

# THE TRICKY 10

STATES WITH THE MOST COMPLEX RULES  
FOR FILING SALES TAX RETURNS

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# The challenges

## DON'T LET A SMALL NUMBER OF STATES TAKE UP MOST OF YOUR TIME

There are 50 states, but there are thousands of U.S. sales tax jurisdictions. Any businesses selling within or into the United States may be required to file sales and use tax returns in multiple states, and some states' tax return requirements are trickier than others.

Are you familiar with the more complex and unusual states for filing sales tax returns? We've identified our Tricky 10: a list of states with the most complex requirements and processes for preparing, filing, and submitting your sales and use tax returns. Read on to see why filing sales and use tax returns in these states can be so challenging, and how you can use an automated solution to help.



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## COMPLEX NEXUS LAWS

Nexus laws vary by state, and some states have been creative in developing nexus laws that businesses must decipher and follow. Nexus has long been linked to physical presence, but the explosion of ecommerce has driven many states to seek new ways to establish nexus. A nexus obligation can be established through a variety of business activities, including physical presence, inventory storage, sales and transaction thresholds, and event attendance. States also base their nexus thresholds on different types of sales; retail sales exclude sale for resale, taxable sales exclude sale for resale and exempt customers, and gross sales don't exclude anything.

It's important that you understand these distinctions so your business is registered where required (and not registered where you don't have to).

Check out the [Know Your Nexus](#) ebook to learn more about the different types of nexus and what triggers new nexus obligations. If you want to know what states are implementing economic nexus laws or where you may have an obligation, review our [state-by-state guide to economic nexus](#).

## RETURNS PREPARATION

Some states require a separate return form for each type of tax or for specific jurisdictions. That means in a home rule state – a state with local sales tax requirements – business owners could be required to file multiple returns each month. Further, some states may require breakdown reporting of sales of tangible personal property. These can include certain types of sales, such as clothing, or deductions, such as nontaxable or exempt sales.

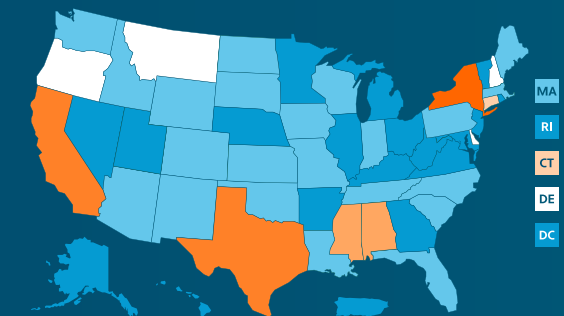
## MULTIPLE PAYMENT METHODS

It can be convenient to remit sales tax electronically for many businesses, but for others, mailing a check may be easier to track and manage. Unfortunately, it isn't always up to the businesses. Some states may require electronic payment if your tax liability meets a certain threshold and others may accept either form of payment. Also some states require businesses to make a monthly prepayment, but file quarterly. Managing payments and different payment methods for multiple states can be time-consuming and confusing.



### SOUTH DAKOTA V. WAYFAIR, INC.

Economic nexus is one of the most confounding and relevant types of nexus due to the U.S. Supreme Court's ruling in *South Dakota v. Wayfair, Inc.* The case addressed sales tax obligations for remote sellers, and the court ruled in favor of South Dakota, essentially requiring remote sellers that meet a sales or transaction threshold to pay sales tax even though they do not have a physical location in the state. While this ruling was specifically about South Dakota, it paved the way for other states to begin taxing remote sales and reinforcing their economic nexus regulations.



#### ECONOMIC NEXUS THRESHOLDS:

\$500,000 <b>AND</b> 100 TRANSACTIONS	\$500,000	\$100,000 <b>OR</b> 200 TRANSACTIONS	\$100,000
\$250,000	\$100,000 <b>AND</b> 200 TRANSACTIONS	NO ECONOMIC NEXUS	

## RETURNS FILING METHODS

Many states are standardizing with electronic submissions for sales and use tax returns, including online filing and telefiling. A few states now require electronic filing for all tax returns, but some require electronic filing only if sales are above a certain threshold. And others still allow taxpayers to fill out and mail in paper forms. It's important to note that electronic filing requirements may differ from electronic payment requirements.

