



Five Steps to Getting Compliance Right and Reducing *the Risk of an Audit!*

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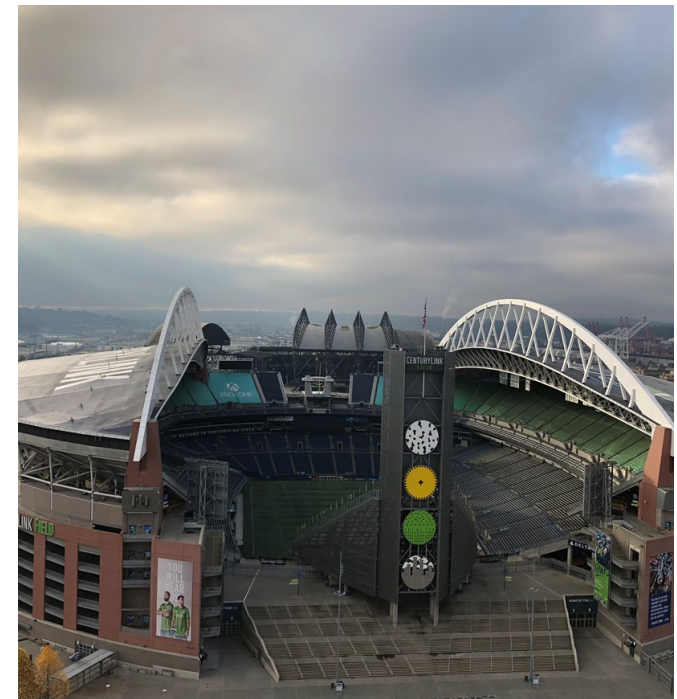
Agenda

- › Recent tax changes and legislation
- › The customer experience
- › Avalara solutions
- › 5 steps to managing compliance
- › Q&A



Tax compliance done right

- ✓ **Founded 2004**
- ✓ **30K+** active customers
- ✓ **1,200** pre-built integrations
- ✓ **9.5B+** transactions per year
- ✓ **28M+** managed exemption certificates
- ✓ **\$36B+** in taxes remitted per year
- ✓ **12,000+** tax jurisdictions in the U.S.





Steven Cabrera is a CPA and former Sales and Use Tax Auditor for the State of California with 28 years of experience in state government audits and consulting at Deloitte, RSM, and Grant Thornton. One of those areas of consulting included multistate sales and use tax audit defense.

In his present role at Avalara, he is a Tax Director in the Professional Services group where he evaluates customer situations and determines the best course of action to get compliant through Voluntary Disclosures, Sales Tax Risk Assessments, and Tax Exposure Analysis.



2022

The state of commerce: Ecommerce *and* in-store sales

\$1.22T

Total retail sales through all channels in Q3 of 2022

Up 7.7% from 2021*

\$251B

U.S. ecommerce sales during Q3 of 2022.

Up 10.8% from 2021*

20.6%

Of all dollars spent on retail purchases came from online orders **in Q3 of 2022***

2.7%

Global economic growth prediction for 2023. Down from 3.2% in **2022****

*Digital Commerce 360, Nov. 2022 **IMF, Oct. 2022

Virtual audits hasten need for digitalization

- > COVID has accelerated the adoption of virtual audits by states.
- > Less travel time means auditors are able to do more virtual audits.
- > Businesses must be prepared to share tax files electronically.



PRODUCT AND SERVICE EXEMPTIONS

Is it a tax-exempt sale?

Types of exemptions:

- › Product –based
- › Use-based
- › Entity-based

Is an exemption certificate required?

