



Understanding the Complexity and Risks of Tax Compliance

Ian Zwit – Avalara

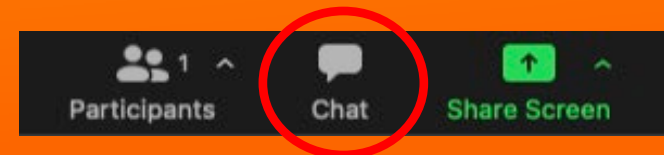
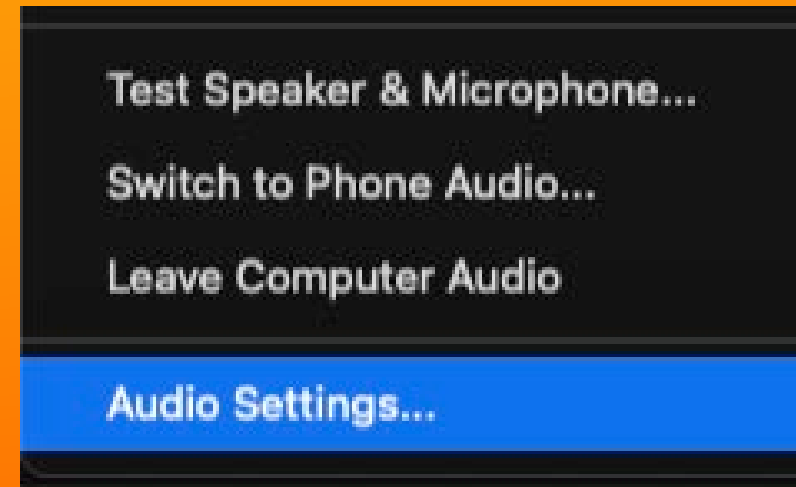
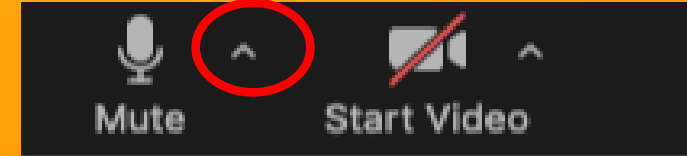
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- Click arrow next to Mute button
- You have the options to set microphone and speakers, test them, adjust volume or switch to phone audio
- Full audio settings allows you to and change other settings
- Submit your questions & comments using the Chat panel at any time during the webinar





Ian Zwit

Sales Executive, Avalara



Walter Little

Product Manager, Strategic
Information Group





Agenda

- Why sales tax matters
- Sales tax basics
- When to collect — Got nexus?
- The 5 steps to managing sales tax compliance
- Tips to streamline sales tax management

About Strategic:

- **Established:** 1992
- **Employees:** 115+
- **Locations:** USA (5), Ireland, UK
India, Thailand
- **Customers:** 1200+ Companies
 - 750+ full implementations
 - 400+ life science customers
 - 150+ reached exit strategy
- **Products**
 - QAD Adaptive ERP
 - Quality Management Systems
 - ERP Integration Adaptors & Extensions
 - FDA Validation Toolkits/Protocols
- **Services**
 - Implementations
 - Integrations
 - Upgrades
 - Managed Services (QAD and EDI)



**Strategic is now a Certified
Implementation Partner (CIP)
for Avalara**

- QAD Help Desk (helpSERV)
- Staff Augmentation

Why Strategic and Avalara

- Strategic is always looking for solutions that complement and extend the capabilities of QAD
 - Gap Fillers and Enhancements
 - Ease of Use
 - Extensibility
- Avalara is a world-class tax compliance solution
 - Always up to date
 - Holistic solution manages all aspects of sales/use tax compliance
 - Plays well with QAD



