



Managing tax-exempt sales 101

DISCLAIMER

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



Safe harbor

For a compliant presentation

- This information is Avalara's **confidential information**.
- Materials are solely for use in this context and are not approved for further distribution.
- This document describes Avalara's intentions as of the date of drafting and may include descriptions of product functionality or technology that are not currently available.
- Avalara reserves the right to change the functionality, release dates, technology, initiatives, and plans described herein without notice or duty to update.



Continuing Professional Education (CPE)



Qualifying for credit

- Respond to **3 of 4** poll questions
 - Questions display for a limited amount of time
 - Select your answer and click submit
- Attend the **full duration** of the webinar
 - Attend at least 50-minutes to qualify



Downloading Certificate

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



➤ **Meet your presenters**



Matthew MacNeil

Director Technical Consulting

Avalara



Andrew Quirk

Product Sales Specialist

Avalara

Agenda

01 Compliance landscape for tax-exempt sales

02 4 common compliance challenges for tax-exempt sellers

03 Best practices for getting and staying compliant

04 Q&A

> **The tax-exempt landscape**

Understanding tax-exempt sales

- > For any tax-exempt sale, a corresponding exemption certificate is required to prove exempt status if the company has nexus.
- > The form is presented by an **exempt organization or individual** to the seller.



When are transactions tax-exempt?

Form **1023-EZ**
(Rev. April 2021)
Department of the Treasury
Internal Revenue Service

Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code
Do not enter Social Security numbers on this form as it will be made public.
Information about Form 1023-EZ and its separate instructions is at www.irs.gov/form1023ez

OMB No. 1545-0047
Note: If exempt status is approved, this application will be open for public inspection.

☐ Check this box to attest that you have completed the Form 1023-EZ Eligibility Worksheet in the current instructions, are eligible to apply for exemption using Form 1023-EZ, and have read and understand the requirements to be exempt under section 501(c)(3).

Have your annual gross receipts exceeded \$50,000 in any of the past 3 years and/or do you project that your annual gross receipts will exceed \$50,000 in any of the next 3 years? If yes, stop. Do not file Form 1023-EZ. See Instructions. ☐ Yes ☐ No

Do you have total assets the fair market value of which is in excess of \$250,000? If yes, stop. Do not file Form 1023-EZ. See Instructions. ☐ Yes ☐ No

Part I Identification of Applicant

1a Full Name of Organization **b** Care Of Name (if applicable)

c Mailing Address (number, street, and room/suite), if a P.O. box, see instructions. **d** City **e** State **f** Zip code + 4

2 Employer Identification Number **3** Month Tax Year Ends (MM) **4** Person to Contact if More Information is Needed

5 Contact Telephone Number **6** Fax Number (optional) **7** User Fee Submitted

8 List the names, titles, and mailing addresses of your officers, directors, and/or trustees. (If you have more than five, see instructions.)

First Name:	Last Name:	City:	State:	Zip code + 4:

BUYER'S BUSINESS STATUS

- **Not-for-profit:** Charities, religious organizations, educational institutions, hospitals
- **Government:** Federal, state agencies

BOE-230 (7-02)
GENERAL RESALE CERTIFICATE

STATE OF CALIFORNIA
Customer # BOARD OF EQUALIZATION

California Resale Certificate

I HEREBY CERTIFY:

1. I hold valid seller's permit number: _____

2. I am engaged in the business of selling the following type of tangible personal property: _____

3. This certificate is for the purchase from _____ of the item(s) I have listed in paragraph 5 below. [Vendor's name]

4. I will resell the item(s) listed in paragraph 5, which I am purchasing under this resale certificate in the form of tangible personal property in the regular course of my business operations, and I will do so prior to making any use of the item(s) other than demonstration and display while holding the item(s) for sale in the regular course of my business. I understand that if I use the item(s) purchased under this certificate in any manner other than as just described, I will owe use tax based on each item's purchase price or as otherwise provided by law.

5. Description of property to be purchased for resale: _____

INTENDED USE OF GOODS SOLD

- Merchandise intended for resale
- Use in product that will be resold
- Agriculture
- Manufacturing
- Tangible personal property purchase to lease or rent

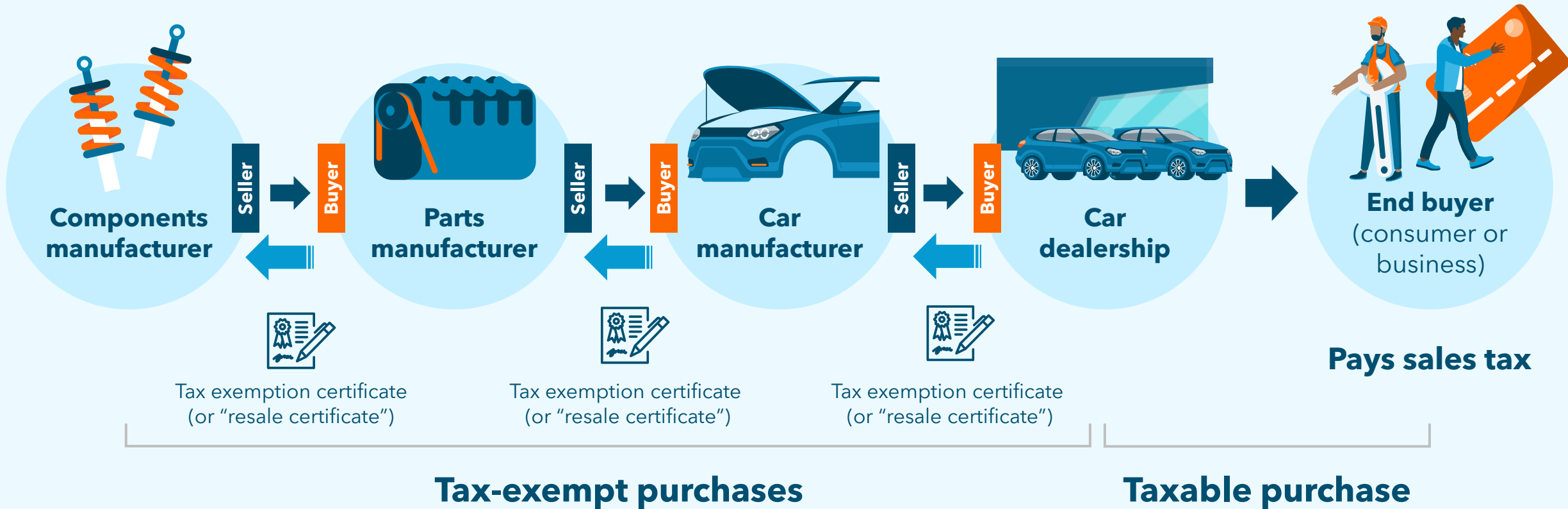
Tax exemption resale example: Auto supply chain

Seller

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

Buyer

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



CPE POLL QUESTION #1

How confident are you in your understanding of what you need to do each day to get and stay compliant?

