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5 STEPS FOR MANAGING COMPLIANCE WITH EXEMPT SALES

Take these essential steps to secure end-to-end compliance with exempt sales

When it comes to managing and properly documenting exempt sales – including sales for resale – it isn't easy.

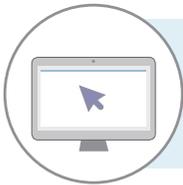
However, getting it right is crucial for success. As your business evolves your sales tax obligations may also change or expand, impacting the requirements for documenting when and why a transaction might be exempt from sales tax. Without a comprehensive plan in place, selling exempt products or services can compound your compliance challenges and tax liability. In the event of a sales tax audit, you must prove that your qualified exempt sales are supported by valid documentation. If you're unable to do so, you could be assessed tax, interest, and penalties.

To get a handle on what needs to be done and to properly manage the process moving forward, we've outline the five steps all businesses should take to ensure they're compliant at every stage of the exemption certificate management process.



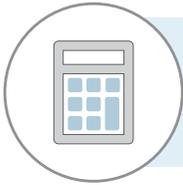
Step 1

Establish your sales tax obligation and register



Step 2

Determine sales and customers that qualify as exempt



Step 3

Collect exemption certificates



Step 4

Validate exemption certificates



Step 5

Store, track, and manage your records

[Get started with Step 1 ▶](#)



STEP 1: ESTABLISH YOUR SALES TAX OBLIGATION AND REGISTER

OVERVIEW

You may not need to collect and remit sales tax everywhere, so determining where your business is required to register, collect, and remit sales tax is the first step in overall sales tax compliance. The connection that establishes a business obligation to register, collect, and remit tax is a concept known as **nexus**. Many business activities can create a nexus obligation with a tax jurisdiction, including having physical locations, remote employees, affiliate relationships, or economic activity in that tax jurisdiction.

WHAT TO DO

You first need to understand the business activities that establish a nexus connection, then review your business practices to determine where you might have an obligation to register and document exempt sales. For businesses with exempt sales, one form of nexus can be particularly confusing – economic nexus. Economic nexus is when a sales tax obligation is established through economic activity like sales or transaction thresholds. Understanding how exempt sales impact economic nexus is challenging because some states include exempt sales in the sales and transaction thresholds while others don't. Knowing what activities as well as how states determine what transactions trigger a nexus obligation in relation to exempt sales is critical to maintaining sales tax compliance. Once you determine if you have a nexus obligation, the first step is to register with the appropriate jurisdiction. Avalara has many resources to help you understand nexus, stay up to date with changes in nexus laws, and successfully complete registration requirements.

RESOURCES FOR MORE DETAILS

- [Know your nexus ebook](#)
Review the various ways nexus can be established to determine where and when you need to collect and remit sales tax.
- [Sales tax registration 101](#)
Read this article to get an initial understanding of what's involved with registering in new jurisdictions to collect and remit sales tax.

HOW AVALARA CAN HELP

If you're unsure about your current or expanding nexus obligations, the [Avalara Professional Services](#) team can help. We offer an in-depth nexus study and ongoing nexus monitoring to help you decipher where you need to collect and remit sales tax and how to get ready for **Step 2**.



Continue to Step 2, Determine sales and customers that qualify as exempt ▶



STEP 2: DETERMINE SALES AND CUSTOMERS THAT QUALIFY AS EXEMPT

OVERVIEW

After you determine where you have nexus, and subsequently where you need to collect and remit sales tax, you need to assess which of your sales and/or customers qualify as exempt from sales tax. Sales can be exempt from sales tax for many reasons and it's typically the responsibility of buyer to let you know if they're exempt. How or where the goods are used by the buyer can determine if the sale qualifies for an exemption. One of the most common reasons for a sales tax exemption is items intended for resale. Some states don't tax services and labor and consequently don't require any documentation, but some do. Further, many states exempt nonprofits and government agencies from paying sales tax, but they're still required to provide a valid certificate. As the number and types of products or services you sell grows, so does the likelihood you'll have more tax-exempt sales and complexity in maintaining compliance.

