

## Helping Manufacturers and Distributors Know Where They Owe!

Parker Wilson, Avalara Sales Executive



**Parker Wilson**  
Sales Executive

Avalara

- Lives in Raleigh, NC
- Been an Avalarian for 9 years and 10 months
- Specializes in working with Sage Clients mainly in the distribution and manufacturing space

# Agenda

- 1 > Sales tax overview
- 2 > Why sales tax matters
- 3 > Economic nexus defined
- 4 > What triggers it?
- 5 > Tips to streamline sales tax management

# About Avalara

## Key Facts and Figures



In operation  
since **2004**



More than **30 million**  
documents /  
certificates managed  
by Avalara in 2021



More than **1,200**  
signed partner  
integrations



**33.9 billion** AvaTax  
API calls were made  
by customers in 2021



More than **4.1 million**  
returns prepared by  
Avalara in 2021



Serving **30K+**  
customers from  
**95** countries

## Global Offices

**23**  
offices

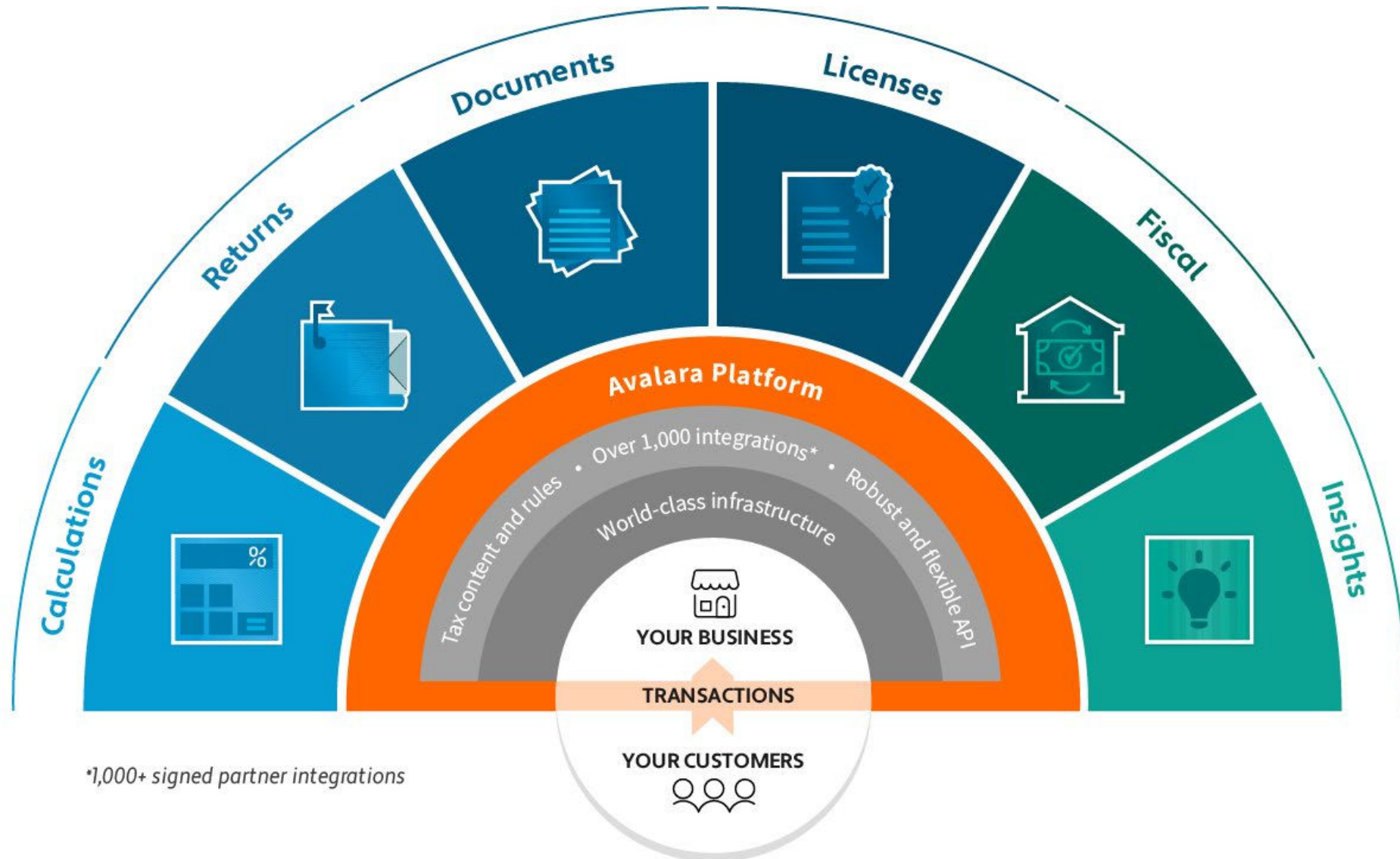
**13**  
countries

**4,400+**  
employees



# Avalara tax compliance suite

*End-to-end sales tax compliance*





Why sales tax matters



# Can you guess?

Not all candy bars are created equal. What ingredient turns a taxable sweet treat into a non-taxable food item?





# Can you guess?

Even licorice contains flour and is not considered a candy. Same is true for KitKats, Twix, Hershey's Cookies & Cream, and Crispy M&Ms.







## PULSE CHECK ON ECONOMIC NEXUS

Economic nexus laws allows states to impose sales tax on remote sellers.

### All 45 states

with a state sales tax, the District of Columbia, and some local governments in Alaska have adopted economic nexus laws.