About Avalara

Key Facts and Figures



In operation since **2004**



Serving customers from **95** countries



More than **1,000** signed partner integrations



25 billion AvaTax API calls were made by customers in 2020



More than **3 million** returns filed by Avalara in 2020



\$12.9 billion sales and use taxes remitted in 2020

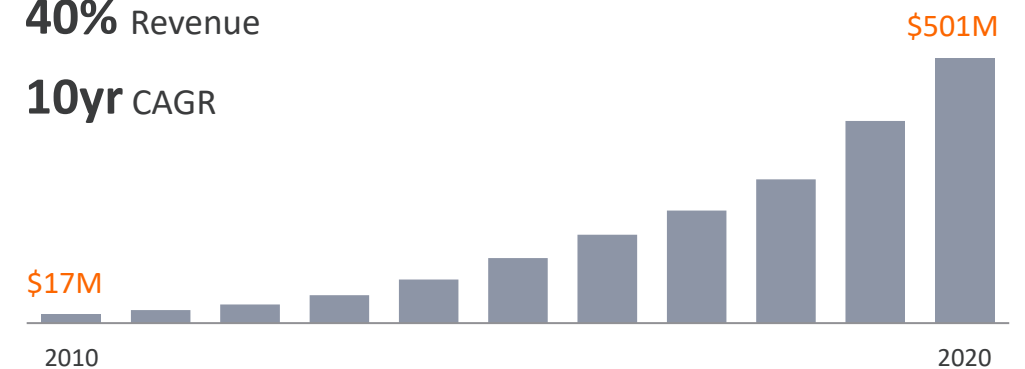
Global Offices

20 offices in
12 countries,
3,300+ employees



Financial Performance

40% Revenue
10yr CAGR





Why sales tax matters



SALES TAX

Significant source of revenue for states

45 states rely on state and local sales tax revenue

- › Sales tax is governed at the state level. Each state sets its own sales tax rates and laws.
- › Sellers collect sales tax directly from consumers and then remit it back to the taxing jurisdiction where it's owed (state and/or local level).

“PASS-THROUGH” TAX

23.6% of

state and local tax revenue comes from sales tax collections; second only to property taxes.*



STATE BUDGET DEFICITS

The impact of COVID-19

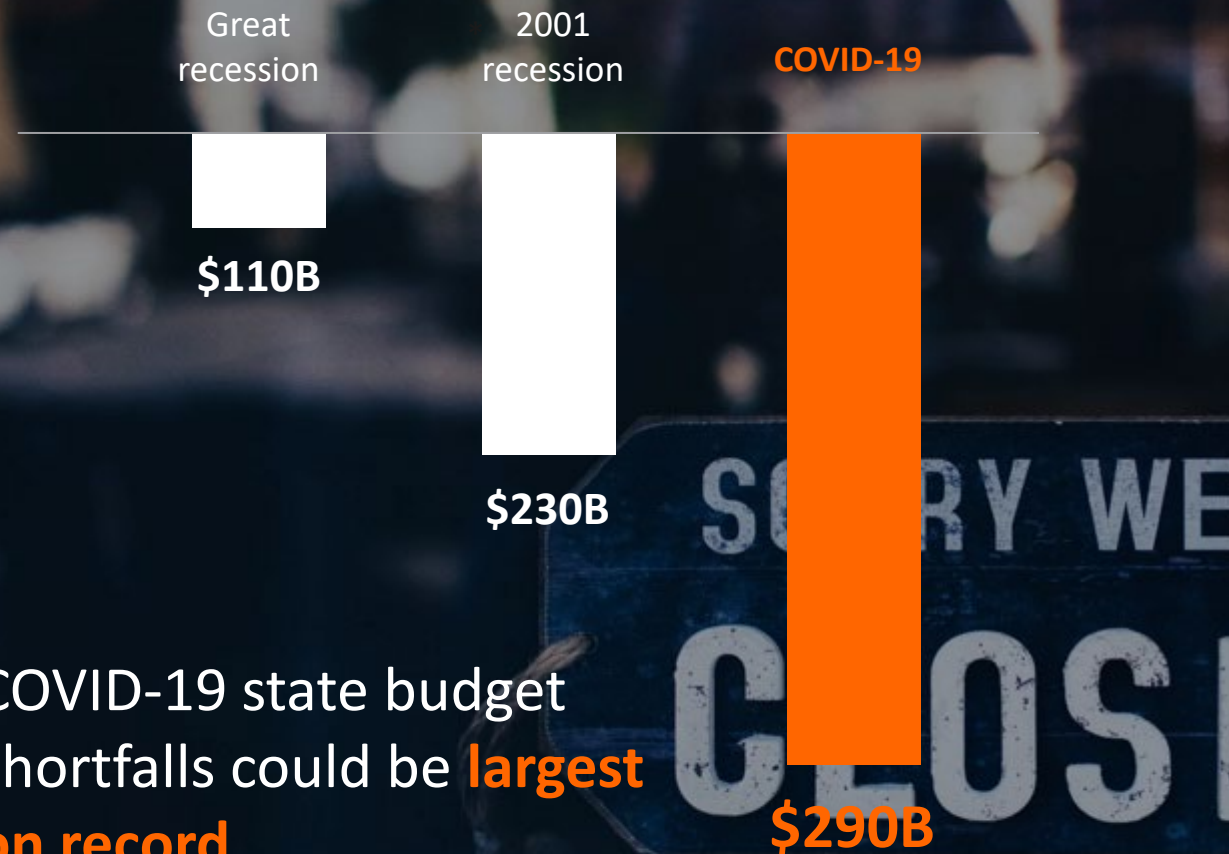
Sales tax relief efforts and delayed deadlines have resulted in a budget crisis for many states.

