

10 Sales Tax Rules to Live by



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- First Executive Director of the Streamlined Sales Tax Governing Board
- Former COO of an organization devoted to making sales tax simpler and more uniform for the benefit of business
- 10 years as the Director of the South Dakota Sales Tax Division
- 12 years providing research and legal writing for the South Dakota Legislature.

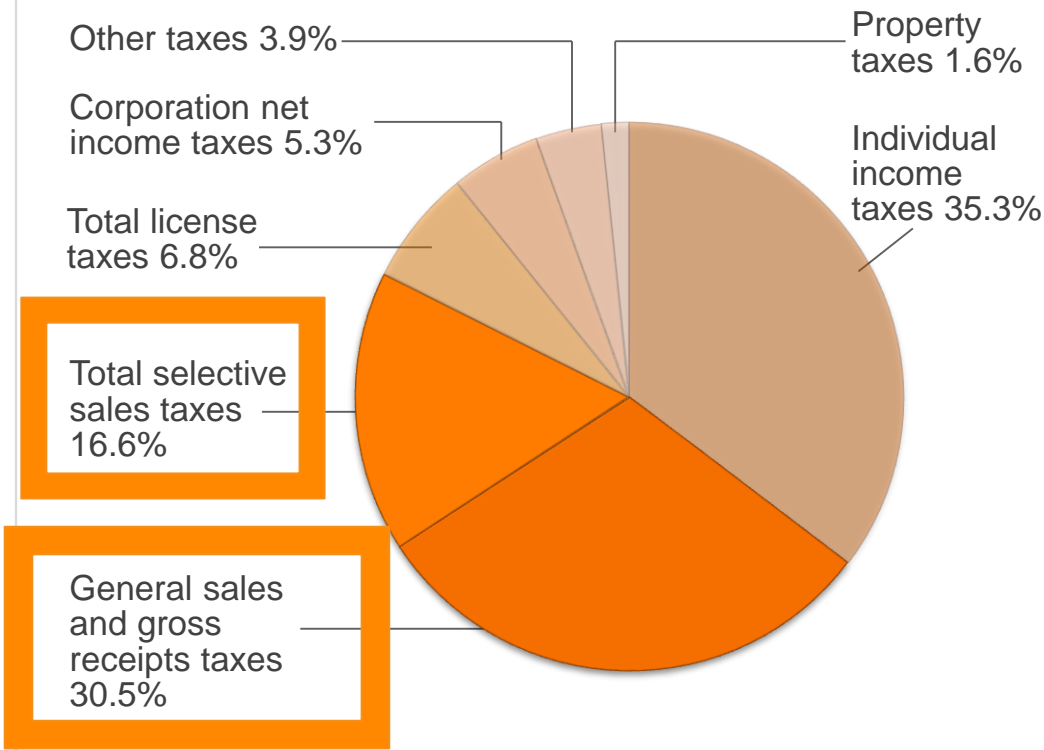


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Where do States turn for tax revenue?

Total State Government Tax Collections by Category



When general sales tax and selective sales tax are combined, sales tax makes up **47% of total state revenue**

Source: US Census Bureau, Census of Governments: Finance – Survey of State Government Tax Collections at www.census.gov/govs/statetax

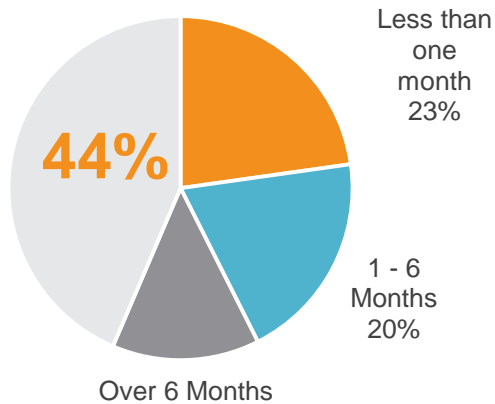


Challenges of sales tax compliance

- ✓ Sales Tax is a statutory requirement
 - Companies are always at risk of an audit (*when, not if*)
 - Audits frequently result in back taxes and penalties
- ✓ Manual sales tax management
 - It's labor-intensive
 - Human error leads to inaccurate results
 - Expensive
 - Rules are always in flux: 2014 had close to 14,000 rule changes in U.S.
- ✓ 100% non-revenue generating activity
 - It makes sense to automate with a technology solution



