

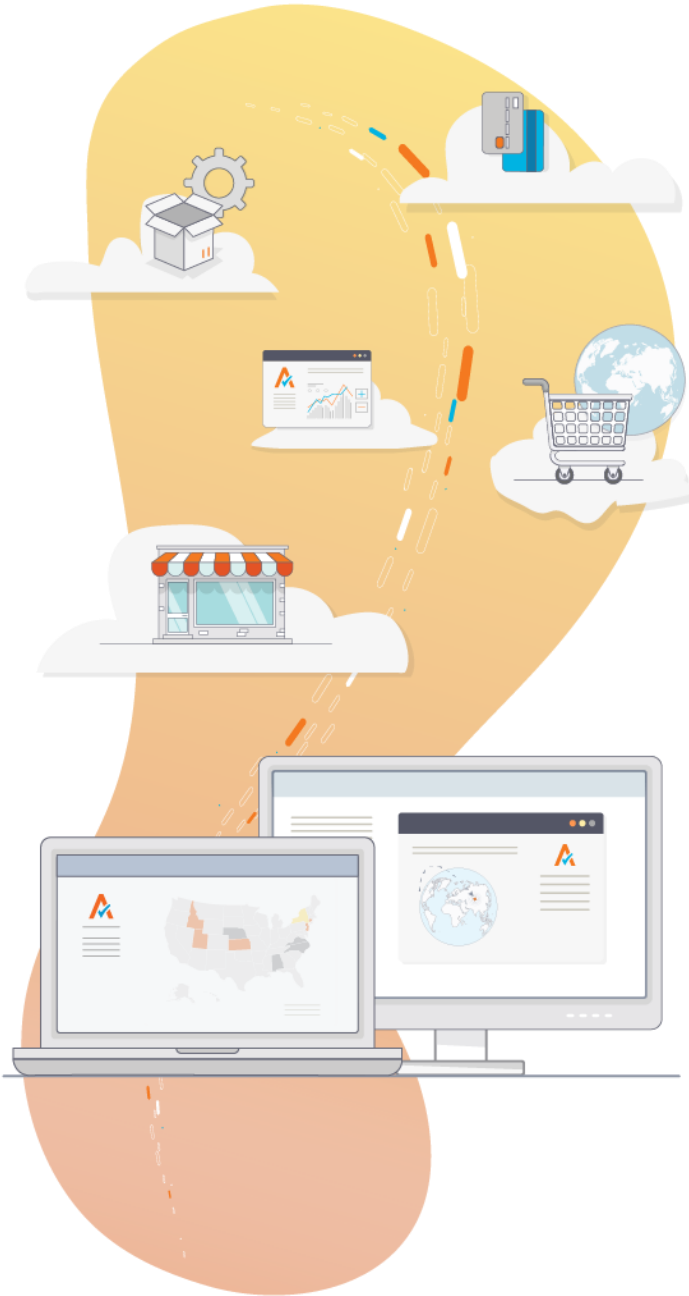


Nexus and the sales tax puzzle

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Agenda

- 1 > What is nexus and why does it matter?
- 2 > Audit risk
- 3 > Tips to streamline tax compliance



What is 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 impose its sales taxes on you





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.



SOUTH DAKOTA VS. WAYFAIR, INC.

Why is it 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.

