e-invoicing, real-time reporting, AI-supported tax administration, and digital transaction visibility as part of the broader compliance shift.

Finance transformation in this context is not an ERP project alone. It is not an AI project alone. It is not an advisor project alone.

It is a connected operating architecture:

CRM + ERP + Billing + Product Data + Tax Automation + Workflow + Evidence + AI.

Tax control maturity

1. Manual

Spreadsheet tracking, advisor-led review, manual invoice treatment, records stored across inboxes and folders

Typical risk: Late exposure identification, rework, weak evidence, high dependency on individuals

2. Structured

Clear owners, repeatable review cadence, documented advisor decisions, basic reporting by state

Typical risk: Better discipline, but still people-dependent and slow to scale

3. System-connected

ERP, billing, customer data, product mapping, and tax logic connected into transaction workflows

Typical risk: Lower billing error, stronger traceability, cleaner audit support

4. Intelligent control

Automated nexus monitoring, exception routing, evidence retrieval, AI-assisted review, and management dashboards

Typical risk: Faster detection, stronger audit readiness, lower manual reconstruction

The most important transition is from **structured** to **system-connected**. Many organisations can document ownership and maintain review cadence. Fewer have tax logic connected to billing, product data, evidence, and filing workflows.

The survey suggests many companies are still between the manual and structured stages.

The evidence is clear: **44%** rely on manual nexus tracking, **31%** use reactive or inconsistent tracking, and **53%** use manual or flat-rate invoice tax calculation.



Control build path

This report does not need a time-based action plan. It needs a dependency-based sequence.
Leaders should not start with AI if state visibility, classification, billing logic, and evidence are weak.

Start point and why it becomes first

The right sequence is:

Visibility

State-by-state revenue visibility

Without this, nexus monitoring is unreliable

Classification

Customer-location quality

Without this, sourcing, threshold tracking, and invoice treatment are exposed

Product and service classification

Without this, billing logic and tax treatment remain weak

Billing

Billing-system connection

Without this, tax decisions do not reach invoices

Evidence

Evidence repository

Without this, audit confidence remains low

Workflow

Advisor decision capture

Without this, interpretation remains one-off and non-reusable

Automation

Automation and AI

Only useful after data, classification, billing, and evidence are credible

That order matters. Automation added too early will not create control.
It will create faster exception generation on top of weak data.

Tax decision rights

The technology stack only works if decision rights are clear.
Otherwise, ownership remains fragmented even after systems are improved.

Primary owner	Decision area	Required input
Tax/Finance	Nexus threshold monitoring	Data, billing, ERP
Tax	Product and service taxability	Product, billing, advisor, tax automation partner
Billing/Finance	Invoice tax application	Tax, ERP, tax automation partner
Tax/Finance	Filing workflow	Advisor, tax automation partner
Tax/Compliance	Notice response	Finance, advisor, evidence owner
Finance/Compliance	Audit evidence	Tax, billing, ERP, document owners
Tax/Finance	Advisor decision governance	Advisors, legal, compliance
Finance/Tax/IT	AI use-case approval	Data, compliance, legal

This is the practical governance layer. Finance may own accountability, but finance should not become the catch-all owner for every data, system, billing, and taxability decision.

System integration gaps

The most common failures are not strategic. They are operational.

Failure point	Consequence
Customer location is incomplete or unreliable	Sourcing and nexus monitoring become unreliable
Product catalogue is not mapped for tax treatment	Taxability logic cannot be applied consistently
Billing platform is not integrated with tax logic	Tax decisions remain outside invoice execution
Advisor decisions are not captured	Interpretation becomes one-off and non-reusable
Exemption records are not linked	Audit support remains weak
ERP is treated as the only solution	Tax rules, thresholds, jurisdiction logic, and evidence remain under-supported
AI is added before data cleanup	Automation creates noise instead of control
Notices are handled through inboxes	Deadlines, ownership, and evidence become fragile
State-level dashboards are missing	Leadership cannot see exposure until issues surface
Audit evidence is assembled manually	Confidence depends on reconstruction rather than readiness

This is where the report becomes practical. The problem is not that companies lack tools. The problem is that their tools do not yet operate as a control architecture.