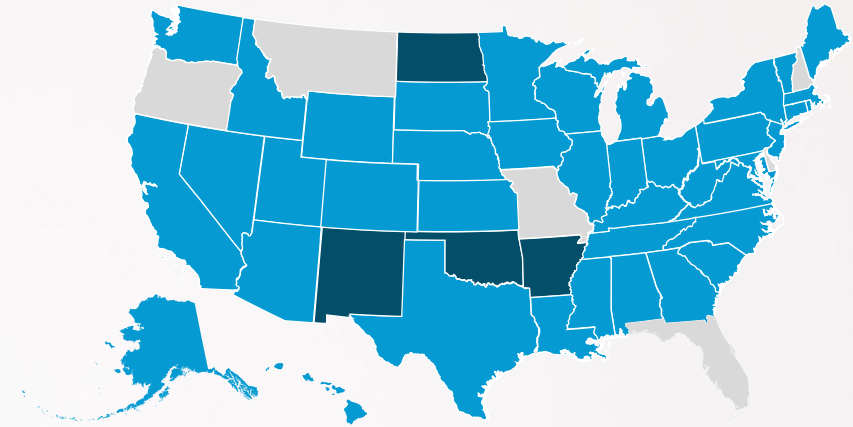
- › Broad: Applies to everyone in a jurisdiction
 - › Generally, no exemption certificate required
- › Narrow: Applies to specific uses or specific buyers
 - › Generally, an exemption certificate is required

Exempt sellers aren't exempt from economic nexus as some states include exempt sales in their thresholds.

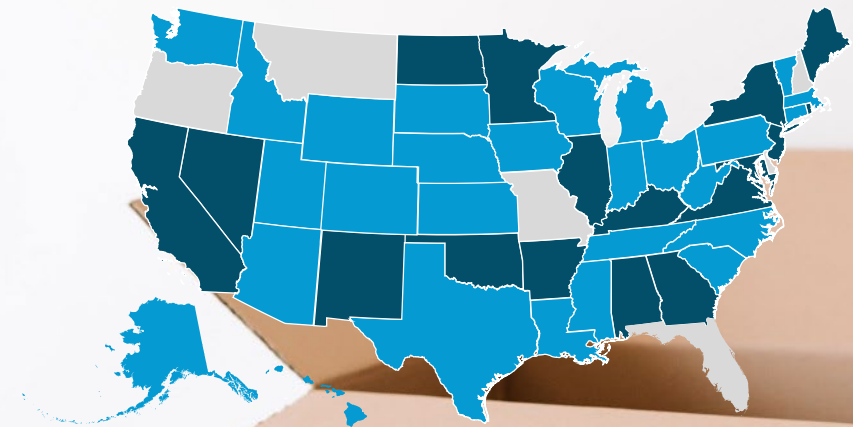
● Included

● Not included

Exempt sales included in economic nexus threshold?



Exempt services included in economic nexus threshold?



How high is audit risk?

60% of audits target four industries:

- > Manufacturing
- > Construction
- > Wholesalers and distributors
- > Retail

Most common mistakes found by auditors:

- > **Nexus oversights**
- > **Misreporting use tax**
- > **Exemption management / documents errors**

Audit red flag:

- > Invoices that don't show sales tax

What auditors will do:

- > Request proof your business paid tax

Average cost of an audit:


- > \$114,000 including penalties, fees, and professional counsel

ECONOMIC NEXUS FOR EXEMPT SELLERS

South Dakota v. Wayfair, Inc. changed sales tax for remote sellers

Economic nexus laws allow states to impose sales tax obligations on **out-of-state sellers** based on their level of economic activity in a state.

Unlike physical presence, it is based **entirely** on sales revenue, transaction volume, or both.



Exempt sellers must prove they didn't owe sales tax in states where they've triggered nexus.