Sales tax compliance is time-consuming, risk prone, and expensive



44% can't remember the last time they updated their sales tax processes



Percentage of businesses that believe a sales tax auditor would find a mistake



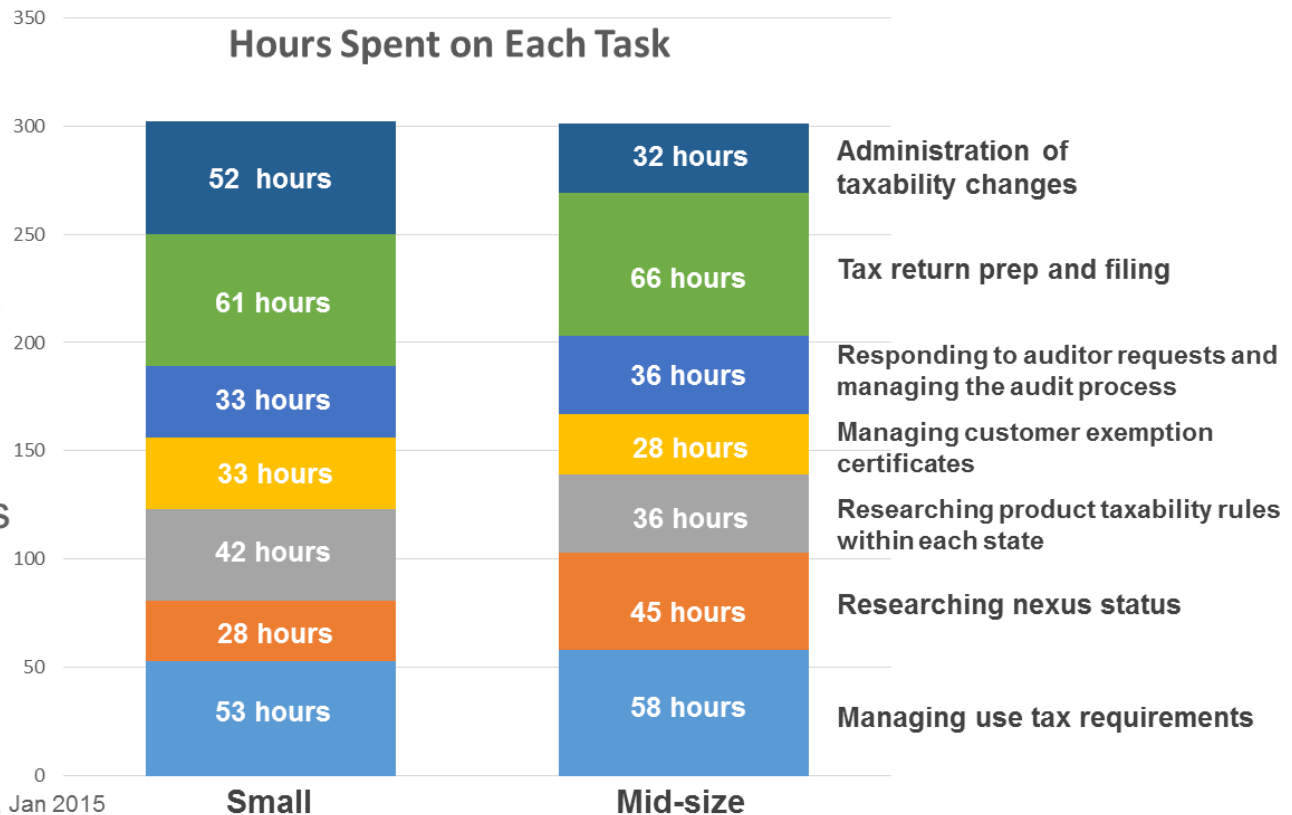
Average total cost for businesses to manage a sales tax audit

