



# THE TAXING 10<sup>0</sup>

States with the most complex rules for filing sales tax returns

*Don't let a small number of states take up most of your time*

There are only 50 states, but there are thousands of U.S. sales tax jurisdictions. How many are you required to file in? For some businesses, it makes sense to handle the states with simple returns or zero-tax filing on your own. But what about the complex states?

With Avalara, you have the flexibility to complete the filing and remittance for some states in-house and have us file and remit in the more difficult states. It's up to you!

Are you familiar with the more complex and unusual states? 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.

## WATCH OUT FOR THESE CHALLENGES:

- ▶ Complex nexus laws
- ▶ Returns preparation
- ▶ Multiple payment methods
- ▶ Returns filing methods
- ▶ Local returns
- ▶ Due dates and filing schedules
- ▶ Rate changes
- ▶ Notice management
- ▶ Location or outlet reporting requirements
- ▶ Registration accuracy



## 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 click-through sales, affiliate relationships, inventory storage, sales and transaction threshold, and event attendance.

If you're confused by what nexus is, read our [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 for sales of tangible personal property. These can include certain types of sales, such as clothing, or deductions such as non-taxable 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 business. 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.

## 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.



### SOUTH DAKOTA v. WAYFAIR, INC.

Economic nexus is one of the most confounding and relevant types of nexus due to a recent ruling by the Supreme Court of the United States (SCOTUS) in the case of South Dakota v. Wayfair, Inc. (Wayfair). The case addressed sales tax obligations for remote sellers, and SCOTUS 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 paves the way for other states to begin taxing remote sales and enforcing their economic nexus regulations.



## LOCAL RETURNS

Local tax can in some cases trigger business 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

Monthly or quarterly? 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.

## RATE CHANGES

Rates can change based on local jurisdictions and rules. And many times, states 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.

## 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

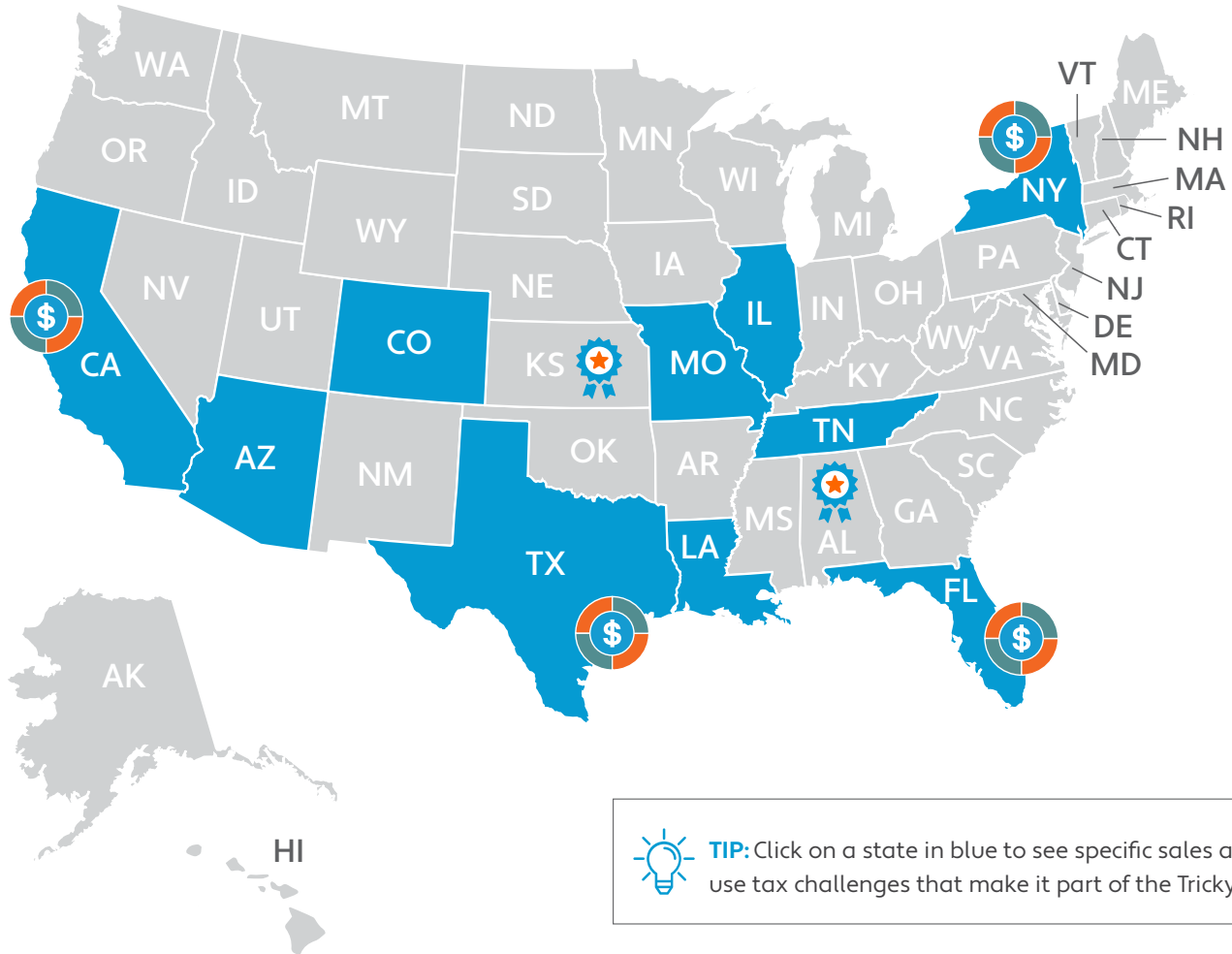
Individual states may have specific requirements for businesses with multiple retail locations such as outlets, kiosks, or pop-up stores. Location reporting requires sellers to report sales tax based on individual location. For companies with many retail locations, this obligation can quickly become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

## REGISTRATION ACCURACY

In some states, businesses are required to register 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 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.



## 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 Taxing 10, Alabama and Kansas have unique sales tax laws that can affect the 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.



## 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 plus 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
- ✓ Sales tax holidays for disaster preparedness and back to school
- ✓ 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



#### ▶ LOUISIANA

- ✓ Local tax complexity: home rule state
- ✓ Sales tax holiday for second amendment
- ✓ 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
- ✓ Sales tax holiday for back to school and Energy Star appliances
- ✓ Prepayment required based on revenue threshold



#### ▶ NEW YORK

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



#### ▶ TENNESSEE

- ✓ Complex rate calculation including the Tennessee Local Option Tax and/or the Tennessee Single Option Tax
- ✓ Annual sales tax holiday
- ✓ Deduction breakdown requirements
- ✓ Location or outlet reporting requirements



#### ▶ TEXAS

- ✓ A **Big Four** state – highest population plus highest sales tax revenue
- ✓ An annual sales tax holiday as well as a sales tax holiday for Energy Star appliances, emergency preparedness, and water-efficient products
- ✓ 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 taxing states, let Avalara help. With Avalara Returns, you can reduce audit exposure, improve accuracy, and refocus your staff to work on other priorities. Thousands of businesses have improved efficiency and compliance by letting Avalara handle their sales tax filing, remittance, and notice management.



Call us at 877-352-4646 or contact your Avalara Account Manager for more information on how Avalara Returns can help you with filing in the Taxing 10.



#### About Avalara

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, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Brazil, Europe, and India. More information at [avalara.com](http://avalara.com).