POLL QUESTION



PULSE CHECK ON ECONOMIC NEXUS

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

All 46 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**

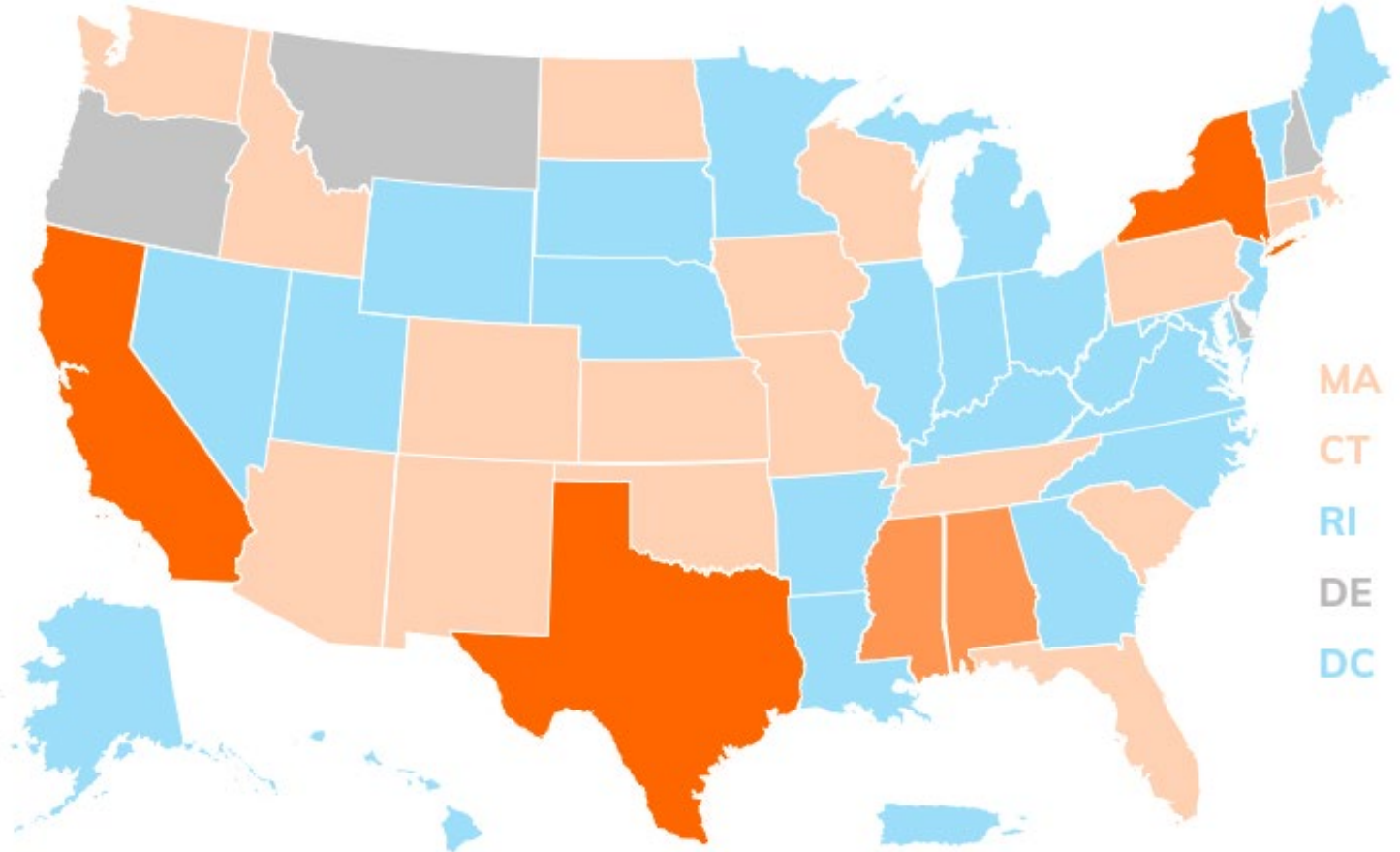
due to triggering economic nexus in 2022 and beyond.



Economic nexus thresholds by state

- \$500,000
- \$250,000
- \$100,000
- \$100,000 **or** 200 transactions
- Does not have economic nexus law

- > 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 will **remove** the 200-transaction limit from its threshold



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

Product taxability challenges

● Exempt ● Taxable

16 oz. bottled water in Connecticut

- Convenience store
- Grocery store



Toothbrushes & dental floss

- Any other state with sales tax
- Pennsylvania

Powdered drink mixes in New York

- Kool-Aid
- Tang

Takeout in Colorado

- Straws
- Cups, cup lids



Ice cream in Maryland

- Haagen-Dazs (14 oz.)
- Ben & Jerry's (16 oz.)



Candy bars in Indiana

- Reese's
- KitKat, Twix



> **The Customer Experience**

What's the Problem? Why is it Difficult? When does it happen? Who has this Problem?

The Customer Experience



- *How do I know if I've triggered physical nexus in a state?*
- *How do I know what the economic thresholds are in a state – and if I've passed them?*
- *How do I keep up with changing tax laws in states where I am doing business?*
- *What happens if I triggered nexus but haven't gotten registered?*
- *Where do I go for help?*



List of Physical Nexus Triggers.