WHAT TO DO

Analyze your sales and decide whether to charge sales tax or accept an exemption certificate. Are all your customers exempt or only a small portion? New laws and regulations for remote sellers are increasing the number of customers you must monitor and manage when it comes to exempt sales. This may create an obligation to collect exemption certificates in a jurisdiction where you previously weren't required to. In situations like this, you either need to start charging sales tax to customers or obtain a valid exemption certificate. In addition, supply chain relationships can trigger a sales tax obligation even if no sales tax is collected. When this happens, you might not have to collect tax, but you need to have a valid resale or exemption certificate for your records. If you can't produce valid documentation in the event of an audit, you become open to risk of tax, interest, and penalties.

RESOURCES FOR MORE DETAILS

- [Managing exempt sales during the rise of economic nexus](#)
Understand how your management of exempt sales is impacted by economic nexus laws, especially for businesses involved in a supply chain.
- [Economic nexus and drop shipping infographic](#)
If you're part of a supply chain or you provide drop-shipping services, refer to our infographic to help determine if you need to collect resale certificates. In some cases, you might need to provide a completed exemption certificate.



HOW AVALARA CAN HELP

After you've determined what sales require an exemption certificate to be either collected or provided, you'll be ready to tackle **Step 3**.

Continue to Step 3, Collect exemption certificates ►



STEP 3: COLLECT EXEMPTION CERTIFICATES

OVERVIEW

Once you decide to accept the transaction as exempt, you must collect a valid exemption certificate. Some states have specific requirements when it comes to the documentation required for exemptions while others are more flexible, so it can be tricky to know what you need to be compliant. With more than 12,000 tax jurisdictions in the United States, each with different tax rates and product taxability, it can be difficult to know when you're not required to collect sales tax. To ensure you're maintaining compliance and documenting your exempt sales accurately, you need to collect the certificates, ensure the information is complete, and ensure they continue to be valid. To successfully collect the right exemption certificates, you need to be able to recognize the correct certificate for each state or jurisdiction you sell in to, obtain the appropriate certificates, and develop a process that supports the ongoing collection and maintenance of exemption certificates.

WHAT TO DO

Ensure you understand the certificates and specific forms necessary for different jurisdictions and exemptions. Consider whether you plan to collect certificates from customers before or at the time of sale. You should also determine if you have any customers that have been purchasing tax exempt without a certificate on file, requiring you to back collect exemption certificates for those customers.

RESOURCES FOR MORE DETAILS

- [When do you need to obtain a sales tax exemption certificate?](#)
The when and whys of exemption certificates. Understand when you should ask for a certificate and why it's risky to wait.
- [The ultimate guide to exemption certificates for sales tax compliance](#)
Learn the basics of sales tax exemptions as well as common ways you can open yourself up to compliance risk and potentially costly fines and penalties.



HOW AVALARA CAN HELP

If you need assistance in collecting and inputting your exemption certificates, [Avalara CertCapture Managed Services](#) can help. Our team enters required data directly into the Avalara CertCapture system and it's automatically stored and indexed so you can access it at any time. With the right certificates and forms identified, you're ready to move on to certificate validation in **Step 4**.

[Continue to Step 4, Validate exemption certificates](#) ►



STEP 4: VALIDATE EXEMPTION CERTIFICATES

OVERVIEW

Regardless of the reason for an exemption, the seller must collect and verify a complete certificate for each tax-exempt buyer in order to confirm why sales tax wasn't collected. Failure to produce valid documentation on qualifying sales during an audit may leave your business open to penalties and fines. While confirming the accuracy of an exemption certificate, check that 1) the name and address are consistent with the company name and address on the invoice, 2) there's a comprehensive description of the items purchased, and 3) the certificate is complete. Finally, the certificate may require the signature of the purchaser or agent and the date of completion, because some certificates expire in certain jurisdictions.

WHAT TO DO

If your business has exempt sales, make sure you have a sound sales and compliance process as well as resources in place to validate exemption certificates at the time of sale. Neglecting to collect and validate an exemption certificate can cause headaches down the road. The inability to produce valid documentation is one of the top reasons businesses are assessed tax, interest, and penalties during an audit. Ensure your validation process doesn't leave you open to tax exposure and that you're prepared for an audit at any time.

RESOURCES FOR MORE DETAILS

- [Common errors with tax-exempt sales](#)
Watch this video to learn more about three common ways businesses make errors with tax-exempt sales. Exempt sales can trip up even the savviest business.
- [Audit preparation checklist](#)
A helpful checklist for when you need to prepare for a sales tax audit.