States will crack down on  
**tax registration**

due to triggering economic nexus in 2022 and beyond.



Sales tax basics

## WHAT'S TAXABLE?

# Sales tax is all about...



The where



The who



The what



When to collect—Got nexus?



## IT ALL COMES DOWN TO NEXUS

# When must businesses collect sales tax?

**Sales tax nexus** defines the level of connection between a taxing jurisdiction (e.g., a state), and an entity (e.g., your business).

- › Until this connection is established, the taxing jurisdiction cannot require you to collect sales tax





# Types of nexus, explained

## PHYSICAL NEXUS

Seller has **physical presence** in the state: office, warehouse, even remote employees

## ECONOMIC NEXUS

Seller meets a set level of sales transactions or **gross receipts activity within a state**. No physical presence required.

## CLICK-THROUGH NEXUS

Seller meets sales threshold in a state from the activities of an in-state referral agent.

## AFFILIATE NEXUS

Remote retailer holds substantial interest in, or is owned by, an in-state retailer that sells the same or similar line of products under the same or similar name.

## MARKETPLACE NEXUS

Marketplace facilitators may be required to collect and remit sales tax instead of the individual seller if it operates its business in a state and provides ecommerce infrastructure, customer service, payment processing services, and marketing.

A GROWING LIST

## Nexus-creating activities:

Multi-state locations

Affiliates

Maintenance/service  
/repairs

Tradeshows

Own/lease real property

Commissions to  
resellers (1099s)