- A Very confident
- B Somewhat confident
- C Neutral
- D Somewhat unconfident
- E Not confident at all

The background of the slide is a solid orange color with a subtle, repeating geometric pattern of overlapping triangles and polygons in slightly different shades of orange, creating a textured, crystalline effect.

> 4 common compliance challenges for tax-exempt sellers

CHALLENGE #1

Nexus



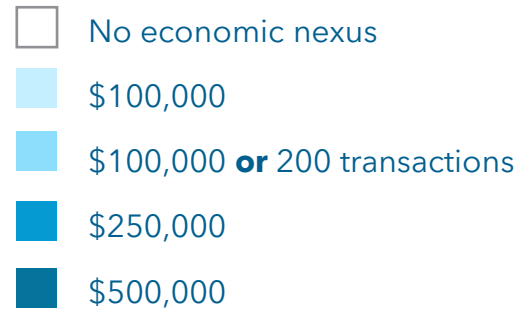
In the beginning, there was physical nexus...

Example: A distributor selling **nationwide** but with only four locations usually only had a to worry about tax compliance in those four states.

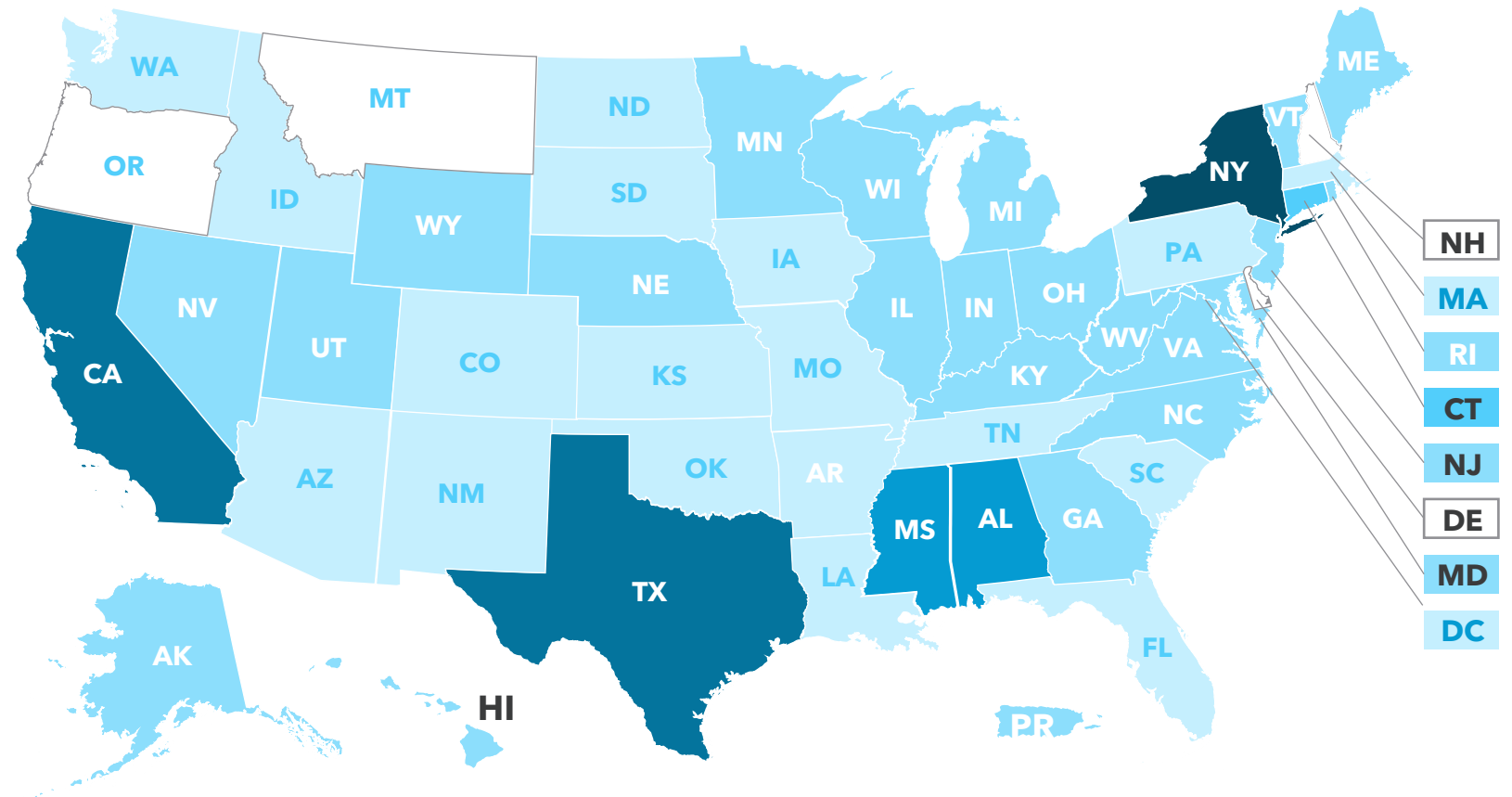


Where do you have economic nexus?

You are *required* to collect and remit tax in states when your business meets minimum thresholds in sales or transactions