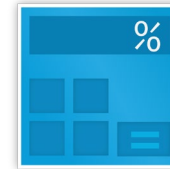
Many more triggers exist. Both employee or independent contractors are one in the same.

- **Selling.**
- **Conduct repairs and or installation.**
- **Consulting to name a few.**
- **Use of Amazon FBA – Amazon warehouses create hold seller's merchandise in that state.**
- **Own warehouse in the state**
- **Affiliates in that state referring business to the seller.**
- **Hosting seminars and or conferences - not all state but many.**
- **Home office**



Businesses need to get nexus right.

If this is wrong from the start, tax exposure can grow with every sale in a state



Before calculating sales and use tax



Before managing compliance documents



Before completing returns and filing



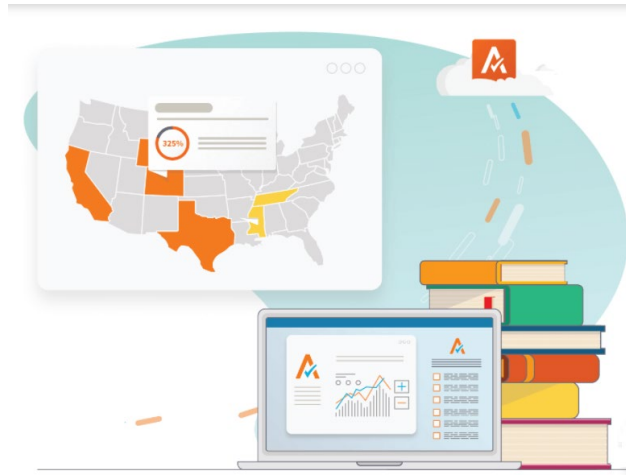
POLL QUESTION



> **How can Avalara help?**

Solutions, Features, Benefits, & Scenarios.

Compliance Services Empower Customers to...



- Understand whether they have triggered nexus in states
- Understand amount of liability exposure
- Choose best path forward to resolving past obligation
- Eliminate risk exposure and get compliant going forward



Sales Tax Risk Assessments by Avalara

How it Works

- ✓ **Review a company's current business footprint** and identify physical and economic sales and use tax nexus triggers that require the company, by law, to register and begin collecting and remitting sales tax.
- ✓ **Conduct a detailed review and analysis** to determine where they have nexus. We can accomplish this by conducting a thorough survey of multi-state activities.
- ✓ **Our tax industry experts and former state auditors review customer responses** and provide an interpretation of their nexus footprint. Often the nexus-creating activity may have occurred in the past, resulting in delinquent tax due to the taxing authority.



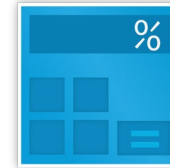
Voluntary Disclosure by Avalara

How it Works

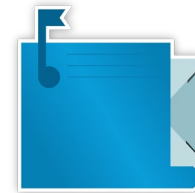
- ✓ **Our tax industry experts** will provide full representation to work with the state to resolve the tax delinquency.
- ✓ **Our tax industry experts** will calculate all delinquent tax returns and get the company registered.
- ✓ **Our tax industry experts** will secure penalty abatement.
- ✓ **Our tax industry experts** when allowed, shorten the liability to no more than 3 – 4 years in most states. The state will abate all prior tax, penalties and interest.



Businesses need options for getting current



***Standard
Registration***



Backfiling Services



***Voluntary Disclosure
Agreement***



Why automate sales tax management?



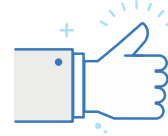
Accuracy

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

Stay up to date

Your returns

Review and approve your returns starting October 5 16 returns scheduled for filing

[Review your returns](#)

You also might want to...