Hosted data centers

Investors/board  
members/employees

Field sales/service staff

Marketing/Web  
advertising

Charge  
licenses/royalty/fees

Drop shipments

Direct and/or online  
sales

Maintenance contracts

Maintains inventory

Remote sales





## SOUTH DAKOTA VS. WAYFAIR, INC.

# Why it's important?

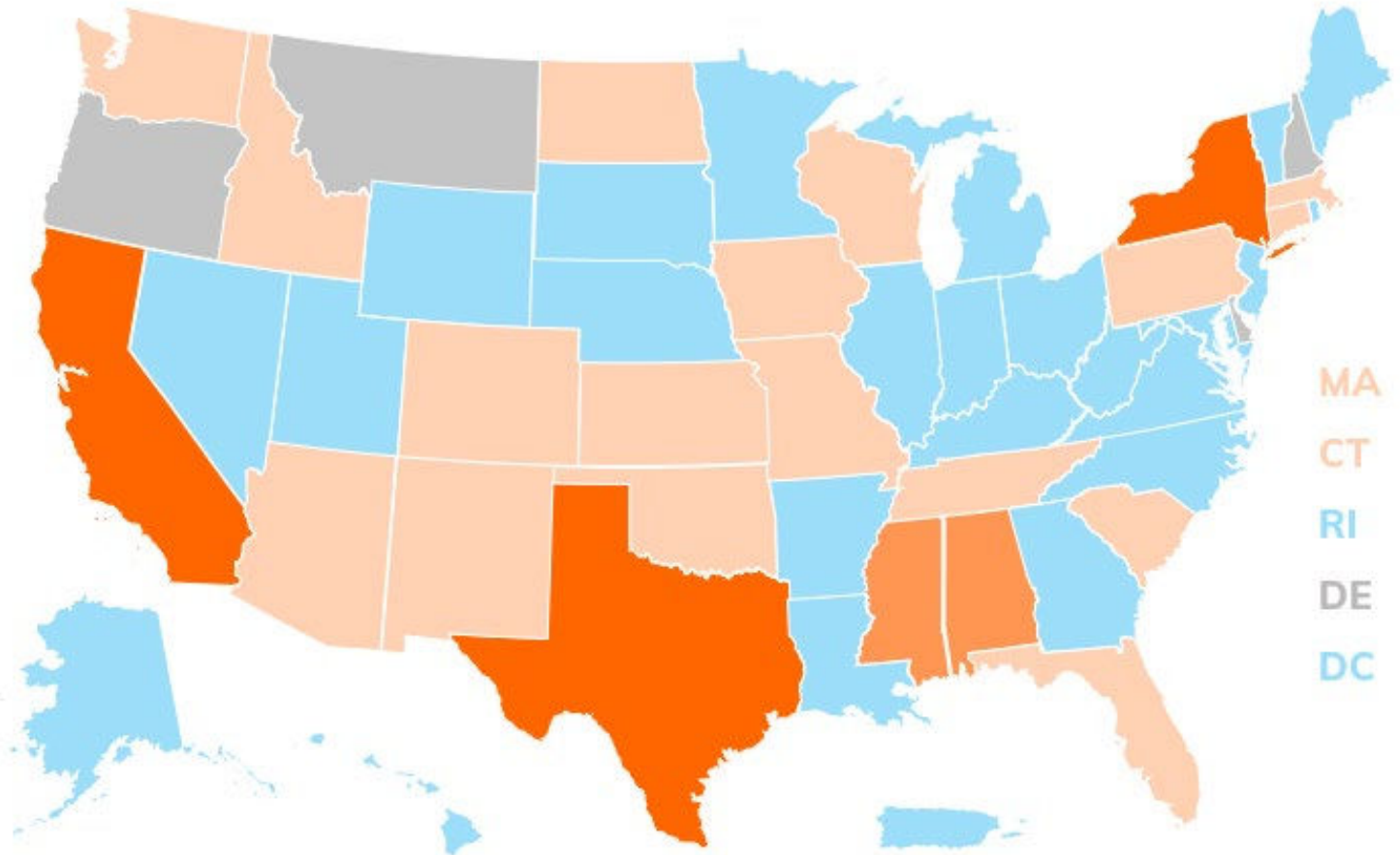
- Physical presence is no longer the only requirement.
- An economic threshold can be as low as \$100,000 in sales/200 transactions.
- This applies not just to online sellers but individuals who sell anything, including digital goods and software.
- Your customers now determine where you must collect.
- Some states tax everything, especially things that are not commonly taxed.



# Economic nexus thresholds by state



- Connecticut's threshold is gross receipts of \$100,000 **and** 200 retail transactions
- New York's threshold is \$500,000 **and** 100 transactions
- Beginning January 1, 2022, Maine removed the 200-transaction limit from its threshold



Use our free [sales tax risk assessment](#) to determine where you have nexus.



# Can you guess?

Which state has 26 pages of tax rules for campgrounds?