Source: Wakefield Research, July 2013



Sales tax compliance is time-consuming, risk prone, and expensive

302 hours
annually lost
to manual
workload
...that's 2 months
of full-time work



TOP

sales tax rules



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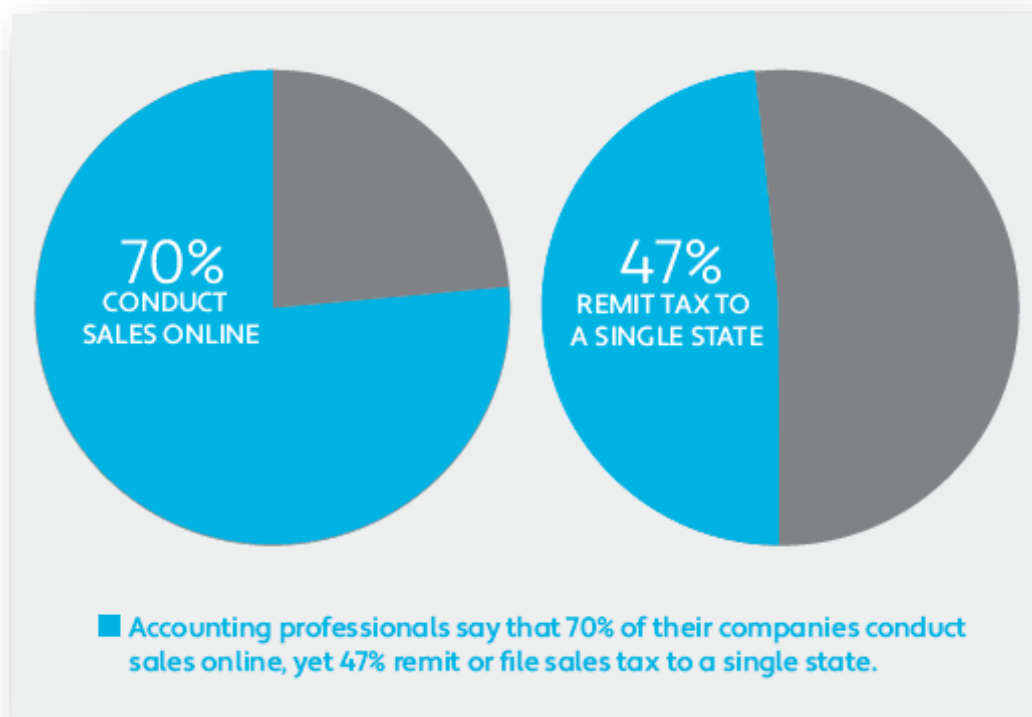
Nexus Rules and Amazon Laws Apply to Everyone

- ✓ Remote sellers can no longer assume that Quill v. North Dakota means they don't have to collect sales tax
- ✓ Nexus-creating activities (examples)
 - Independent agents
 - Remote sales force
 - Affiliate Nexus
 - Trade show participation
- ✓ “Amazon Laws”
 - Cyber Monday, 2013: SCOTUS leaves NY click-through affiliate law in place
 - 21 States have already passed Amazon Laws



1

Nexus Rules and Amazon Laws Apply to Everyone (cont.)



1

Nexus Rules and Amazon Laws Apply to Everyone (cont.)

- ✓ Rules and rates vary between states
- ✓ The following industries have varying taxability rules
 - Software / hardware
 - Digital goods
 - Services
 - Medical device / equipment
 - Food / beverage
 - Clothing / apparel
 - School-related products
 - Dietary supplements
 - And many other industries / products



2

Services are taxable... but not always

Know the difference between

- Tangible Personal Property
- Real Property Services
- Professional Services

Hint! States often define taxable services differently.



3

Product Taxability is (always) Changing



Taxable

Candy with or without flour can determine if it is taxable



Exempt



Taxable

Non-carbonated with supplement label is taxable



Exempt



4

Tax Rates are not tied to zip code

- ✓ Taxing jurisdictions don't always follow ZIP Codes!
- ✓ Individual counties and municipalities levy sales taxes *in addition to* state rates
- ✓ Tax rates can vary significantly within a ZIP code
- ✓ ZIP codes
 - Are a blunt instrument for determining sales tax rates and boundaries
 - Will almost certainly lead to calculation mistakes
 - Can lull you into a false sense of security