HOW AVALARA CAN HELP

Successfully collecting exemption certificates is a lost cause if they aren't properly validated and filled out. To ensure you understand the information required for each type of certificate and form, develop a process to help you check all the boxes every time. [Avalara CertCapture Managed Services](#) can help identify missing or incorrect information during the collection process that will require follow-up. After you collect and validate your exemption certificates, it's time to implement a long-term strategy to maintain these records over time in **Step 5**.

Continue to Step 5, Store, track, and manage your records ▶



STEP 5: STORE, TRACK, AND MANAGE YOUR RECORDS

OVERVIEW

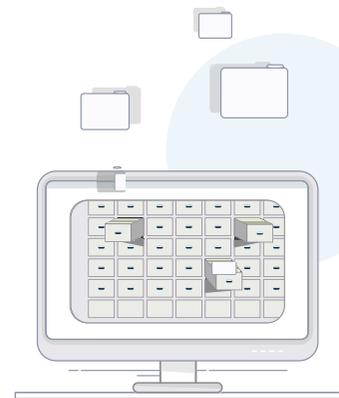
With the identification of your exempt customers, the correct forms chosen and filled out, it's time to consider how you'll maintain your records over time. Collecting and keeping these forms up to date can take significant amounts of time and resources. Exemption certificate management is not a set-it-and-forget-it activity. As new customers come on board, you need to repeat **Steps 1-4** to check qualifications, verify forms, and confirm the information is complete on each form. For some states, exemption certificates – once validated – never expire, but you need to ensure they're signed by an authorized signer. In other states like Florida, resale certificates expire annually, and must be renewed regularly. All of this creates complexity in keeping your certificate program current and managing it over time.

WHAT TO DO

To successfully handle exempt sales, you need to have a strategy to collect, store, manage, and renew exemption certificates effectively and efficiently. Neglecting to collect tax coupled with missing or expired exemption certificates is one of the top reasons businesses are assessed penalties during an audit. Ensure your process doesn't leave you open to this risk.

RESOURCES FOR MORE DETAILS

- [What to expect in an exemption certificate audit](#)
Common mistakes found during an audit include missing sales tax exemption certificates and producing the wrong documents requested by an auditor.
- [The ultimate guide to exemption certificates for sales tax compliance](#)
Learn the basics of sales tax exemptions as well as common ways you can open yourself up to compliance risk and potentially costly fines and penalties.



HOW AVALARA CAN HELP

[Avalara CertCapture](#) can ease the burden of managing exemption certificates with an automated cloud solution that improves process and delivers a better customer experience. Automatically request new certificates via email when they expire or easily retrieve any certificate digitally if requested during an audit. Efficiently collect and validate documentation when onboarding new customers as well.



TAKE CONTROL OF EXEMPT SALES AND EXEMPTION CERTIFICATES WITH AVALARA

Don't let exemption certificate management derail your sales tax compliance. Keep up with changing legislation and rules with an automated, cloud solution for managing your tax documents from vendors and buyers.

- **Be audit ready and minimize tax exposure:** Lessen compliance risk by being prepared for some of the most common mistakes found by auditors. Missing and/or expired certificates will be a thing of the past when you ensure all your exemption certificates are easily searchable and accessible.
- **Optimize resources:** Automatically request and obtain certificates through a secure online portal. Track and send renewal reminders for expired certificates seamlessly. With our mobile app, convert paper documents to digital formats at the time of transaction.
- **Scale for growth:** Easily add new forms or documents to deploy new client instances. Avalara CertCapture integrates with hundreds of customer management systems and tax calculation engines to scale as your business grows.

If you're just starting to digitize and automate with a certificate management solution, our Avalara Managed Services group can help save you time and resources. While you focus on your core business, our Managed Services team is ready to handle compliance documentation setup and operations to streamline and simplify your exemption certificate management process.

To stay current with your exemption certificate obligations and ensure you remain compliant, rely on Avalara as your partner and solution for continuously managing your sales tax picture.



While we hope you find this information valuable, this is not a substitute for tax advice from a certified tax professional. If you're unsure of your tax liabilities, please contact a tax expert.

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, excise, communications, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in the U.K., Belgium, Brazil, and India.