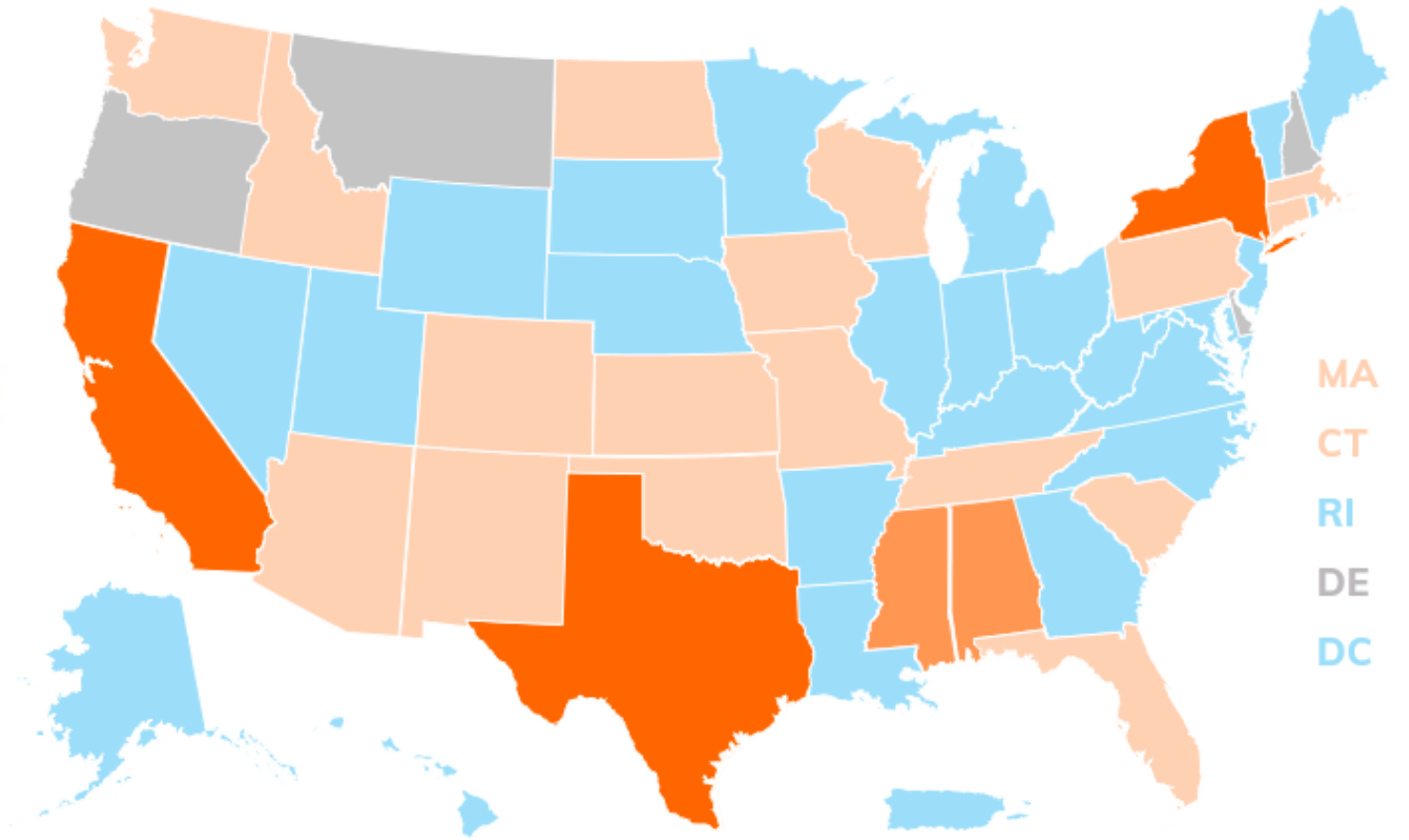




Economic nexus thresholds by state

-  \$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



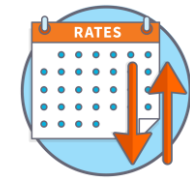
Use our free [sales tax risk assessment](#) to determine where you have nexus.

Why should you address your
nexus issues now?