## ELECTRONIC FILING

The way you pay your tax bill matters too – many states require electronic payments. Some states allow nonelectronic filing only to a certain threshold. As a business, you may be able to send a check into one state but you're required to pay electronically in another.

## LOCAL RETURNS

Local tax can in some cases trigger a business's license requirements and registration due to home rule. For home rule states, locally administered cities or counties may impose and manage sales and use tax returns on their own, requiring businesses to file separate local returns that differ from state returns. The responsibility of determining if registration is required lies with the business, as does the responsibility for collecting and filing with specific cities or counties.

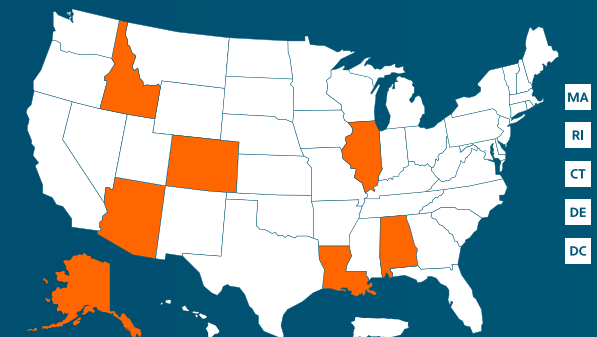
## DUE DATES AND FILING SCHEDULES

Filing and remittance schedules can vary depending on your sales volume and the state or jurisdiction. That means you may need to file every month in some states and only quarterly in others – or even offset quarterly if you're in New York. It's important to accurately track filing deadlines and payment due dates to maintain compliance. Some states even require that payments be made by a certain time of day.



### WHAT'S A HOME RULE STATE?

Home rule in seven states allows municipalities or counties to pass their own laws as long as they don't conflict with state laws. Towns and counties in some home rule states can set their own sales tax rates. You may be required to register with one or more local tax departments.



HOME RULE STATES

## RATE CHANGES

Rates can change based on local jurisdiction and rules. Each state may tax different products at different rates. Changes to rates and rules are continuously being reviewed and passed by state legislators so it can be difficult for businesses to keep up, making sales tax returns more difficult to get right.

## NOTICE MANAGEMENT

Even after your returns are filed and payment is remitted, compliance isn't over. Your business may receive a notice from a jurisdiction due to a perceived error or because the jurisdiction made changes to its filing requirements. Some states deliver notices more frequently and a few have adopted [use tax reporting requirements](#).

## LOCATION OR OUTLET REPORTING REQUIREMENTS

Individual states may have specific requirements for businesses with multiple retail locations such as outlets, kiosks, or pop-up stores. Location reporting requires sellers to report sales tax based on individual location. For companies with many retail locations, this obligation can quickly become arduous.

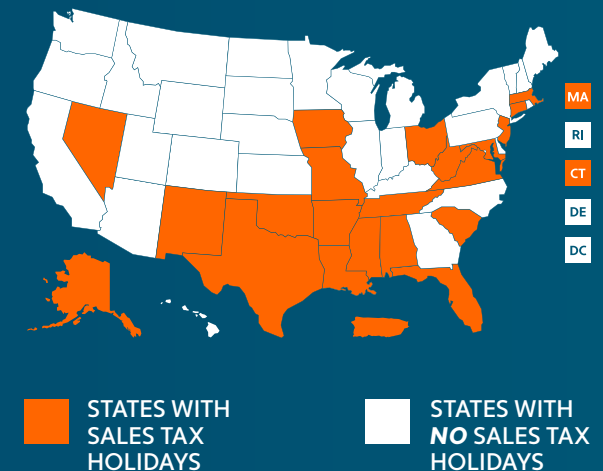
## REGISTRATION ACCURACY

In some states, [businesses are required to register](#) and to collect individual tax types and then must ensure they're employing the correct corresponding tax forms when it's time to file and remit sales tax. This process can create confusion for businesses that sell many types of products and, as a result, must track and manage multiple registrations, tax types, and forms.