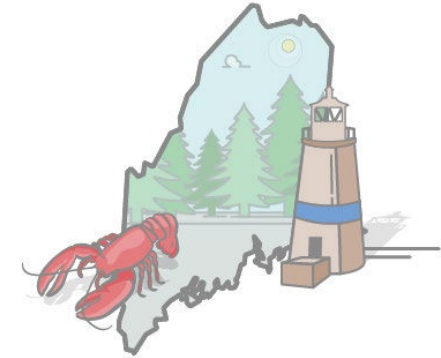
California



Wisconsin



Colorado



Maine

# Can you guess?

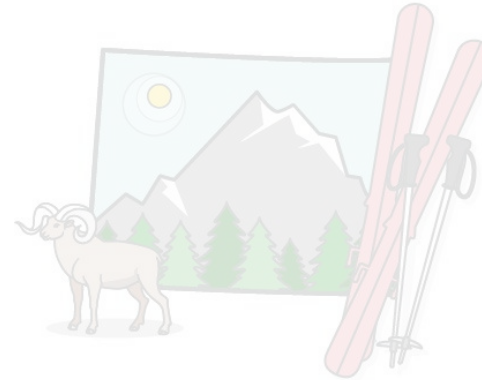
Wisconsin has a mind-boggling number of different charges associated with even the most rustic camping, from fees for electric hookups to self-service laundry machines and sewage disposal.



