# A true business license compliance framework

WHITEPAPER

Avalara

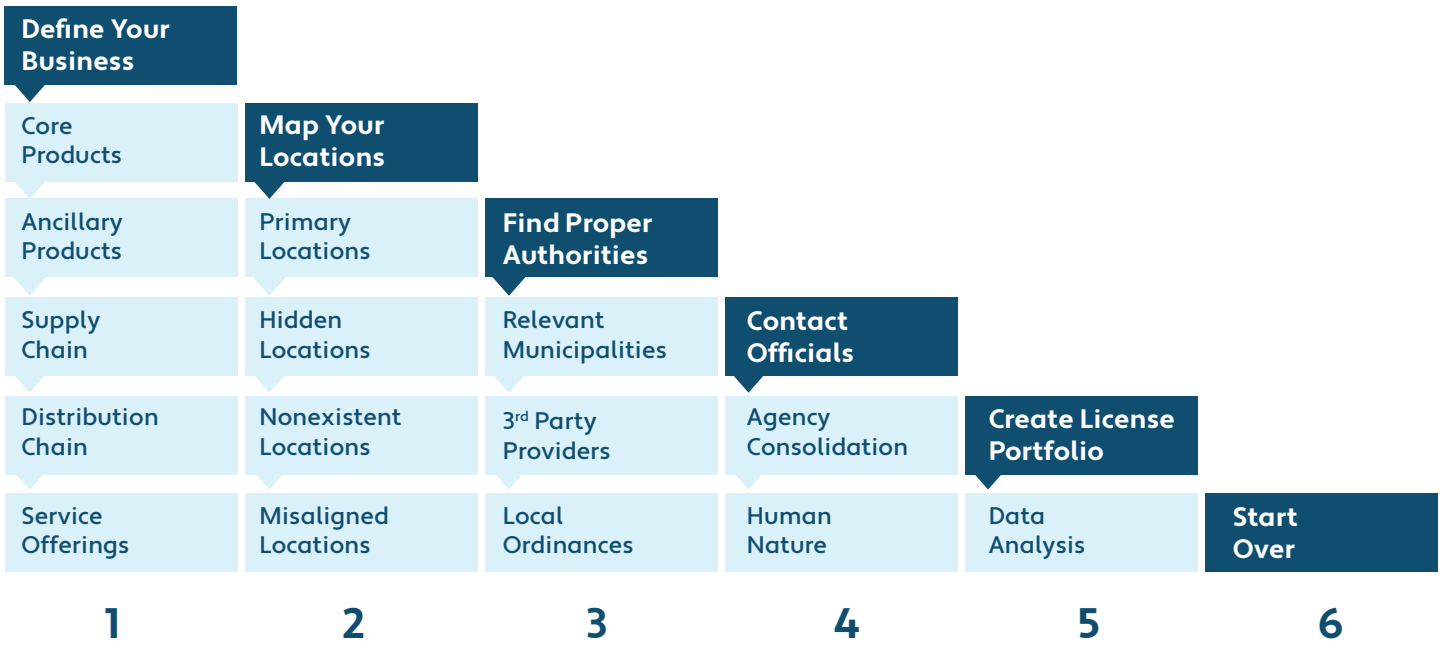
Tax compliance done right

**Even the best-organized, most efficient companies in North America still struggle with the burden of business licenses and fear government repercussions from noncompliance. That's because their tax and legal departments know what happens when businesses run afoul of irksome (and often arbitrary) regulations.**

When acquiring companies, penetrating new verticals, opening new stores, or expanding existing operations, successful companies know it's better to ask for permission than pay for forgiveness.

Although most agree on the importance of compliance, getting there isn't as easy as 1-2-3. Our researchers conduct audits for many sizable companies and frequently find gaps in their license portfolios. In addition, our software engineers have configured Avalara's proprietary software for use by some of the largest corporations in America and have seen firsthand how essential the right tools are for consistently managing a portfolio through good times and bad.

There's a common thread – every company forced to delay a product launch, disrupt a prospering business, pay a costly penalty, or otherwise face punitive measures as a result of an audit, wishes they had done their research in advance and then subjected their renewal processes to a rigorously controlled workflow. That's where Avalara often enters the picture. After a decade of business license consulting, we created a framework that guides our advanced research teams in developing SaaS software now used by many large enterprises. It's true the process isn't 1-2-3. It's actually, 1-2-3-4-5-6. Let's jump in to see why.




## 1 Define your business

**Core products:** What do you produce, sell, or distribute? It's necessary to look at your company with fresh eyes. You may view your business as a chain of grocery stores, but that seemingly straightforward definition may encompass many types of goods and services. If you also process money orders or cash checks, then these activities may require additional local, state, and federal licenses. If you sell heavily regulated products like tobacco or liquor, then you probably need even more licenses, not to mention customized steps added to your license filing workflow.

**Ancillary products:** Since when did many big-box stores feature coffee shops? Since when did major retailers experiment with in-store tax preparation services? In the modern era, industry lines are increasingly blurred (especially when traditional retailers try to "ecommerce proof" their businesses). That means you have to consider all ancillary product tie-ins that could affect your business and incorporate them into your centralized processes.

**Supply chain:** Don't forget to examine how your company obtains the products it sells. This is an increasingly familiar mistake. There are often purchasing and transportation licenses that should be addressed as early as the research process.

**Distribution chain:** You need to know what licenses are required for your distribution and storage. This is a mandatory part of the process when opening new business activities. You can't accurately estimate

the cost involved in expansion if you don't consider these licensing requirements and their costs.