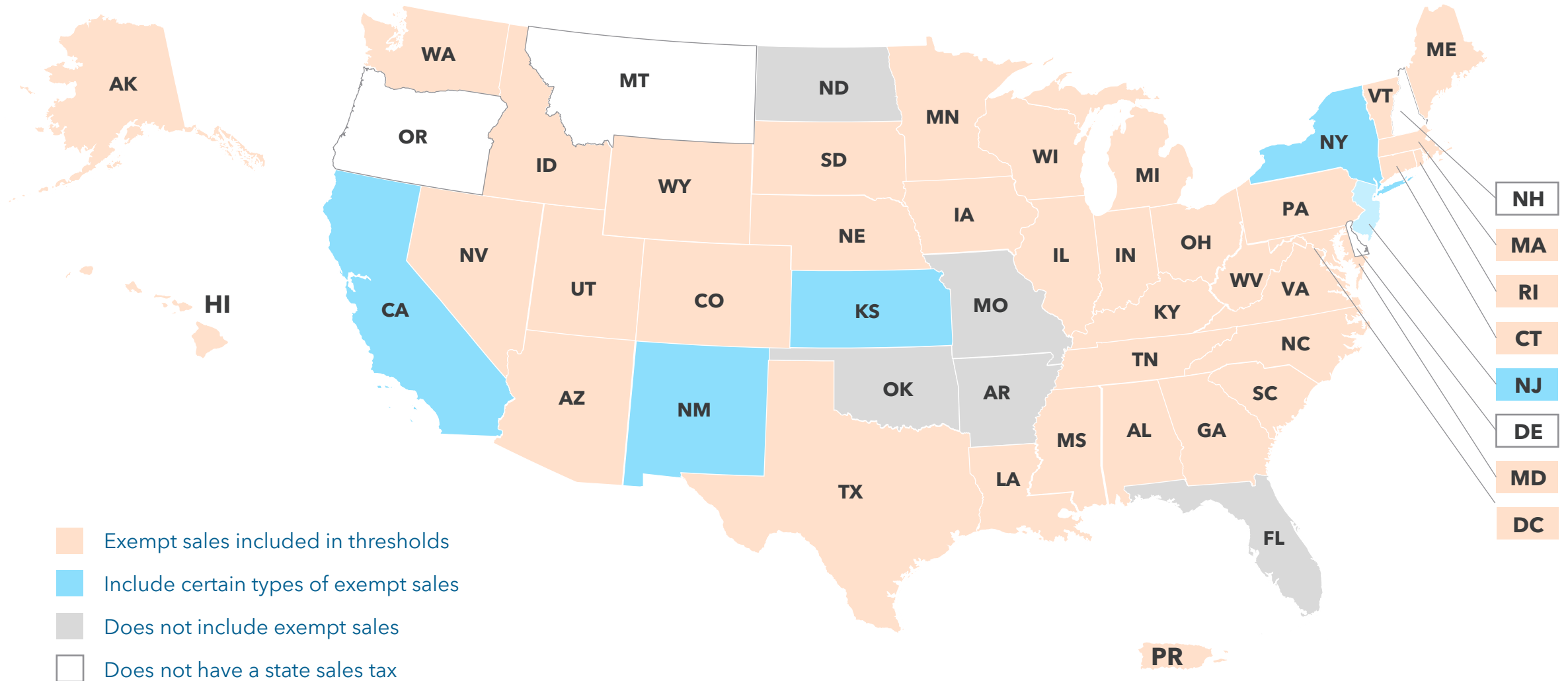


- > Wyoming will drop its 200-transaction threshold on July 1, 2024
- > Connecticut's threshold is gross receipts of \$100,000 **and** 200 retail transactions
- > New York's threshold is \$500,000 **and** 100 transactions
- > Certain states exclude resale, services, digital, SaaS, and more.



Use our free [sales tax risk assessment](#) to determine where you have nexus.

Economic nexus with exempt sales



Examples of the impact of *South Dakota v. Wayfair, Inc.*



MANUFACTURER IN NY

- 99% of sales are to other OEMs or reseller dealers (no tax)
- Wayfair ruling increased their burden to prove exempt sales
- Previous exemption certificate count: <75 on file



1,175

New docs needed



NATIONAL WHOLESALER

- Sells to resellers who sell to end-users; drop shipment is part of their model
- Wayfair grew nexus from just their physical HQ in NY to most U.S. states
- Previous exemption certificate count: 500 on file

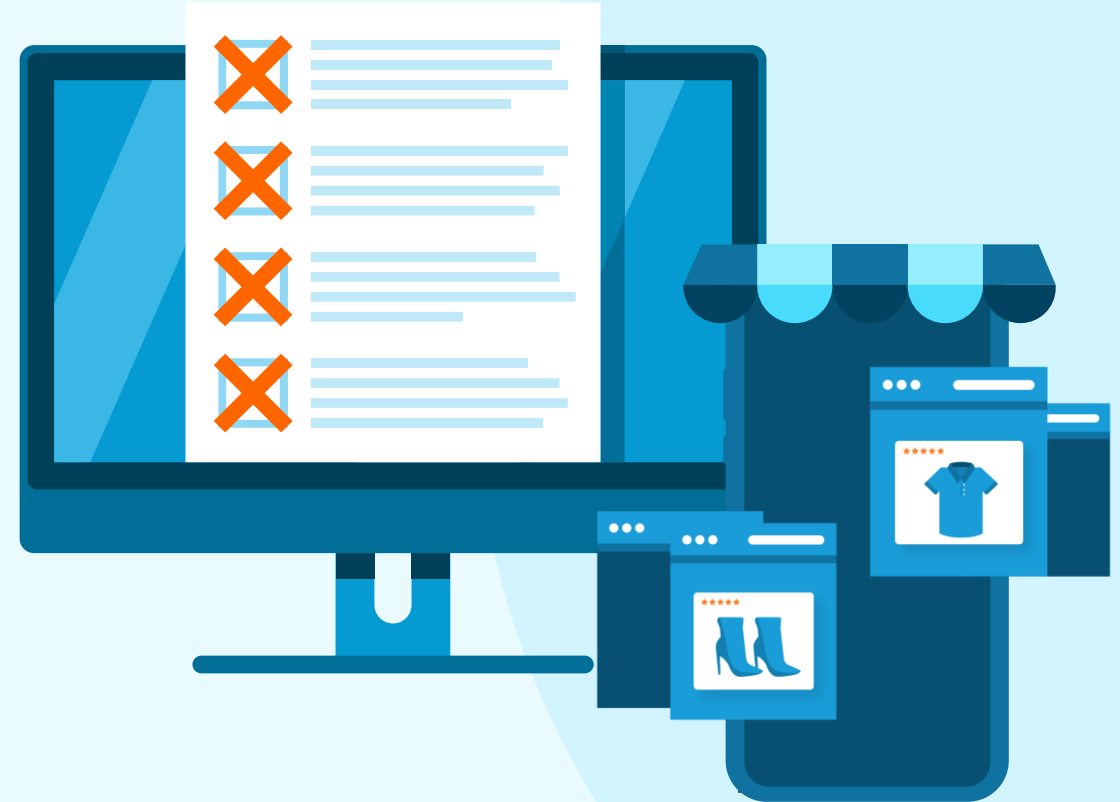


5,000+

New docs needed

The burden of proof is on **you**

- While customers must provide documentation, the burden is on the **SELLER** during an audit to prove why tax was not charged.
- Your \$0 sales tax liability is tied to those documents.
- With fines and penalties, you can owe the state double the tax you failed to collect.



CPE POLL QUESTION #2

What is the biggest challenge your team faces when collecting exemption certificates?

- A** Ensuring all necessary information is collected
- B** Verifying the validity of certificates
- C** Avoiding common mistakes in the process
- D** Training staff to handle certificate collection accurately
- E** Other

CHALLENGE #2

The customer experience



Exempt customer experience is KEY

Managing exemption certificates right is managing customers well.

Customers feel burdened by being asked to provide documentation.



No one likes delays when ready to place an order.



Poor experiences often present as billing issues; increases the likelihood of credit & re-bills.