California



Wisconsin



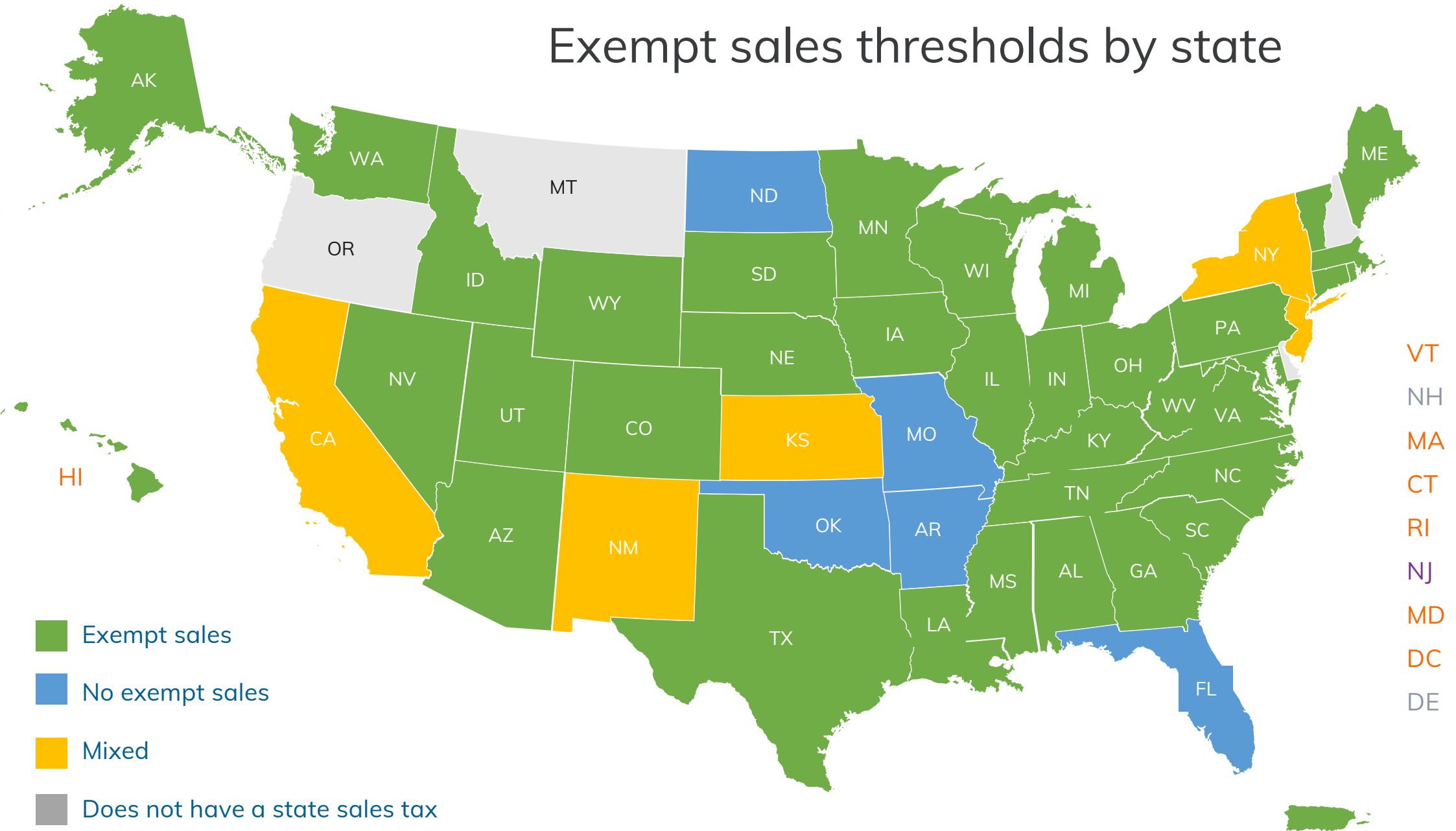
Colorado



Maine



# Exempt sales thresholds by state



# Common Questions about Economic Nexus



**When do I have to begin collecting sales tax once I pass the threshold?**

- It varies by state. In some states, it's as soon as the next transaction. In others, there's a 30–60-day grace period.



**What type of sales are included in the thresholds?**

- It varies by state. Some states only include taxable sales; others include gross sales.



**Are marketplace facilitator laws included in the thresholds?**

- It varies by state. Some states include them; others don't.



**Are changes ever made in thresholds?**

- Yes. We're now seeing states remove the transaction volume threshold to include sales amount only.

# Not adapting appropriately can become **more expensive**

## HOW HIGH IS THE AUDIT RISK?<sup>1</sup>

Sales tax accounts for more than **40%** of total state and local taxes in some states.

More than **43 states** now have economic nexus laws that create a tax obligation.

Average cost of an audit is over: **\$300,000** including penalties, fees, and professional counsel

## WHAT'S THE COST OF MANUAL COMPLIANCE?<sup>2</sup>

**\$11,968**  
monthly for companies with <19 employees

**\$17,672**  
monthly for companies with 20–499 employees  
(Also more likely to employ external service providers on top of existing staff)

<sup>1</sup> <https://www.avalara.com/us/en/learn/whitepapers/sales-and-use-tax-audits-in-2021.html>

<sup>2</sup> Avalara Cost of Compliance Study, NetReflector – Potentiate, February 2021; n=772; [read more here](#)

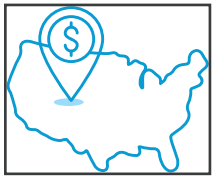




# The 5 steps to managing sales tax compliance



# The 5 steps to managing sales tax compliance



1

## UNDERSTAND

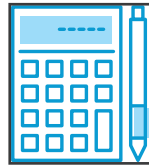
Understand where your business must collect and remit sales tax



2

## REGISTER

Register to collect and remit sales tax



3

## CALCULATE

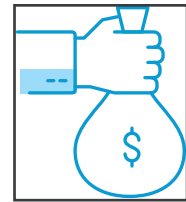
Calculate the correct sales tax amount



4

## TRACK

Track and manage exempt sales



5

## REMIT

Remit sales tax to the tax authority

## STEP 1

# Know where your business must collect and remit sales tax

### Overview:

- › Ensure you understand the business activities that can trigger an obligation to collect tax in a jurisdiction.
- › Stay up to date on law changes that may impact your obligations.
- › Review your business activities often and understand the appropriate next steps when nexus has been established.
- › Consider how new channels, including ecommerce, may be impacting your nexus.