- > California raising taxes & suspending tax breaks amid a \$54.3 billion deficit.

!

States are expected to run a **\$290 billion deficit in 2021.***

Largest state fiscal year budget shortfall **in billions.**



COVID-19 state budget shortfalls could be **largest on record.**



STATE BUDGET DEFICITS

States respond to budget reductions

States prioritize efforts to recoup losses

- > Increased sales & use tax audits.
- > Crackdown on economic nexus laws.
- > Taxing digital goods & services.
- > Rate increases.
- > NOMAD states may consider adopting state sales tax.



Sales tax basics



WHAT'S TAXABLE?

Sales tax is all about...



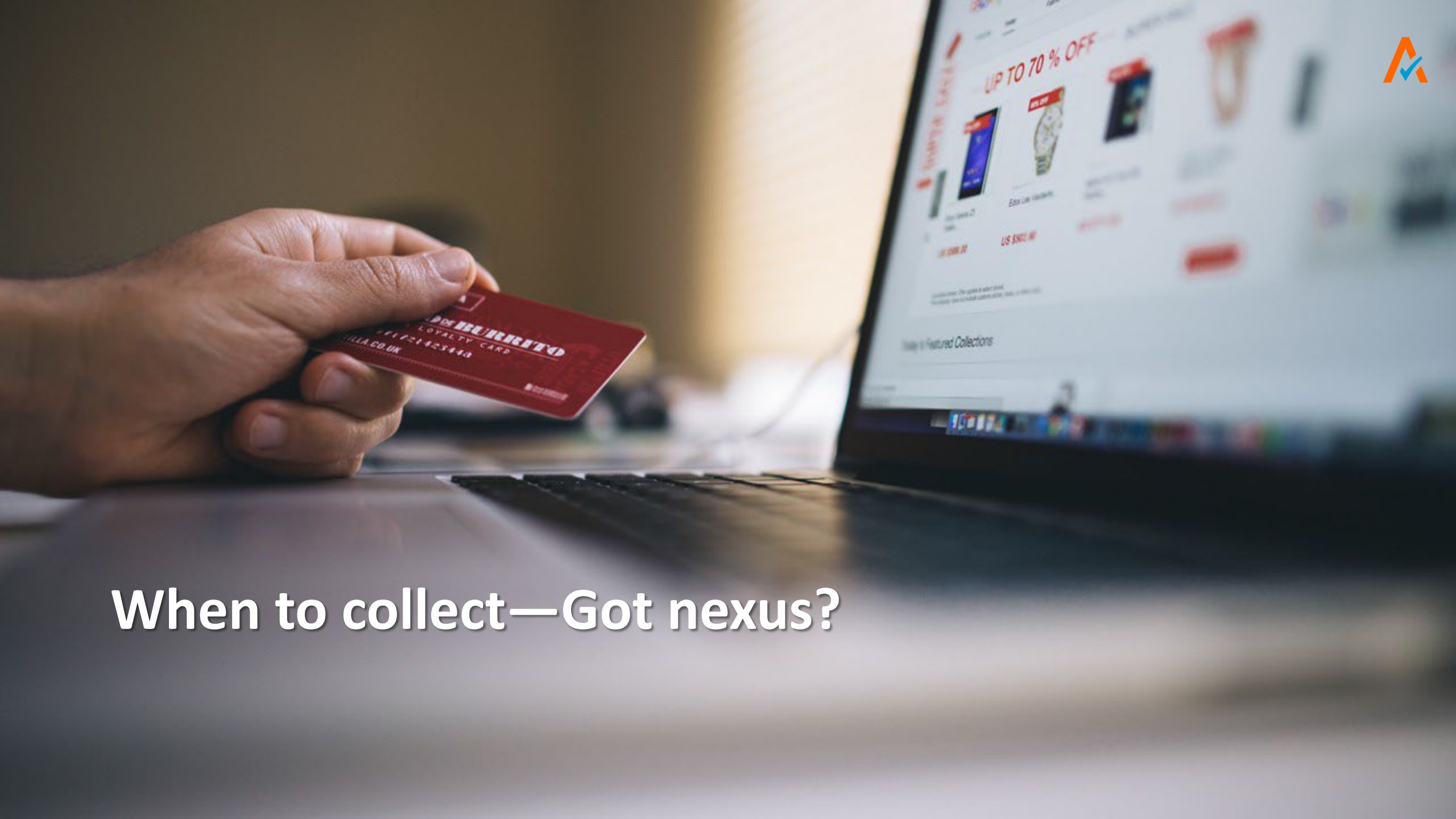
The where



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





- 1
- 2
- 3
- 4
- 5

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



MORE ON ECONOMIC NEXUS

Spotlight on South Dakota v. Wayfair, Inc.

On June 21, 2018, the U.S. Supreme Court issued its decision in *South Dakota v. Wayfair*.

The Court ruled in favor of South Dakota and **eviscerated the physical presence standard for remote sellers** in *Quill Corp. v. North Dakota* and *National Bellas Hess, Inc. v. Department of Revenue of Illinois*.

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.

45

of the 45 states with a state sales tax have adopted economic nexus.

Thresholds vary state-by-state



The 5 steps to managing sales tax compliance





The 5 steps to managing sales tax compliance



1

UNDERSTAND

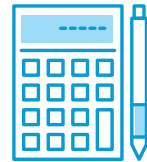
Understand where your business must collect and remit sales tax



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



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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



AVALARA SOLUTION

Avalara nexus study



STEP 2 CONTINUED

Register to collect and remit sales tax

When registering isn't enough:

- > If you have a prior obligation but haven't registered or started collecting, you may need to take additional steps before registering.
- > This may include backfiling or participating in a Voluntary Disclosure Agreement.
- > Gather necessary items to successfully register in all jurisdictions.