Complexity is growing



Nexus: economic and physical



Rules change constantly



Compliance costs increasing

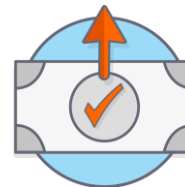
Compliance is not optional



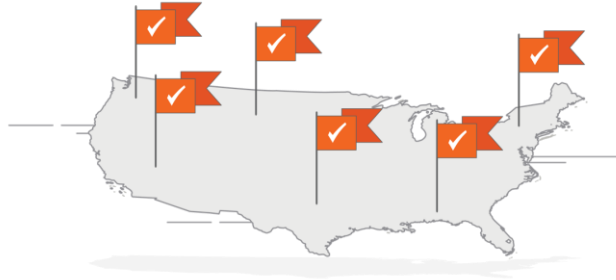
The burden of proof is on you



Easy targets audited repeatedly

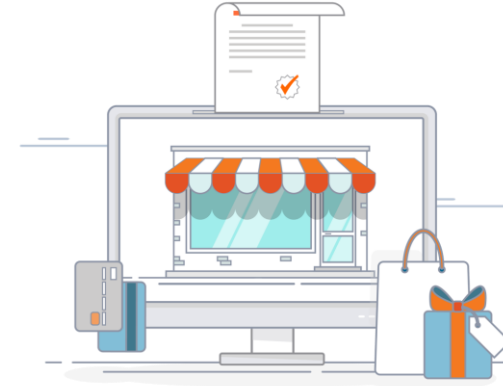


Back taxes, penalties, & interest



Needier, greedier states

- Sales taxes are a large part of a state's revenues
- States are actively searching for uncollected sales tax revenue
- States implementing new laws / initiatives to collect
 - Economic nexus laws
 - Marketplace fairness laws
 - Use tax reporting laws



Rapid growth triggers tax challenges

- Adding new geographies or products
- Implementing ERP, ecommerce or other business applications
- Mergers, acquisitions, and fundraising
- Newly-hired finance executives
- Sales tax audit