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## STEP 2

# Register to collect and remit sales tax

### Overview:

- › Must register once you have a taxing obligation in a jurisdiction.
- › Registration requirements in each jurisdiction are different, including forms, process, and required information.

### TYPICAL ITEMS NEEDED

- › Type of business
- › Legal business name
- › Date business was formed
- › Driver license number
- › Social security number
- › State Employer Identification Number
- › NAICS code
- › Projected monthly taxable sales
- › Name and contact information of all managing members, officers and/or partners
- › FEIN

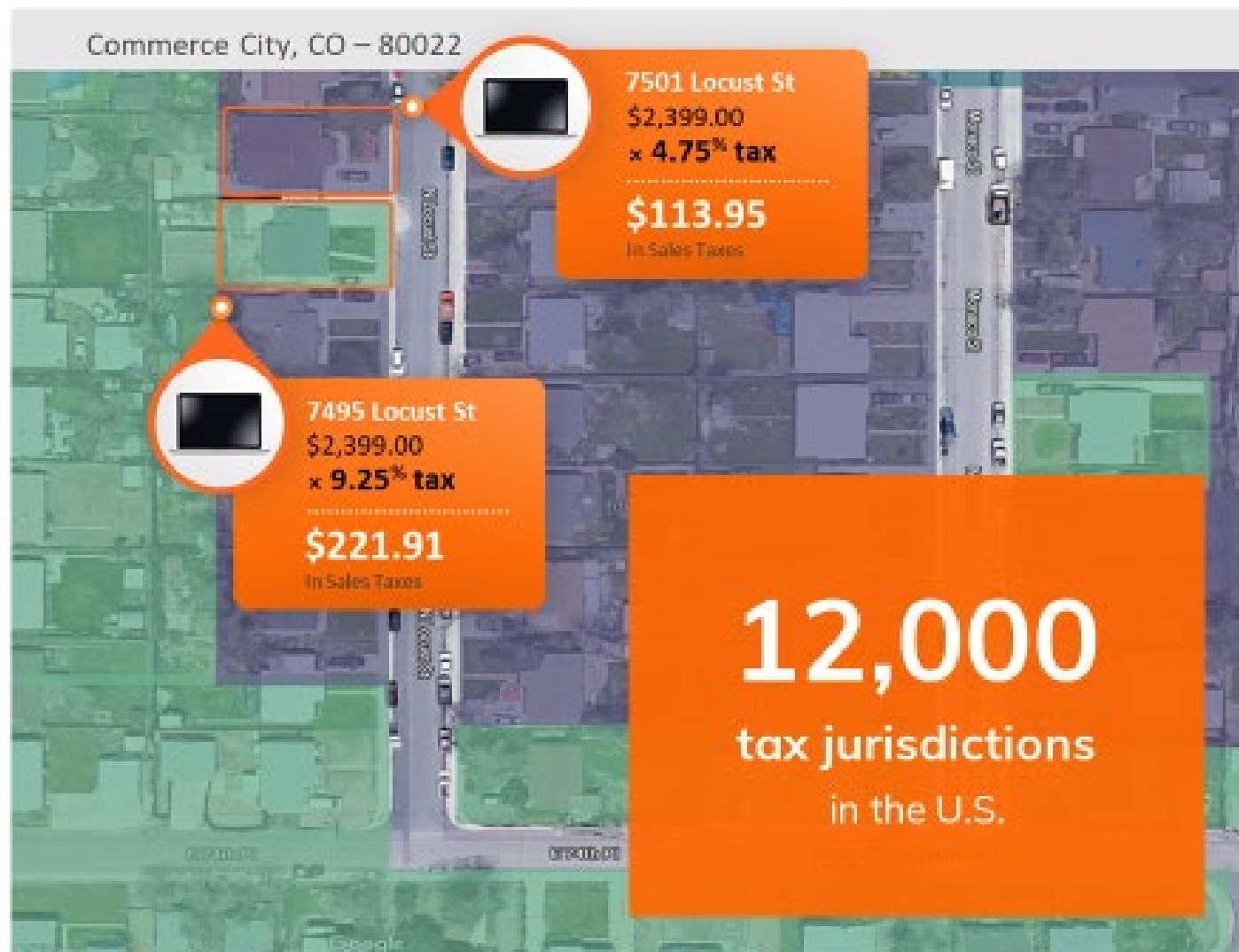


### STEP 3

## Calculate the correct sales tax amount

### Overview:

- › There are more than 12,000 tax jurisdictions in the U.S. and 1,800 different rules.
- › Each jurisdiction has different tax rates and product taxability rules.
- › Even within jurisdictions there can be nuances.



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## STEP 4

# Track and manage exempt sales

## Overview:

- › Businesses can be exempt from paying sales tax for a variety of reasons.
- › If you as a seller don't charge sales tax on a purchase when you typically would, you need to collect an exemption certificate.
- › Exemption certificates vary by state and scenario.
- › Exempt sales are often included in economic nexus calculations (thresholds frequently based on Gross sales)

## SCENARIOS WHEN A SALE MAY BE EXEMPT



Customer has an exemption for specific instance or purchase

Selling to an entity such as a government agency or nonprofit organization



Item being sold is intended for resale where tax will be collected



1

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## STEP 5

# Remit sales tax to the tax authority

### Overview:

- › Once sales tax is collected, those funds need to be remitted back to the jurisdiction.
- › Each tax authority has unique requirements around remittance.
- › Sales tax returns must include aggregated data across all sales channels.

## NUANCES OF SALES TAX REMITTANCE

- › Paper remittance vs online remittance
- › Varying remittance due dates
- › Prepayments
- › Handling of tax notices
- › Filing in local jurisdictions
- › Late payment fees
- › Multiple payment methods





Tips to streamline tax compliance