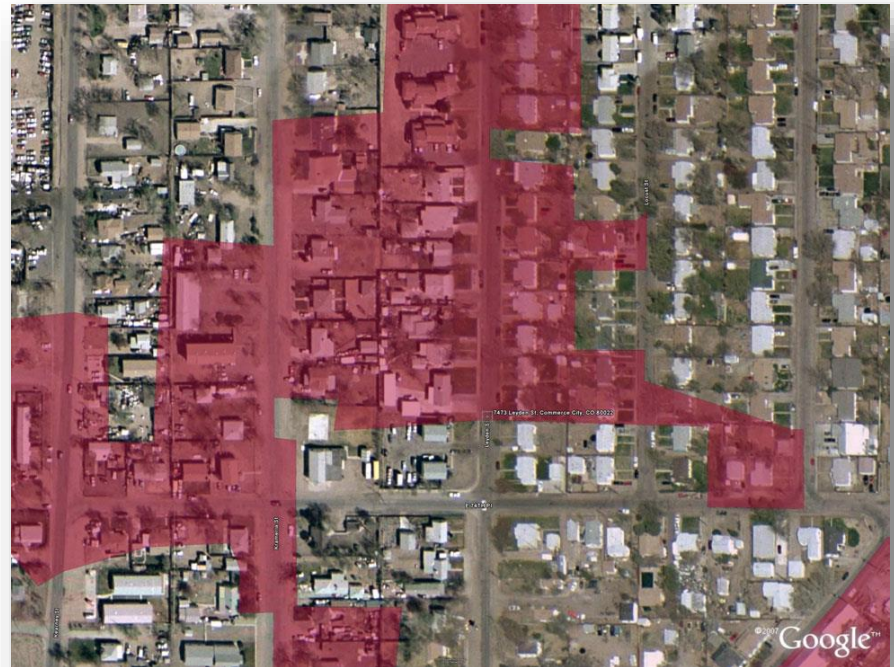


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Tax Rates are not tied to zip code (cont.)

Don't rely on zip codes!

Ex. Greenwood Village, CO has one ZIP code, but four different sales tax rates!



Automation Tip! *Geolocation technology determines the exact point of taxable transaction.*



5

Collecting exemption certificates is a source of risk

Know which transactions are exempt

Three primary exemptions

- ✓ Product-based (generally does not require exemption certificate)
- ✓ Entity-based (requires exemption certificate) – deduction specifically related to the exempt status of the purchaser
- ✓ Use-based (requires exemption certificate) – exemptions covering products and services which are used for a particular purpose



6

Know the remittance processes for each state

Know *where* and *how* to remit sales tax

- Every state is different
- Auditors are looking for new ways to identify potential offenders



Hint! Failure to prepay where required, late payment, or payment to incorrect jurisdictions can increase audit risk.



7

Know the difference between **Bill to** and **Ship to**

Sourcing. Most states are destination-based (they charge sales tax based on the location of the end-user), there are several that base sales taxes on the seller's location.



8

Pay Use Tax

- ✓ **Sales tax** – Collected by the seller on the gross receipts from a retail sale
- ✓ **Use tax** – Paid by the buyer on the consumption or use of tangible property or services in state
 - Purchases of equipment and supplies from out-of-state for use in business
 - Withdrawals of inventory for taxable use such as R&D, promotional materials, warranty repairs, etc.
- ✓ **The difference** –
 - Sales Tax – Imposed on the activity of a seller
 - Use Tax – Imposed on the buyer



9

Track Sales Tax Holidays

Know the holidays in each state

- Clothing, school supplies, and even firearms are tax exempt at certain times in as many as 17 states.
- Holidays are always in flux. *Good luck trying to remember them all!*



10

Audit Trails are mandatory

Avoid these common mistakes

- ✓ Failing to file a return
- ✓ Failing to report sales
- ✓ Taking excessive credits or exclusions on a return
- ✓ Filing returns with errors
- ✓ Return information that doesn't match other records
- ✓ Mistakes found in previous audit
- ✓ Previous finding of exemption certificate misuse
- ✓ Not reporting use tax



10

Audit Trails are mandatory (cont.)