[Double-check where you collect tax](#)[Exempt customers from tax](#)[Check how your products map to Avalara tax codes](#)

Favorite reports



Whenever you run a report you can save it as a favorite for easy access

[Run a report](#)

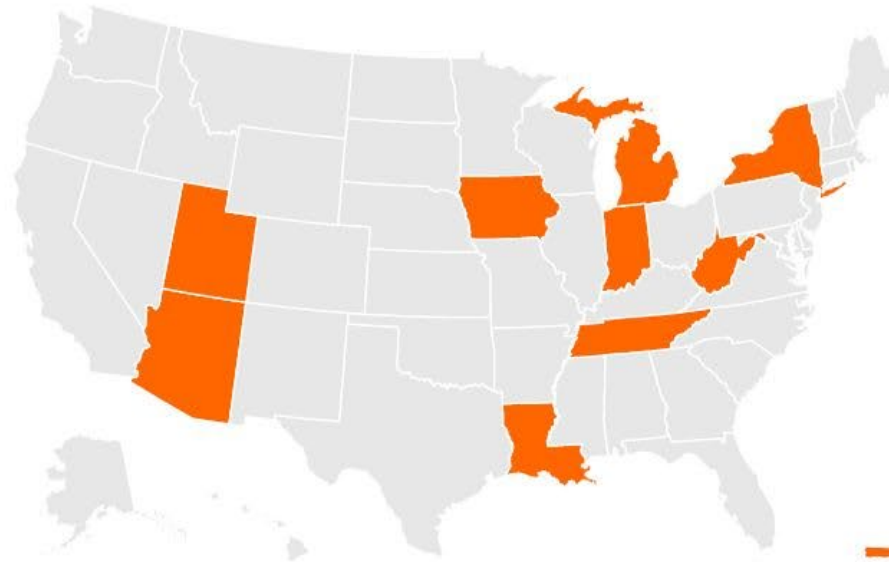
Popular reports

[See a list of popular reports](#)

Economic thresholds for remote sellers

[See details](#)

AS OF 10/04/2022



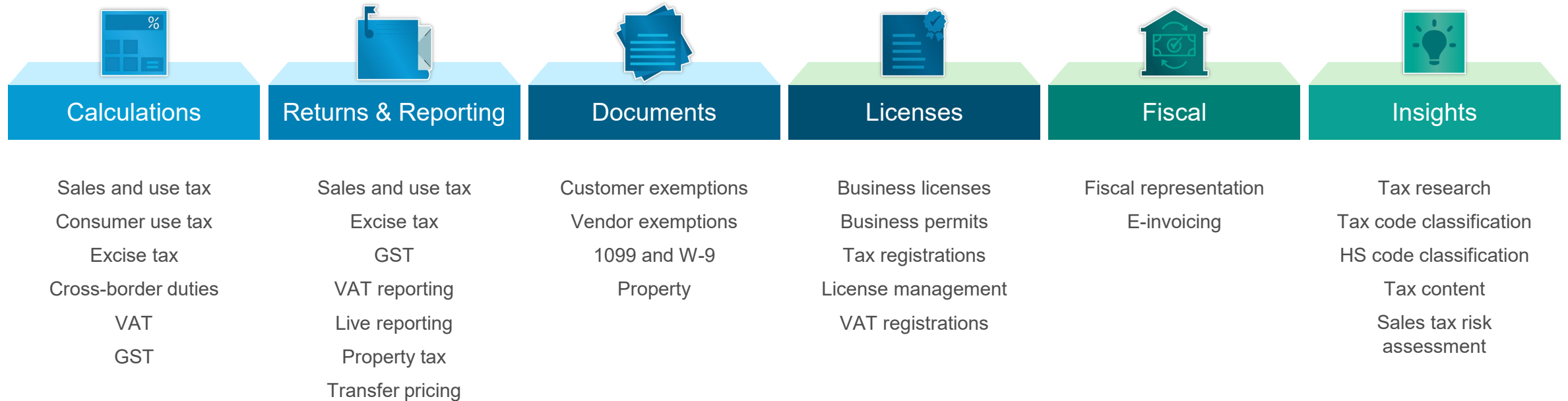
Based on transaction data you provided to Avalara, this is where we think you may have met state economic nexus thresholds at some point in the past, or where you might soon meet additional state nexus thresholds. Avalara cannot verify the accuracy or completeness of the information you have provided. This map is based on both current state threshold requirements, as well as past requirements that may have changed or may no longer apply to you. There may also be other reasons to register somewhere, such as a physical company location or the location of your employees. This map is an estimate for your informational purposes and is provided as-is. This map does not constitute tax or legal advice; always talk to a tax professional before registering somewhere new.

Need to take action?