Advisor decision capture

External advisors remain important. They should not disappear from the model. But their role needs to change.



Old advisor model

- Advisor finds issues after review
- Advice sits in email
- Advisor owns recurring interpretation
- Internal team waits for external review
- Audit support is reconstructed
- State decisions are repeated



Future advisor model

- ✓ Advisor validates system-flagged exceptions
- ✓ Advice becomes reusable decision record
- ✓ Advisor handles judgement-heavy edge cases
- ✓ Internal team works from controlled data and clear questions
- ✓ Audit support is assembled from system evidence
- ✓ State decisions are documented and reused where applicable

This is a major practical shift

Advisor value should move from repetitive reconstruction to higher-value interpretation, exception review, registration strategy, audit defence, and complex classification.

Tax control KPIs

A control model needs metrics. Without metrics, leaders cannot tell whether the operating model is improving. These KPIs turn the report from an insight piece into a practical management tool.

KIP that matters



% U.S. revenue mapped by state
Measures exposure visibility



Number of states with active or emerging nexus
Measures exposure growth



% exceptions routed and closed
Measures workflow control



% customers with validated tax-relevant location data
Measures sourcing and nexus readiness



Number of open notices by owner and age
Measures notice discipline



% exemptions with valid, current certificates
Measures exemption control



% products and services classified by state
Measures taxability readiness



% advisor decisions stored as reusable records
Measures institutional memory



% tax logic connected to ERP or billing systems
Measures technology-stack maturity



% invoices using system-supported tax logic
Measures billing control



Audit evidence retrieval time
Measures defensibility



% AI outputs with source-linked explanation
Measures AI defensibility

AI tax governance

The survey shows interest in AI and automation, but adoption is conditional. Leading reported barriers include lack of proven AI-driven compliance tools at **22%**, ERP integration complexity at **20%**, and audit defensibility concerns at **20%**. These are top cited barriers, not a complete additive distribution.

AI doption barrier and what it really means

Lack of proven tools

22%

Leaders need demonstrated reliability

ERP integration complexity

20%

Automation must fit existing finance and billing architecture

Audit defensibility concerns

20%

Outputs must be explainable, traceable, and reviewable





AI Governance Requirements

These are not objections to AI. They are design requirements.

For IT services, hybrid managed services, SaaS, and digital product companies, AI should not be positioned as autonomous tax decision-making. The near-term value is controlled decision support.

AI will only improve outcomes if the underlying process is strong enough. If customer location is incomplete, product mapping is unclear, invoice logic is manual, advisor decisions sit in email, and records are scattered, AI will generate more noise. If the company has reliable data, connected workflow, and defensible evidence, AI can improve speed, consistency, and control.

The reader takeaway is that AI readiness is not a technology question alone. It is a control-readiness question.

AI doption barrier and what it really means

Human approval for tax positions
Prevents autonomous tax decisioning

Explainable output
Supports audit defensibility

Source-linked recommendations
Shows which rule, record, or transaction triggered the output

Audit trail
Shows how the recommendation was generated and reviewed

Exception workflow
Routes issues to finance, tax, advisor, or billing owners

Change log
Preserves decision history

Testing against known cases
Builds confidence before scale

Access control
Protects financial and customer data



Leadership self-check

A leader should be able to use this report to challenge the current operating model. This checklist is the practical test of the report's thesis. If the company cannot answer these questions, the issue is not only tax compliance. It is finance operating control.

1. **Can we see U.S. revenue by state?**
   If no: Nexus may be missed
2. **Can we validate customer location for tax purposes?**
   If no: Sourcing and invoice treatment may be wrong
3. **Are notices logged and owned centrally?**
   If no: Deadlines may be missed
4. **Is tax logic connected to billing?**
   If no: Errors may be created before finance reviews them
5. **Can we classify SaaS, services, APIs, data products, and managed services by state?**
   If no: Invoice treatment may be inconsistent
6. **Are advisor decisions reusable?**
   If no: Interpretation may be repeated and inconsistent
7. **Can we retrieve audit evidence quickly?**
   If no: Filing confidencemay not be defensible
8. **Is AI using clean, connected data?**
   If no: Automation may create noise
9. **Can IT explain the tax data flow across CRM, ERP, billing, and tax systems?**
   If no: Ownership may be fragmented
10. **Do we know which exceptions are open and who owns them?**
    If no: Workflow may be uncontrolled

Priority actions

This report gives finance, tax, compliance, billing, IT, data, and technology leaders six conclusions.