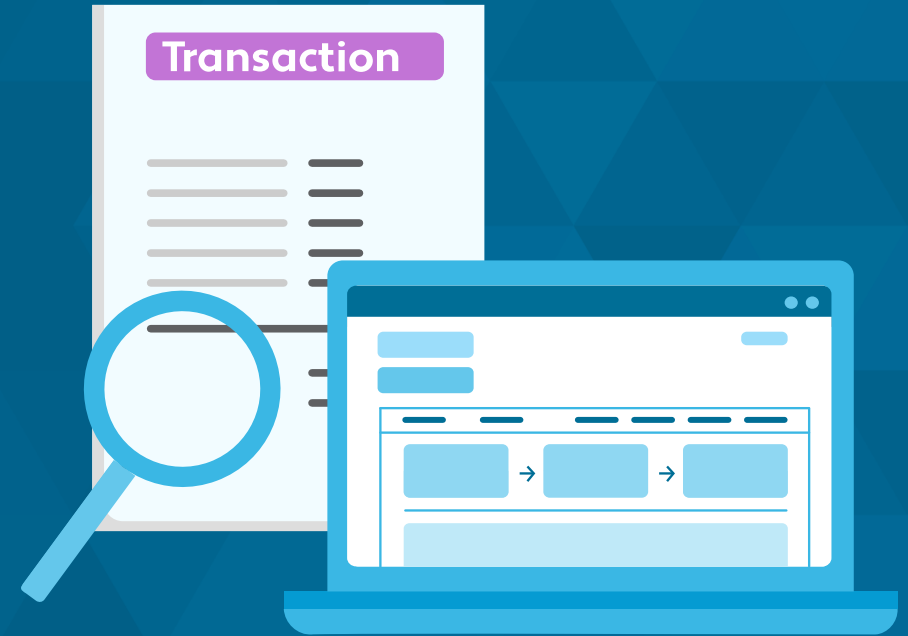


Held invoices can create cash flow issues.



CHALLENGE #3

The impact of omnichannel selling



Rise of B2B ecommerce



Expanding the traditional distribution & sales channels

Rise of B2B ecommerce

B2B digital sales
grew 17% to \$2.1T
in 2023.*

**B2B ecommerce is the
most effective sales
channel**, rated first by 35%
of respondents in a 2023
B2B Pulse survey.**

2/3 of buyers in 2022
opted for **remote human
interactions or digital self-
service** for ordering and
reordering.**

70% of decision makers are
prepared to spend **up to
\$500,000** on a single
ecommerce transaction.**

Hybrid sales models
(in-person and remote
customer interactions) are
deployed by 57% of
winning companies.**



**OFFLINE B2B
WORKFLOWS NEED TO
BE REPLICATED ONLINE**

**Digital Commerce 360 **McKinsey & Company*

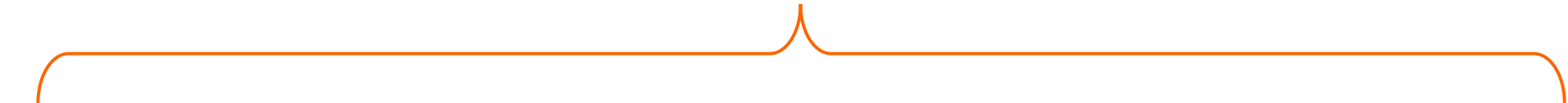
Collect across all channels

Allow customers to view & manage their exemption certificates in any sales channel

Real-time certificate completion
for ecommerce

Easy access to certificates
for in store, field sales and
shared service teams

Online web portal
for customers



Ecommerce
in-cart and/or My
Account page



New customer
portal



In-store



Mail, email, phone

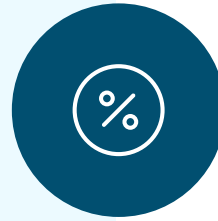


In the field



No sales tax?

**Customer service
still matters**



Poor processes for managing exemption certificates create negative customer experiences



Customers don't like providing documentation



Employees are not tax compliance experts

CHALLENGE #4

Increased audit risk



How high is audit risk?



60% OF AUDITS TARGET FOUR INDUSTRIES:

- Manufacturing
- Construction
- Wholesalers and distributors
- Retail



MOST COMMON MISTAKES FOUND BY AUDITORS:

- Nexus oversights
- Exemption management, document errors
- Misreporting use tax



AUDIT RED FLAG:

Invoices that don't show sales tax



WHAT AUDITORS WILL DO:

Request proof your business paid tax



AVERAGE COST OF AN AUDIT:

\$114,000 including penalties, fees, and professional counsel

How painful and expensive are audits?