- 1 Check with your tax professional before registering anywhere new

End-to-end tax compliance

The Avalara Compliance Cloud and platform help solve challenges across the compliance journey



Over 1,400 signed partner integrations for ecommerce platforms, point-of-sale (POS) systems, order management systems (OMS), marketplaces, customer relationship management (CRM) systems, enterprise resource planning (ERP) systems, accounting software, and more



POLL QUESTION



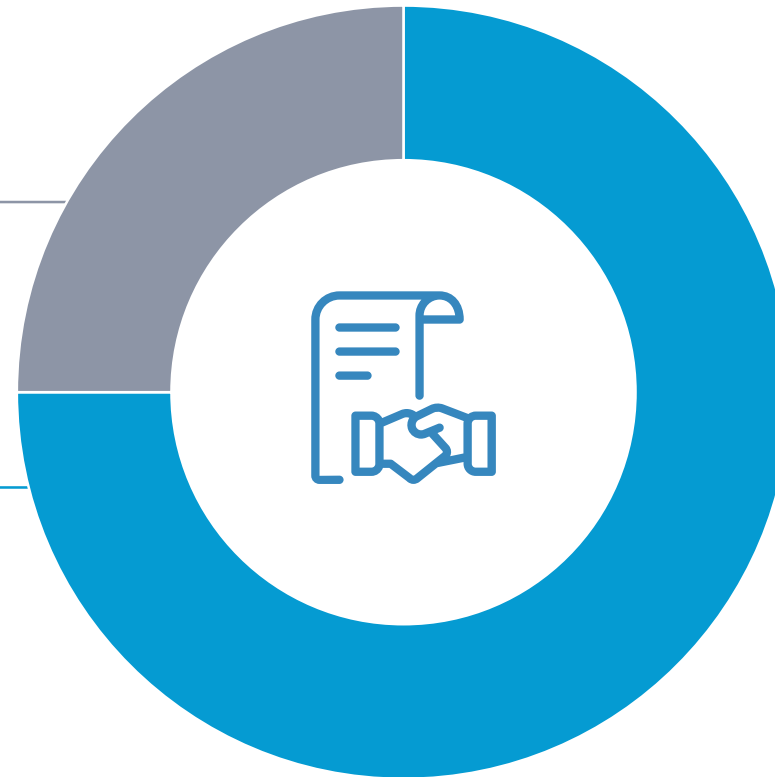
> 5 Steps to Managing Sales Tax Compliance

Tips for your business to Streamline and become more efficient

Why do companies outsource tax compliance?

25%
of auditor are **NOT LIKELY**
to find mistakes

75%
of surveyed tax pros believe an
auditor's likelihood of finding a
mistake is somewhere between
SOMEWHAT LIKELY and
DEFINITELY**

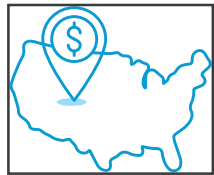


\$63K – \$393K
yearly cost of sales and
use tax compliance*

*Aberdeen Research, The Costs of Compliance, 2015

**Wakefield Research, Sales and Use Tax Compliance, 2017—Surveyed tax professionals believe an auditor's likelihood of finding a mistake is either 'somewhat likely, very likely, or definitely'

The 5 steps to managing tax compliance



1

UNDERSTAND

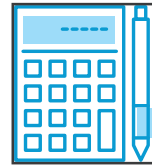
Understand where your business must collect and remit sales tax



2

REGISTER

Register to collect and remit sales tax



3

CALCULATE

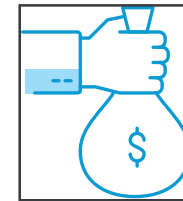
Calculate the correct sales tax amount



4

TRACK

Track and manage exempt sales



5

REMIT

Remit sales tax to the tax authority



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

Sales Tax Risk Assessment (STRA) Promotion



Free* STRA for new Avalara customers
\$4,500 value

What's included?

- Guided nexus questionnaire to complete at one's own pace
- In-depth analysis of economic and physical nexus obligations
- Full report

Ask your RKL Account Manager for more information or
[start assessment today!](#)

*Taxes may still apply in select jurisdictions



Q&A





Thank you!

Any further questions feel free to contact:

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