



## 10 Signs of Sales Tax Trouble

Many companies don't realize the drain that dealing with sales and use tax can have on a business. They assume the tax management systems they have in place are doing a good enough job of keeping them compliant. Just getting by may be okay for now. But what happens when things change?

Here are 10 not-the-best practices that commonly get companies off track with tax compliance.

## Believing your billing system has it handled

It's quite commonplace to think that whatever system or software you are using to manage your business is adequately managing sales and use tax. But that's probably not the case. Most business systems have some basic tax functions built-in but still require a person to manually input or update information. They also often aren't set up to handle more nuanced or complex tax decisions, which means there's room for error.

## Spending too much time on tax activities

Have you ever done the math on how much time your company devotes to sales tax related activities? The results may surprise you. Forrester Research ran an economic impact study on several ERP customers and found that these companies had the equivalent of two employees spending 70% of their time manually invoicing customers and determining sales taxes.



### It's Time To: Automate it

Advancements in cloud technology make it easy and more affordable to automate routine business processes (including sales tax) in the systems you already own and use, without a major overhaul. In fact, the companies from the Forrester study reported saving the equivalent of 1.4 FTE time and expense annually (an average of \$385,000 over five years) once they automated these activities in their ERP.

## Relying on rate tables

What's so wrong with rate tables? Well, for starters, they tax your resources (pardon the pun). Someone (maybe even you) has to regularly ensure they're downloaded and updated as rates and rules change, which they do frequently. It's your responsibility, not the state's, to refresh your processes to apply rate and rule changes appropriately and accurately. Updating tax information may also require getting IT involved, which, let's be honest, isn't the best use of their time or talents.

## Surfing DOR sites for tax rule changes

Looking up tax information on a DOR site isn't a big deal if you're only doing it occasionally. But if you have customers outside your immediate location, then things get more tedious. Start to really

grow your base and you'll have to constantly check sites for rate changes, new tax policies, pending legislation, changes in how certain products or services are taxed or exempted...well, you get the point.



### It's Time To: Offload, don't upload

There are 12,000 tax jurisdictions in the U.S. and 100,000+ tax rule changes annually – that's a lot for a person or manual process to handle. Tax automation software removes the hassle and liability of having to upload rate tables, research rules, and reconcile transactional data for reports or audits. A survey of Avalara AvaTax customers by third-party research firm, TechValidate, found that, on average, these companies were able to reduce the time spent on sales tax related activities by 50% or more once they moved from a manual process to [automation with AvaTax](#).

### Using ZIP codes to determine sales tax rates

Relying on ZIP codes to determine sales tax rates is like using a wrench to hammer a nail – it's just not the right tool for the job. You can blunt-force it into working, but it likely won't be a quality job. That's because ZIP codes don't always align with taxing jurisdictions. In fact, in some cases, the same ZIP code can have multiple tax rates. So that "free" ZIP-based online tax rate look up tool isn't going to be such a great deal if you're dinged by the state (or states) for over or undercharging sales tax to your customers.



### It's Time To: Hone in on new technology

Geolocation technology allows pinpoint jurisdictional accuracy "down to the rooftop" so that the right tax rate is applied to every transaction every time. Avalara's AvaTax tax calculation software has this feature built in. It's also the technology used in Avalara's self-service online tools.

### Storing exemption certificates in the file cabinet

Any tax-exempt sales or purchases made in your business must be documented with a valid exemption or resale certificate. It's critical for every certificate for every jurisdiction to be the right type, dated and filled out accurately, and be properly stored. If your default process is a paper trail, you run the risk of errors – and audits. Out of sight is often out of mind, and it's easy to forget to renew or update certificates as they expire.



## It's Time To: Go digital and ditch the file cabinet

Implement software or use an online service that allows you to more easily and accurately manage exempt sales by electronically generating and storing certificates and managing renewals. Avalara offers two options: [CertExpress](#) (self-service) and [CertCapture](#) (full-service).

## Filing reports manually or by mail

It's no picnic to keep track of file dates and frequencies, fill out returns, and ensure they get remitted on time. States frequently change filing schedules as well as payment requirements. If you're still filing printed forms via U.S. mail, you're way behind the times – and may be even out of luck. Many states encourage or even require businesses to file sales and use tax returns electronically.



## It's Time To: Take it online

File faster and more accurately with e-filing software. Smaller businesses may only need a basic service like [TrustFile](#) that generates signature-ready forms. Companies with more tax complexity may prefer to [fully automate](#) the returns process and remit all taxes at once.

## Inconsistent invoicing

If you provide both goods and services (installation or maintenance for example), you may be tempted to lump these together into one charge for the customer. However, “bundling” makes the entire transaction taxable, even if a portion is exempt. This could get you into trouble with auditors – not to mention your customers. Leaving sales tax off purchase orders can also cause problems later with invoice-matching.



## It's Time To: Avoid shortcuts

Take the time to break out charges separately on all invoices and apply the right taxability to each line item. Estimate sales tax on all purchase orders (PO). This alerts suppliers to tax the amount of tax to be charged, properly accounts for total cost of purchase and ensures POs and invoices match.

## Not knowing nexus

Lack of federal legislation around remote selling means states are free to set and enforce nexus (a substantial “presence” in a state that requires you to file and remit sales and use tax in that state) as they see fit. The rules are vastly different state to state and often in flux. This can make knowing where

you owe (and why) very tricky. The most innocuous business activities – remote employees, warehouse space, trade shows, marketplace selling, online advertising – can trigger nexus. Tracking this on your own is a gargantuan undertaking.



### It's Time To: Be proactive

State DOR websites usually include a page on sales tax nexus. But it can still be daunting to determine and correctly account for nexus activities on a state-by-state basis. If you are not sure whether you've properly identified nexus obligations for your business, this [brief questionnaire](#) can walk you through some of the most common scenarios.

### Treating all products as equals (when they're not)

There is inconsistency between states when it comes to product taxability. Some items that are exempt in one state – or even one county or locality – may be taxable in another. Even similar types of items such as clothing or food can be taxed differently based on use or ingredients. When you rely solely on product categories to determine taxability, you run the risk of collecting and remitting the incorrect tax.



### It's Time To: Adopt a SKU'd view

Streamlined Sales Tax states publish taxability matrices to provide guidance about product taxability, as do many individual DOR sites. But determining product taxability is still labor-intensive, especially for sellers who deal with many different SKUs. Avalara [MatrixMaster](#) gives you access to the world's largest product database (10 million UPC codes) with specialized sales taxability data and SKU-level accuracy.



### Get Started.

To learn more about pricing, view online demonstrations, or chat about AvaTax's capabilities, visit:

[www.avalara.com](http://www.avalara.com)

or call



**877.780.4848** today.

**It's time to get out of your sales tax rut. Tax automation allows you to be more efficient and confident in how you manage transactional tax in your business. Avalara's software solutions are preferred by thousands of companies worldwide to simplify and streamline sales tax compliance.**

#### About Avalara

A privately held company, Avalara was founded by a team of tax and software industry veterans to fulfill a vision of delivering an affordable, scalable sales tax solution. Thus making what was not economically feasible in the past for mid-sized business not only affordable, but more accurate as well – all with the latest and most innovative technology available. From Bainbridge Island, close to Seattle, Avalara's knowledgeable staff works tirelessly to help customers put the hassles of sales tax compliance out of mind. Avalara's mission is to transform the tax process for customers by creating cost-effective state-of-the-art solutions. The company does so through integrated on-demand, Web-based software services that provide transparent transactions, accurate tax compliance, painless administration and effortless reporting.