## SALES TAX HOLIDAYS

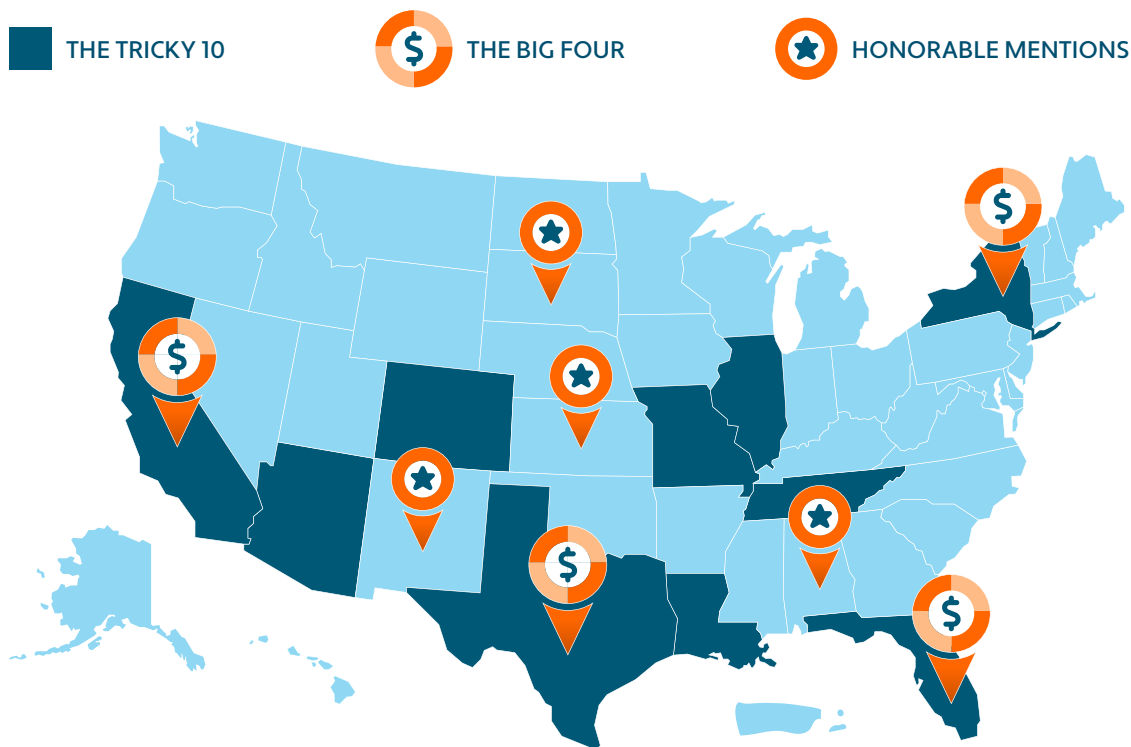
A sales tax holiday is a designated period of time when certain goods or services are exempt from sales tax. States have sales tax holidays for everything from back-to-school supplies and Energy Star appliances to disaster preparedness and restaurant food. Sales tax holidays can trip up a business when it comes to sales tax, and some states have a lot of sales tax holidays to stay on top of, so **it's important to know when they occur and prepare your business**.



STATES WITH  
SALES TAX  
HOLIDAYS

STATES WITH  
NO SALES TAX  
HOLIDAYS

# States with complex sales and use tax returns



## THE BIG FOUR

The Big Four are the states with the highest populations and the highest sales tax revenue collections in the United States. These states are **California, Florida, New York, and Texas**. As a result, they can be a good indicator of how other states may handle sales tax in the future.



## HONORABLE MENTIONS

In addition to the Tricky 10, **Alabama** and **Kansas** have unique sales tax laws that can affect complexity of returns filing and remittance. Both states require prepayments and have separate returns for individual sales tax, and Alabama is a home rule state with local sales tax requirements.

### South Dakota

South Dakota, while a trendsetter when it comes to nexus, can be a headache when it's time to file. South Dakota's nexus threshold is based on gross receipts, and taxes everything, even generally exempt customers like nonprofits and religious organizations.

### New Mexico

New Mexico also has gross receipts tax and a complex tax form and returns process that looks different from other states. While many other states tax different goods at different levels, like 6% on everything and 3% on groceries, New Mexico offers a 50% deduction from gross receipts for the cost of groceries. This difference in wording can make compliance challenging, especially for sellers who aren't familiar with the particular quirks of the state.