Leadership takeaway and meaning

The U.S. is becoming harder for digital and service-led revenue

States are broadening tax bases and bringing more digital, IT, data, software, marketplace, and B2B services into scope

Multistate exposure is already material

46% report nexus exposure across more than **6** U.S. states, making periodic review insufficient

Classification is now a control issue

SaaS, APIs, managed services, implementation, support, data services, and platform fees may be treated differently by state

Manual process is the weak link

Only **17%** use automated nexus monitoring, while **53%** still use manual or flat-rate invoice tax calculation

The finance stack must become a control layer

ERP, billing, CRM, product data, tax automation, workflow, evidence, and AI need to operate as one architecture

AI is useful only when the foundation is ready

Automation must sit on reliable data, connected workflow, explainable logic, and defensible records

The leadership model is capability-based.
The survey describes the gap. The control model shows what needs to change.

Control area and required standard

Multistate exposure
State-by-state visibility across revenue, customers, thresholds, filings, and notices

Nexus monitoring
Automated or clearly owned monitoring with threshold logic and escalation

Classification
Structured mapping of SaaS, IT services, APIs, data services, digital products, and managed services

Billing control
Tax treatment connected to invoice logic and exception workflow

Advisor workflow
Decisions documented, searchable, and linked to states, products, filings, and evidence

Notice management
Intake, owner, deadline, response record, and closure status

Audit evidence
Contracts, invoices, nexus records, filings, notices, classifications, and decisions retrievable by state and period

Technology architecture
CRM, ERP, billing, product data, tax automation, data layer, workflow, evidence, and AI connected into one control model

AI readiness
Reliable data, connected workflow, defensible outputs, and human review

CONCLUSION

Scalable U.S. control

India-based IT services, hybrid managed services, SaaS, and digital product companies are entering a more demanding phase of U.S. growth. Revenue can scale remotely, but tax obligations do not remain remote. Economic nexus creates state-level obligations, and U.S. states are increasingly focused on digital services, data services, IT services, software publishing, marketplace activity, B2B services, sourcing, and audit evidence.

The most important survey finding is that **46%** of respondents report nexus exposure across more than **six** U.S. states. That is the point at which U.S. sales and use tax becomes difficult to manage through periodic review, spreadsheet monitoring, manual invoice treatment, advisor follow-up, and fragmented records.

The wider data confirms the maturity gap. **51%** report finance as the primary owner, but only **5%** report automation platforms as the primary owner. Only **17%** use automated nexus monitoring, while **44%** rely on manual tracking and **31%** use reactive or inconsistent approaches. **53%** use manual or flat-rate tax application oninvoices, while only **22%** use automated tax engines. Only **18%** report full audit-readiness confidence.

The external U.S. market makes this gap more urgent. States are broadening tax bases, taxing more digital and business services, changing sourcing and rate rules, increasing audit scrutiny, and using technology to identify noncompliance. Avalara Tax Changes 2026 shows that this is not a temporary rule-change cycle. It is part of a broader shift towards more digital, more data-driven, and more enforceable tax compliance.

The leadership conclusion is direct: The next stage is not more manual review. It is finance and tax control supported by a connected technology stack. For the target sectors, that means state-by-state revenue visibility, reliable nexus monitoring, classification discipline, connected billing, structured advisor workflow, notice management, defensible records, AI governance, and selective automation where it strengthens trust, speed, and audit defensibility.



The companies that build this model will not simply “manage tax better.” They will be better equipped to scale U.S. revenue without adding unnecessary manual work, advisory cost, reporting delay, customer friction, and audit risk.

Avalara

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™ is trusted by millions of businesses worldwide.

Learn why at **Avalara.com**.

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