# The 5 steps to managing sales tax compliance

1

## WHERE/WHY

Know where your business must collect and remit sales tax

Avalara  
Nexus Study and  
Avalara Tax Research

2

## REGISTER

Register to collect and remit sales tax

Avalara  
Licensing

3

## CALCULATE

Calculate the correct sales tax amount

Avalara  
AvaTax

4

## TRACK

Track and manage exempt sales

Avalara  
Exemption Certificate  
Management

5

## REMIT

Remit sales tax to the tax authority

Avalara  
Returns

# Can you guess?

In Maryland, which ice cream brand is tax-exempt?



# Can you guess?

Ben & Jerry's (normally sold in 16-ounce containers) is exempt while Haagen-Dazs (normally sold in 14-ounce containers) is taxable.



Avalara

> Tax Research

# Thousands of hours of up-to-date tax research by TTR's research team



translated into plain English and made easy to search and cite.



# TTR Tax Research by Avalara

- Gets tax right with up-to-date sales and use tax research relevant to your business
- Saves time and frustration with explanations that are easy to search, understand, and reference
- Reduces cost of manual research





# Can you guess?

Although Oregon is a NOMAD state (no sales tax) one of the following products IS taxable.



# Can you guess?

While Rhode Island is considering making bicycles tax-exempt to encourage alternative modes of transportation, Oregon charges tax on bicycle sales.



# How tax automation removes the compliance burden





# Why automate sales tax management?



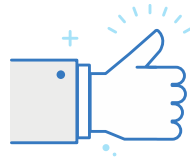
## Accuracy

Real-time tax calculations that get it right every time



## Efficiency

Reduce costs and time spent managing tax compliance



## Customer satisfaction

Streamline transactions with instant sales tax calculations



## Risk management

With accurate results, you'll decrease your company's risk



## Business growth

Free up resources to focus on high-value projects

# Can you guess?

How many sales tax rate updates were there in 2021?

6,014

4,016

60,140

41,600



# Can you guess?

There were 1,522 U.S. multi-tax rate updates, 6,014 sales tax rate updates, and 56 international rate updates in 2021.

6,014

4,016

60,140

41,600







Questions?







# Thank you!

If you have additional questions, please contact your Avalara sales executive:

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