**Service offerings:** Do you have a service-oriented component to your company? If you run a contracting business, for instance, then you might sell and install appliances or equipment. But that may not be the end of the story. If your contractors also service those appliances, then you probably need them to have additional contractor licenses as well as proactive software to help keep their licensing status current.

## 2 Map your locations

**Primary locations:** New businesses must worry about zoning approval and certificates of occupancy, but even existing businesses have licensing challenges. Every time you add new activities to a location, you chance triggering the need for signage permits, change-of-use zoning permits, outdoor storage permits, and local business licenses. It becomes increasingly imperative to conduct your research with a national database of license information procured for this very purpose or you could end up spending too much valuable time on the phone trying to extract the same information from municipal clerks.

**Hidden locations:** You may have locations that you don't know about. That sounds absurd – and it is. Unfortunately, it's also commonplace. Many corporations forget to consider home occupancy licenses when their employees work from home or keep business-related property in their personal residences. They might also forget to consider the intricacies of "store-within-a-store" situations in which their products are displayed by retailers in sublet spaces within larger stores.

**Nonexistent locations:** It may sound counterintuitive, but not having a location can also be relevant to business license compliance. Consider employees and contractors who perform services in localities where they have no intention of formally declaring a physical presence. They often forget to consider that municipalities regulate local contracting services – and how regulation can throw a wrench into their carefully planned interdepartmental workflows.

**Misaligned locations:** Given the complexity of defining municipal boundaries, companies sometimes find themselves paying license fees to the wrong agencies. Starved for funds, licenses and permits are a necessary revenue generator for many local governments. If you pay the wrong municipality by mistake, more often than not they will deposit your check and celebrate their good fortune. You'll likely never see that money again (and when the correct authorities come knocking, it won't do any good to explain that you already paid somebody). This is why Avalara's SaaS software geocodes locations to achieve maximum accuracy when identifying proper municipalities.

## 3 Find proper authorities

**Relevant municipalities:** It's not always easy to determine which municipalities have jurisdiction over your business. Sometimes business locations fall into unincorporated areas and it's hard to tell

in advance whether or not you'll need to navigate complex requirements of both county and city laws. Even more regulatory and territorial confusion can arise when businesses find themselves confronted with a Rube Goldberg-like network of townships, fire districts, school districts, and other special districts. Finally, out of an abundance of caution, it's also prudent to research the rules of state governments to see if they require the same licenses to be filed at the state level.

**Third-party providers:** Complicating the process, the licensing offices you need to research may not be located in their respective municipalities. Many municipalities, for instance, outsource licensing functions to third-party companies. Similarly, municipalities occasionally use third-party tax collectors to enforce business privilege tax requirements, and these third-party providers can be located anywhere in North America.

**Local ordinances:** Companies sometimes lull themselves into complacency when they observe municipal code enforcement being disregarded, and it can be tempting to turn a blind eye to the rules. However, this is a dangerous practice. If a law is on the books and it hasn't been repealed, jurisdictions can begin enforcing it at any time and without warning.

## 4 Contact officials

**Agency consolidation:** Today, it's common to see government agencies consolidating functions. This can make it time-consuming to find the right departments for your needs or get hold of the right officials with authority to answer your questions. This is a critical reason why Avalara always does its research on municipal laws before contacting authorities directly.

**Human nature:** In our experience, agency officials are hard-working and eager to help. That's the good news. The not-so-good news is they're also human. Accordingly, they may not know the answers to some of your questions and aren't always well-versed in the subtleties of license requirements. It's simply not reasonable to expect agency officials to perform the necessary advance research for your business or act as your department's personal consultants. This is why we recommend directly contacting officials at the end of your research process. Avalara's modus operandi is to utilize officials for verifying information our own dedicated staff has already uncovered. Then we transform our portfolios into dynamic calendars so expiration dates and renewal deadlines aren't forgotten.

## 5 Create license portfolio

**Data analysis:** You may need a single software solution for managing business licenses, and a straightforward spreadsheet might not do the trick. Managing complex data and variables can be too unwieldy for applications with linear layouts. For instance, licenses imposed at the local level, and the intricacies of their rules, can fluctuate tremendously. Moreover, many municipalities update their fees, schedules, and forms at least once per year. This rate of turnover can cause needless frustration when trying to

track essential variables with a spreadsheet. An efficient workflow for your compliance department also needs to incorporate task management functionality for staying informed of renewal dates. If you're managing licenses across multiple business locations, you may also need to organize renewal data for multiple stakeholders and manipulate various access and user privilege. This can turn into an ongoing process requiring constant updates. Speaking of which...

## 6 Start over

New regulatory requirements arrive in unpredictable waves. Governments on the local, state, and federal level are always devising new laws for consumer protection, environmental conservation, and safety management. As a result, business license portfolios can quickly get stale. No government is in the habit of proactively contacting businesses to let them know about upcoming changes to their regulations. Fairly or not, they expect you to know. That is a frightening proposition if you can't stay on top of the constantly changing rules. But it doesn't have to be that way. If your staff follows the framework that we have outlined here and repeats the process on an annual basis, then your business will always remain one step ahead.

## BUSINESS LICENSE SOLUTIONS

**Avalara License Management** – If you manage hundreds or many thousands of licenses, this one software solution will help you streamline your business license workflow.

**Avalara Sales Tax Registration** – Answer some questions about your business and Avalara can file on your behalf for sales tax registrations with most tax authorities. All you need to do is wait for your registration certificate.

**Avalara License Guidance** – When you sign up for Avalara License Guidance, a custom report that contains applications and forms to get your new or expanding business properly licensed is just one download away.

**Avalara License Preparation** – Don't spend your time poring over confusing rules and the myriad forms. Skip the paperwork and let us prepare your registrations and nonregulated business license applications on your behalf.

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