# THE TRICKY 10

## DO YOU FILE IN ANY OF THESE COMPLEX STATES?

These states have particularly complex nexus laws and can be especially time-consuming and frustrating when it comes to calculating, filing, and remitting your sales and use tax returns.



### ARIZONA

- Transaction privilege tax in lieu of state sales tax
- Local tax complexity: home rule state
- Early filing discounts
- Confusing state forms
- City and county tax must be broken out for individual locations
- Deduction breakdown requirements
- Annual prepayment required based on prior year liability
- Mandatory electronic filing for registered customers with multiple locations



### CALIFORNIA

- A Big Four state – highest population and highest sales tax revenue
- Optional local jurisdictions
- Multiple schedules
- Monthly prepayment with quarterly return
- Deduction breakdown requirements
- Location or outlet reporting requirements
- Annual prepayment required based on prior year liability



### COLORADO

- Local tax complexity: home rule state
- Dozens of local, self-administered taxes
- Special rules for short-term rental filings
- Location or outlet reporting requirements
- Deduction breakdown requirements
- Early filing discount for small businesses
- Consumer use tax notice and reporting for non-collecting sellers



### FLORIDA

- A Big Four state – highest population plus highest sales tax revenue
- Early filing discount
- Complex rate calculation including the Florida Discretionary Sales Surtax: a county sales tax
- Minimum monthly prepayment required



**ILLINOIS**

- Gross receipts tax
- Retailers' Occupation Tax and Service Occupation Tax; state and local
- Sales based on the retailer's location – not delivery location
- Local tax complexity: city of Chicago
- Tax rate varies depending on transaction type
- Confusing regulations regarding locations based on selling activities
- Early filing discount
- Multiple forms sometimes required
- Deduction breakdown requirements
- Location or outlet reporting requirements
- Prepayment required based on revenue threshold
- An extra level of complexity for out-of-state sellers; out-of-state retailers charge sales tax based on destination sourcing, whereas in-state retailers charge sales tax based on origin sourcing

**LOUISIANA**

- Local tax complexity: home rule state
- Jurisdictions defined by parish
- Deduction breakdown requirements
- Consumer use tax notice and reporting for non-collecting sellers

**MISSOURI**

- Complex new rates every quarter
- Each tax type has a separate return
- Spreadsheet-based returns
- Many local jurisdictions and local governments overlap
- "Local" has many definitions
- Prepayment required based on revenue threshold

**NEW YORK**

- A Big Four state – highest population and highest sales tax revenue
- PromptTax required for large sales tax vendors
- Different forms required for different filing frequencies
- Offset quarterly filing requirements for some vendors
- Retail sales breakdown reporting requirement

**TENNESSEE**

- Complex rate calculation including the Location Option Sales Tax and the Single Article Tax
- Deduction breakdown requirements
- Location or outlet reporting requirements

**TEXAS**

- A Big Four state – highest population and highest sales tax revenue
- Prepayment required based on revenue threshold
- Location or outlet reporting requirements
- Proposed consumer use tax notice and reporting for non-collecting sellers
- High volume of auditors with expedited enforcement plans

## Let Avalara file for you

If you're struggling each month to keep up with the rules, regulations, and requirements for filing in just a few of the tricky states, let Avalara help. With [Avalara Returns](#), you can reduce audit exposure, improve accuracy, and refocus your staff to work on other priorities. And for a more automated solution, check out Avalara Managed Returns, a tax compliance solution ideal for larger businesses that want to offload a part of the returns process and reduce costs. Thousands of businesses have improved efficiency and compliance by letting Avalara handle their sales tax filing, remittance, and notice management.

GET STARTED

A number of states participate in the Streamlined Sales Tax (SST) program, an effort to simplify sales tax. If you do business in **Arkansas, Georgia, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, Nevada, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, Tennessee, Utah, Vermont, Washington, West Virginia, Wisconsin, or Wyoming**, the SST program can help you cover the cost of using Avalara to manage sales tax. Learn more about [Streamlined Sales Tax](#).

### DISCLAIMER

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



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