79%

of audits were
completed within
three weeks

A small percentage
dragged on for five
months or more



35 HRS

average time
employees took
to oversee and
respond to
an audit



93%

of companies spent
10 or more hours on
an audit

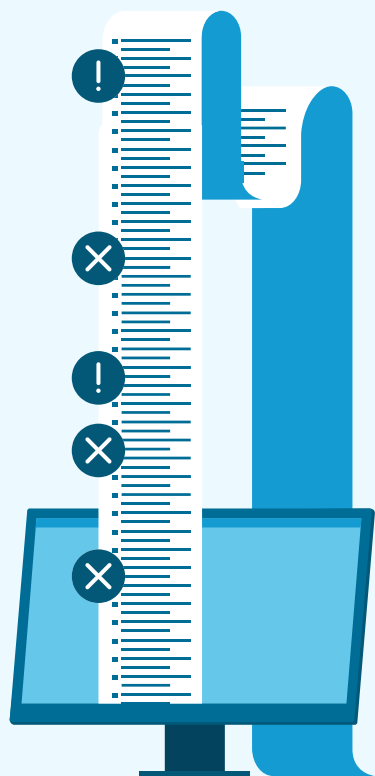


Years

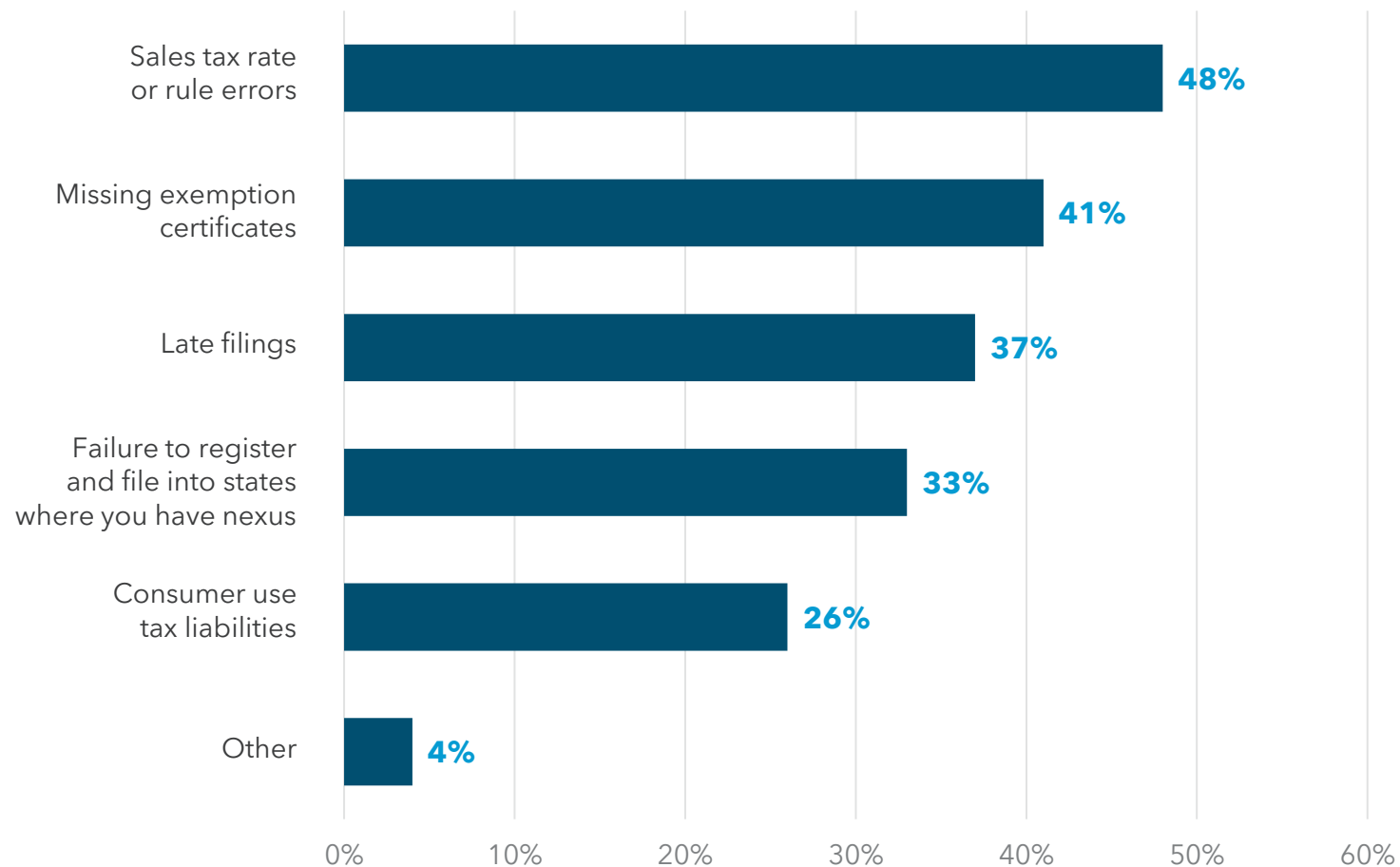
Assessments
can be applied to
transactions dating
back years

**2021 NetReflector/Potentiate Survey by Avalara .*

© Avalara. Confidential and proprietary.



Reasons for audit penalties



*2021 NetReflector/Potentiate Survey by Avalara.

© Avalara. Confidential and proprietary.

CPE POLL QUESTION #3

What is your biggest challenge managing exemption certificates?

- A** Keeping data accurate and up to date
- B** Importing/Uploading certificates
- C** Organizing and retrieving certificates
- D** Adding new customers/certificates



> **Best practices**



Tax calculations

Nexus

Customer satisfaction

Exemption certificates

Audit readiness

Ecommerce (B2C & B2B)

Accurate filing

Global tax compliance

Use tax

Tax research

**Rates are just
the tip of the iceberg...**

The 5 steps to managing sales tax compliance



1

UNDERSTAND

Understand where your business must collect and remit sales tax, or exemption certificates