How to reduce audit risk

You should:

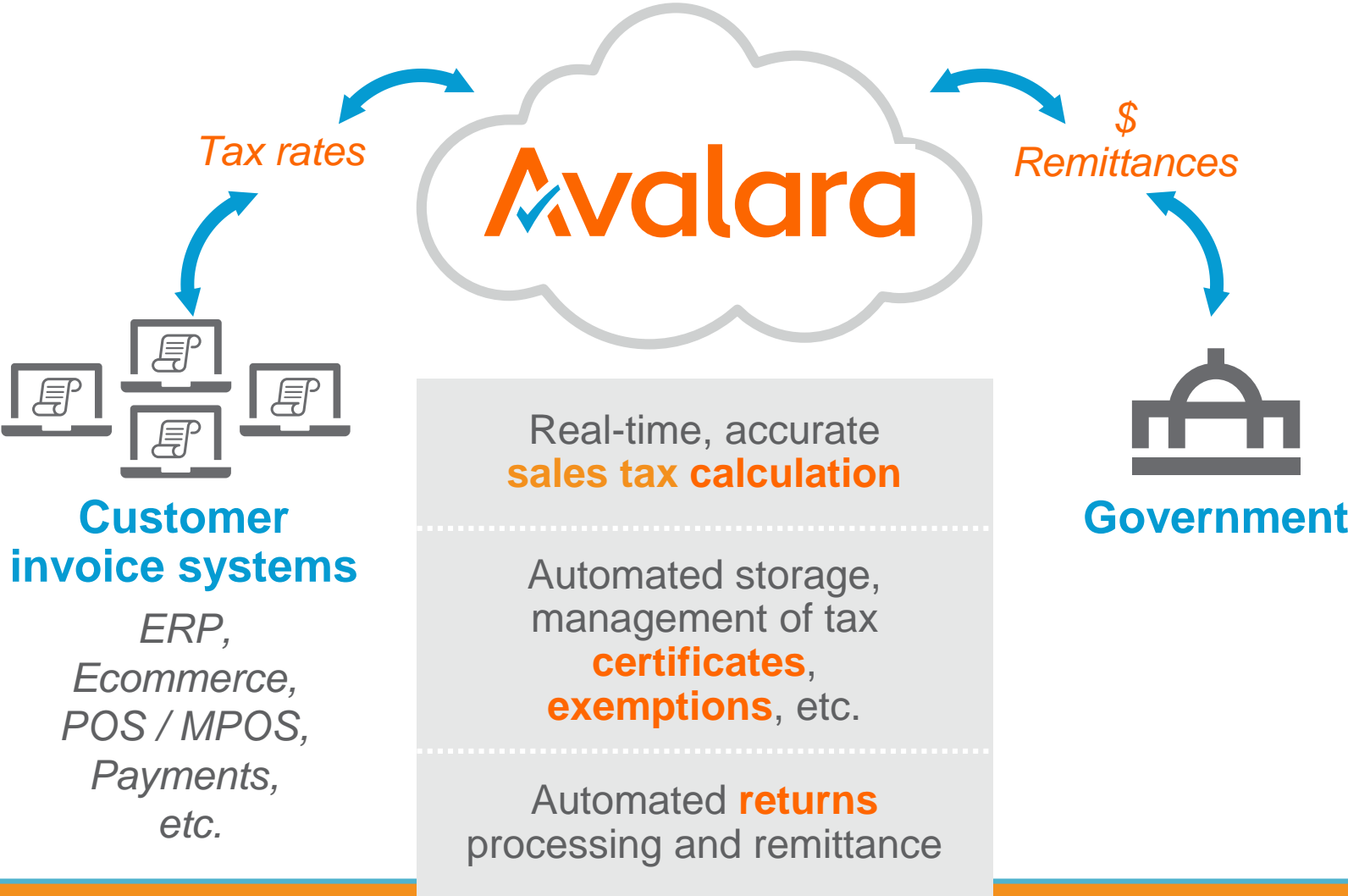
- ✓ Do a nexus study
- ✓ Stay up-to-date with rate, rule, and boundary changes
- ✓ Report consumers' use tax
- ✓ Be compliant from day one, especially new businesses
- ✓ Automate with technology

Make sure you have:

- ✓ An understanding of your filing requirements
- ✓ Calculations that are rooftop accurate
- ✓ Product taxability coverage
- ✓ Detailed sales records
- ✓ A process for managing exemption certificates



Why cloud software is the answer..





Fast & Accurate

Every product. Every jurisdiction.
No matter what — or where — you sell, we've got you covered.

70,000
tax jurisdictions

12.7 million
product taxability codes

428,000
tax rule updates in 2015

139.9 billion | Potential
tax outcomes



We're wicked fast, too.

Calculation response time

0.0651

seconds

Tax calculations per second

Average 1,200

Peak 2,855
(cyber monday, 2015)



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