Understanding audit risk

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



Tips to streamline tax compliance



The 5 steps to managing sales tax compliance

1

WHERE

Know where your business must collect and remit sales tax

Avalara
Nexus Study

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
CertCapture

5

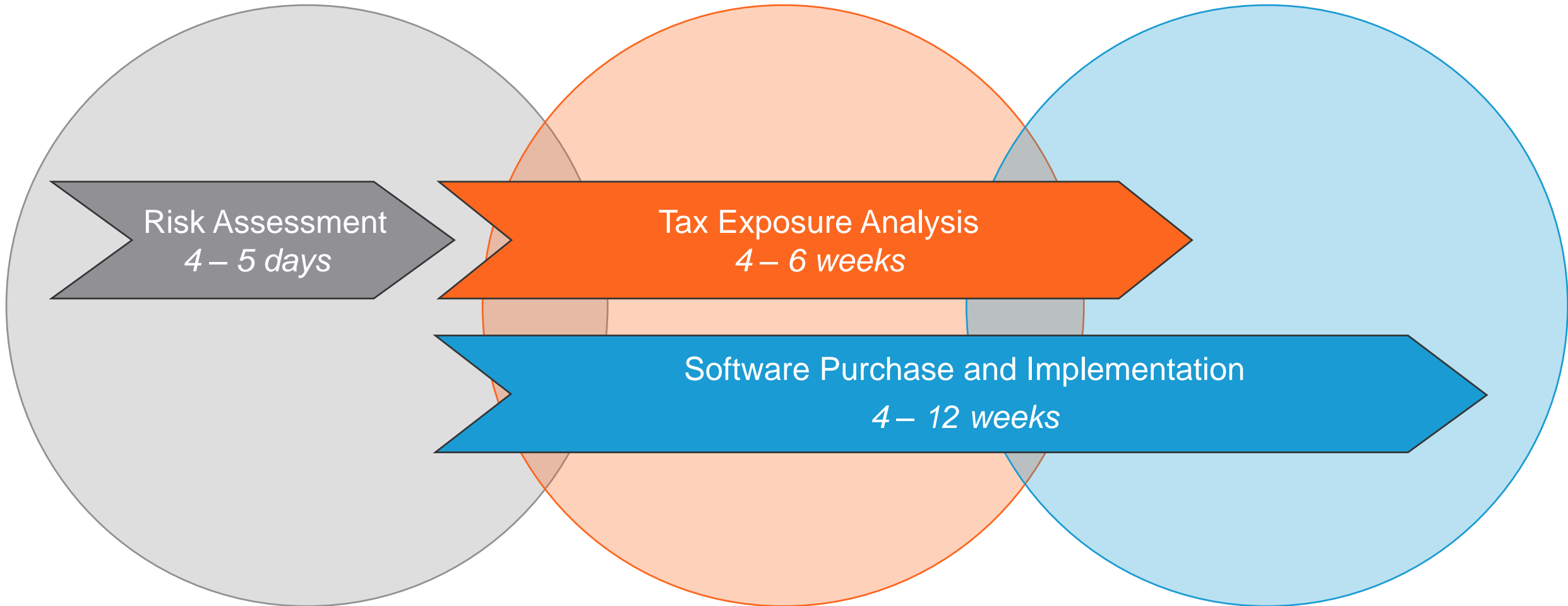
REMIT

Remit sales tax to the tax authority

Avalara
Returns

> Avalara Path to Compliance

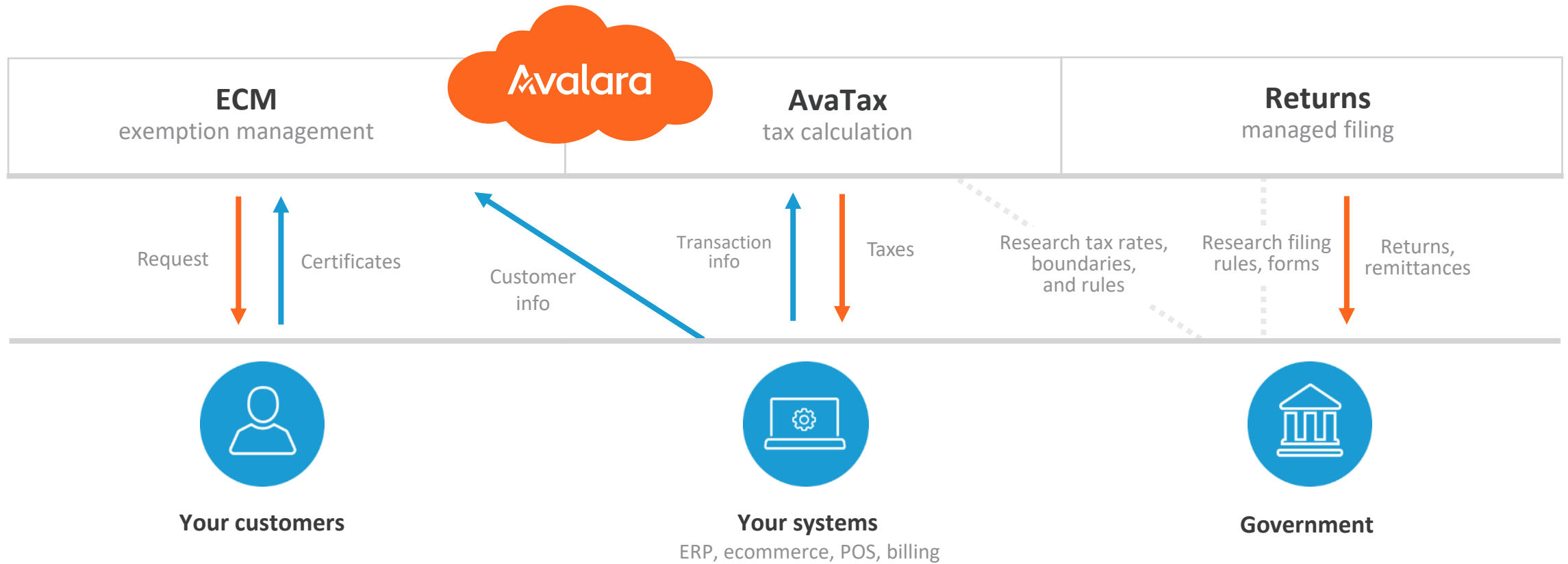
Typical Process





TIPS TO STREAMLINE TAX COMPLIANCE

Avalara Tax Compliance Suite



> Questions?

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Thank you!

If you have additional questions, please contact your account manager or me directly.

Alexandra Lyons

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The logo for Avalara features the word "Avalara" in a white, sans-serif font. The letter "A" is stylized with a white checkmark integrated into its left vertical stroke. The background is a solid orange color with a subtle gradient from top-left to bottom-right.

Avalara

Tax compliance done right