2

REGISTER

Register with each state where nexus is triggered



3

VALIDATE

Collect, validate and maintain updated exemption certificates



4

CALCULATE

Calculate the correct sales tax amount when needed

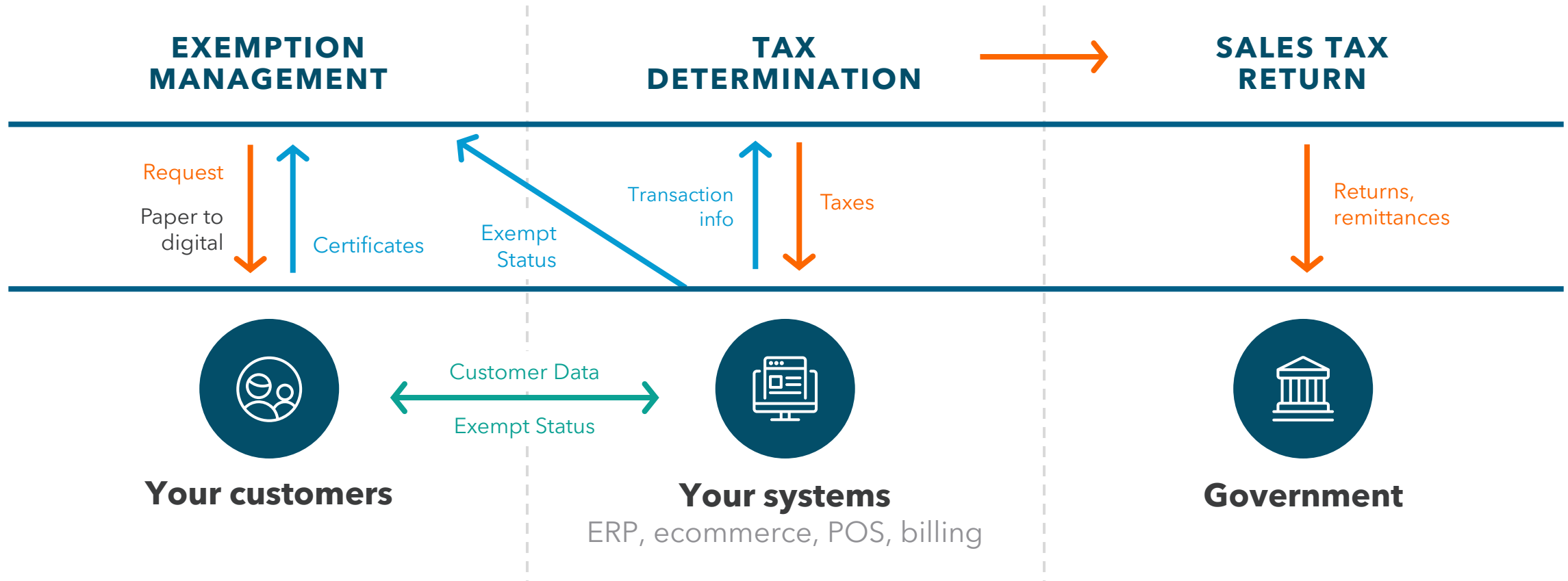


5

REPORT

File and remit sales tax returns accurately and on time

Avalara's Tax Determination Suite



Automation is key to compliance

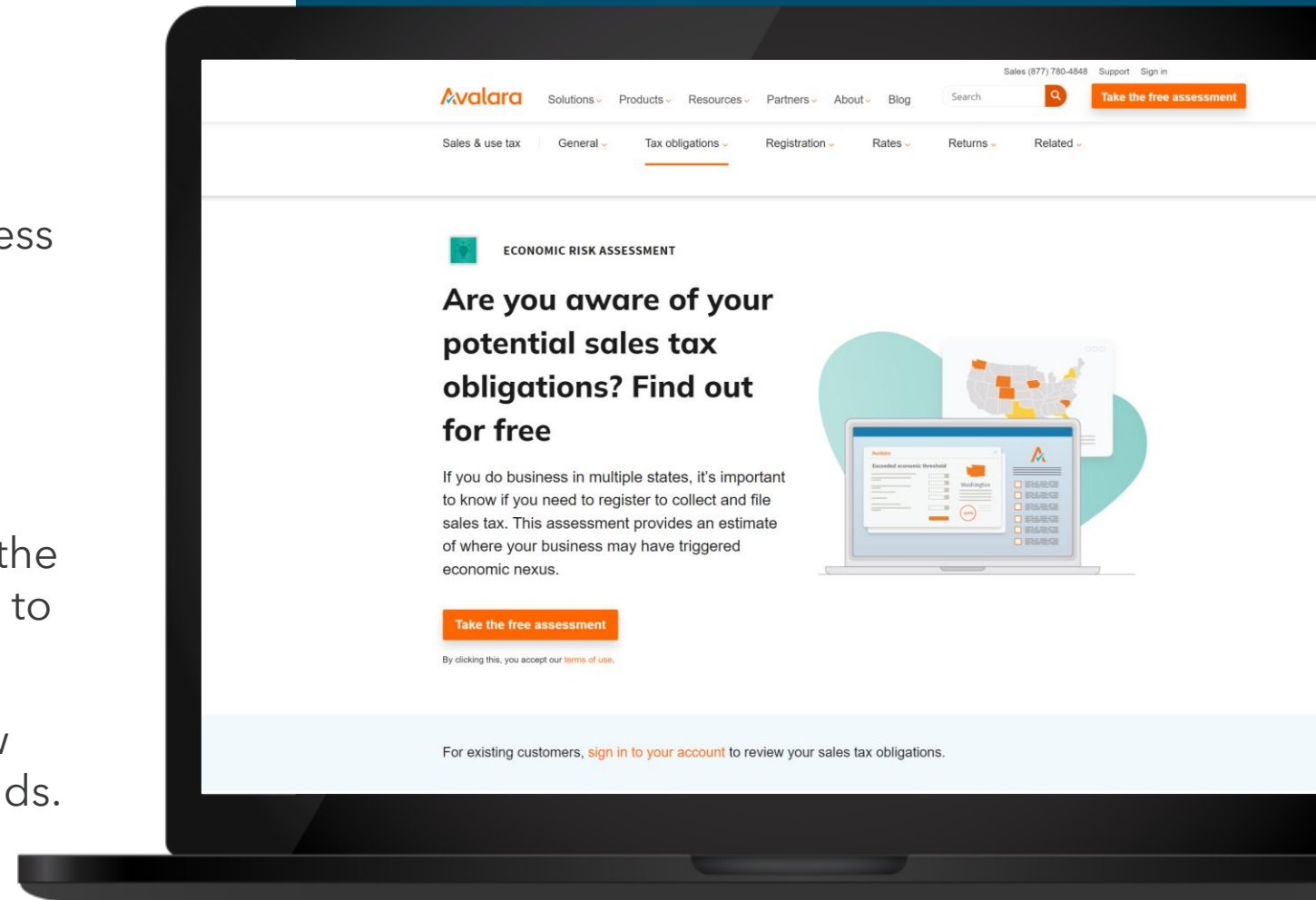
Avalara's free nexus tool helps determine where you may have nexus.

- Provides an estimate of where your business may have triggered economic nexus

Avalara's Premium Sales Tax Risk Assessment offers a comprehensive view of your obligations.

- Provides an exact list of U.S. states where the company has triggered nexus, in addition to a tax exposure analysis

Avalara's AvaTax can also help monitor new sales tax obligations and new nexus thresholds.



Collecting, validating, and maintaining exemption certificates

Intelligent exemption certificate management



Directs buyer to proper documentation, eliminating need for onsite expertise



Insights and centralized collaboration



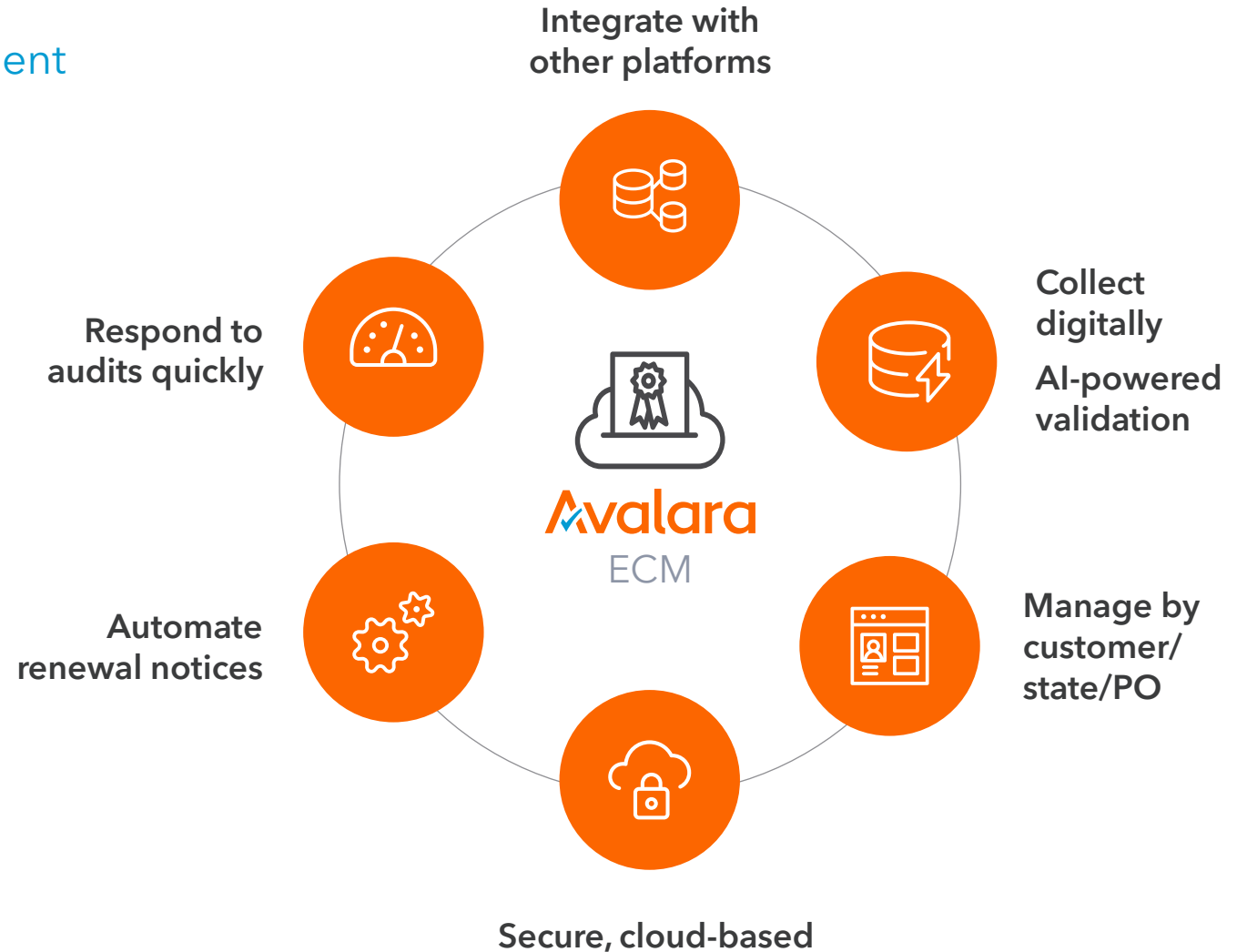
Integrates with AvaTax, invoicing platforms, websites and other tax engines for real time verification



Available ecommerce module, APIs, and professional services



Extensive reference library of exemptions laws



ECM Managed Services

ONE-TIME ECM MANAGED SERVICES

Step 2 of implementation

Following customer-led software setup and upload of clean customer data, Avalara will help you move from your current manual/paper/PDF processes to digitized compliance workflow. We will collect/validate all required customer exemption certificates for your business.

RECURRING ECM MANAGED SERVICES

Ongoing maintenance

Avalara will proactively run reports of certificates due to expire, create campaigns, validate newly received certificates, and provide customer support to ensure all certificates remain up-to-date and your business remains compliant.

Types of ECM integrations



ERP

(through AvaTax)



Ecommerce sites

(through AvaTax)



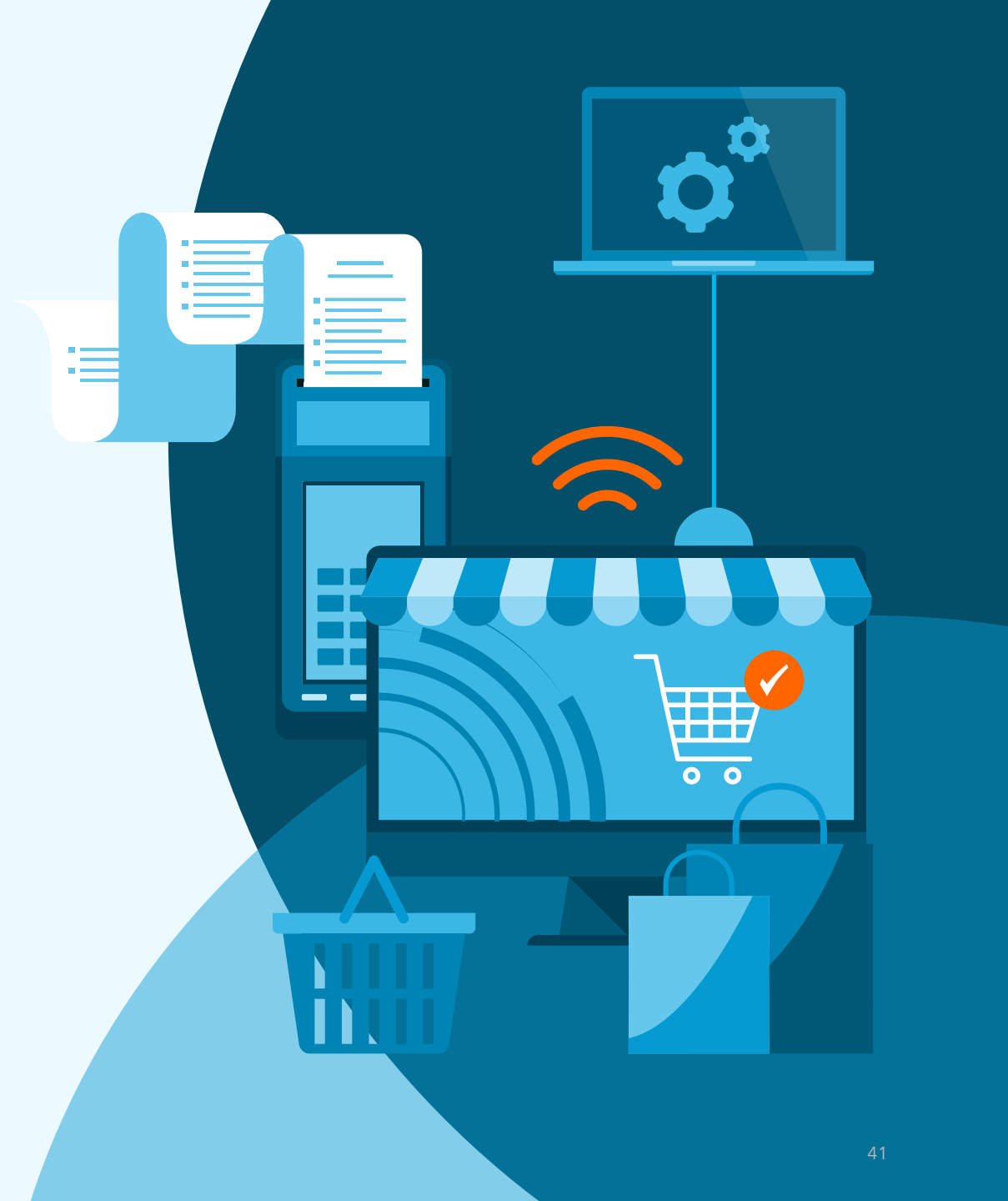
Independent

(API integrations)



Avalara Certified

DOCUMENT MANAGEMENT



Purchasing/procurement

Vendor Exemption Management



Adds controls & policy enforcement to purchasing across the organization



Minimizes need for internal tax expertise



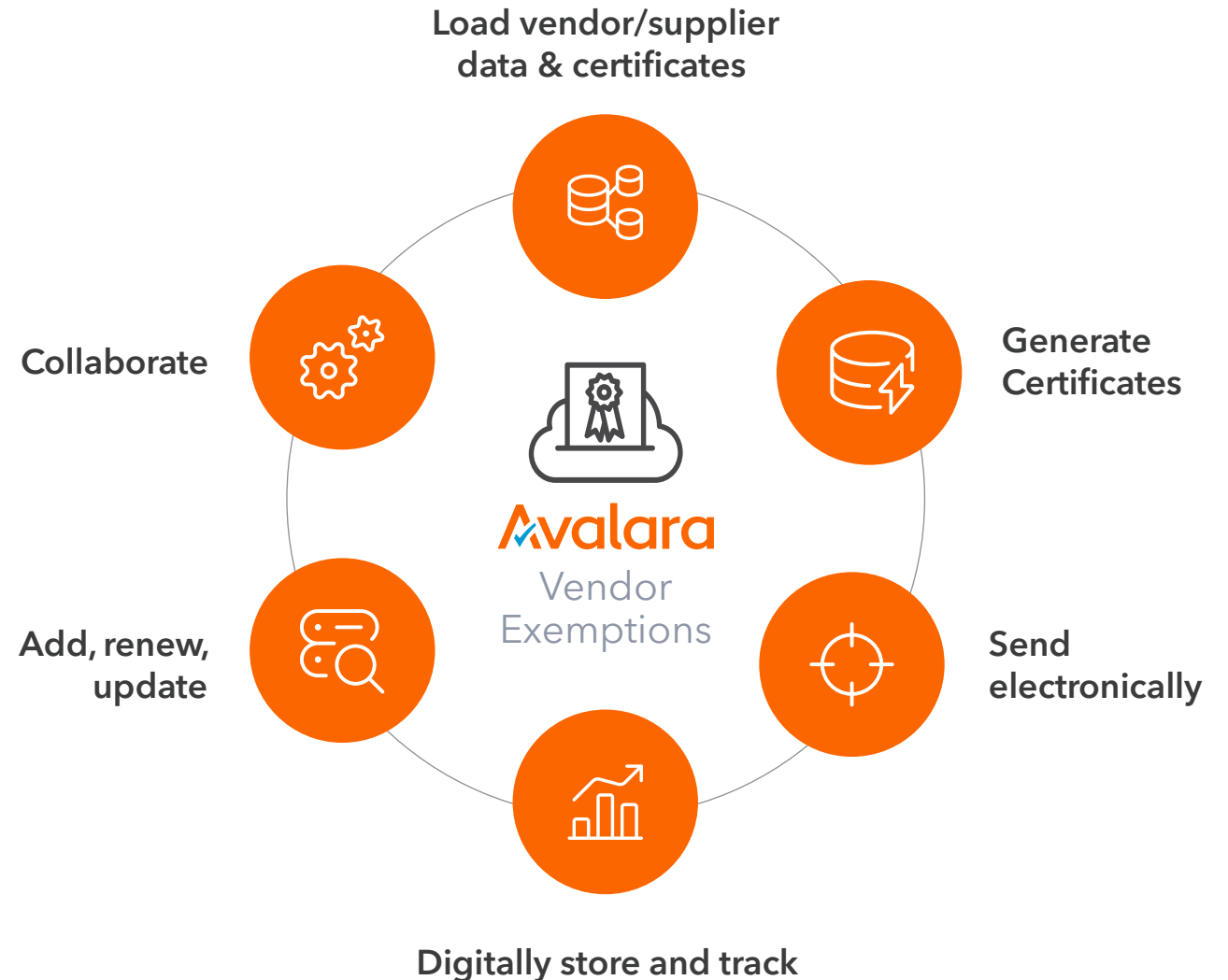
Allows web-based automation and process centralization



Creates pre-populated certificates (signature)



Improves vendor/supplier relationship, creates more efficient buying process



Digitize exemption certificates

Automate across platforms and channels to be fully compliant with new laws



Collect across all channels

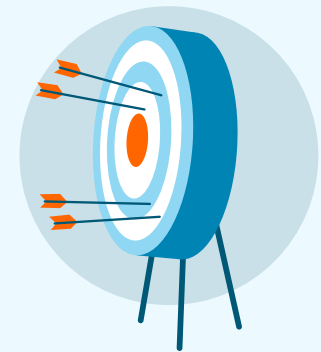
Collect, validate, and update sales tax exemption certificates BEFORE you invoice, regardless of where that invoice is created: ERP, online, over the counter, and in the field.



Turn paper to pixels

Collect digitally, and digitize existing certificates including validation, mapping, and certificate intake process. Digital information enables robust tracking and reporting.

Enable campaigns for new states and renewals/updates.



Remove the guesswork

Buyers know what to provide, sellers know what to collect. Digital forms eliminate errors, speed up processes, even auto-validate. Be proactive instead of reactive.

Why automate sales tax compliance?



ACCURACY

Real-time tax calculations that get it right every time



EFFICIENCY

Reduce costs and time spent managing tax compliance



CUSTOMER SATISFACTION

Streamline transactions with instant sales tax calculations



RISK MANAGEMENT

With accurate results, you'll decrease your company's risk



BUSINESS GROWTH

Free resources to focus on high-value projects

Savings from tax exemption certificate labor

According to a 2024 Forrester Total Economic Impact™ study

The scenario

BEFORE

Poor certificate management processes

AFTER

Software collects, validates, and maintains exemption certificates, ensuring accuracy for buyer and seller

The result



30 minutes

saved for staff per exemption certificate

Financial impact



\$96.5K

three-year PV

“

What customers say

“Using Avalara’s Exemption Certificate Management tool has been an amazing transformation for us. We zip out the files based on the query we get from the auditor. It’s so fast, and then we can go through them electronically, check them, and send them off.”

Executive Tax Director
Manufacturing

Important questions

What to ask yourself

How many states are you / do you need to register in for sales tax compliance?

What % of your customers / businesses 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 ensure what is collected is accurate and valid?

Know if your business needs help.

HELP!



CPE POLL QUESTION #4

Would you like to talk with an expert about your global trade compliance?

A Yes

B No

Q&A

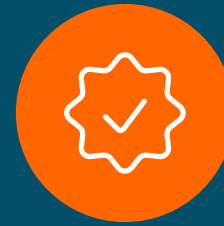


Continuing Professional Education (CPE)



Qualifying for credit

- Respond to **3 of 4** poll questions
 - Questions display for a limited amount of time
 - Select your answer and click submit
- Attend the **full duration** of the webinar
 - Attend at least 50-minutes to qualify



Downloading Certificate

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

Avalara CRUSH *On Tour*

Register today!

1 DAY

A value-packed day that gives you the flexibility to choose what works best for you

2 TICKET OPTIONS

General Admission

\$49

All-Access Pass

Hands-on training and CPE credits

\$99

3 KEY HIGHLIGHTS

- Support via 1:1 Learning Lab appointments
- Learning through Insight Sessions and Fireside Chats
- Training on Avalara products (All-Access Pass required)



CRUSH on Tour also includes activations such as our **Product Pavilion, food and beverages, and a networking happy hour** – all in a setting where you can explore at your own pace.

events.avalara.com

#AvalaraCRUSH

Upcoming webinars

avalara.com/webinars

JUNE

3

Trade and Tariff Tuesdays

JUNE

10

Trade and Tariff Tuesdays

JUNE

12

HS codes 101: Get classification right for cross-border trade

JUNE

17

Trade and Tariff Tuesdays

JUNE

24

Trade and Tariff Tuesdays





Avalara

Tax compliance done right