STEP 3

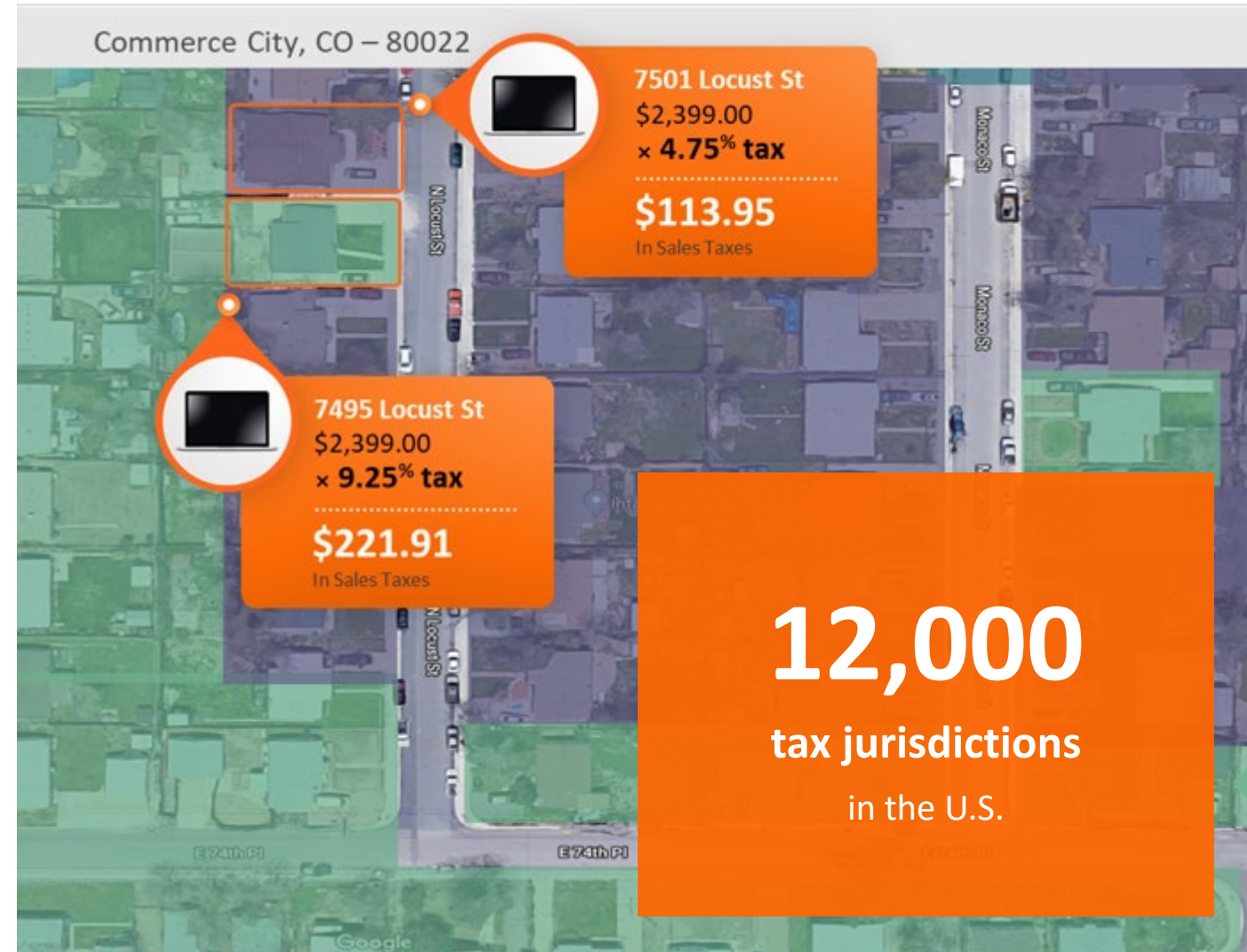
Calculate the correct sales tax amount

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.

Recommended next steps:

- Become familiar with the variables that make up an accurate tax rate.
- Have a solution in place to be able to quickly and easily charge the correct rate.



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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



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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

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

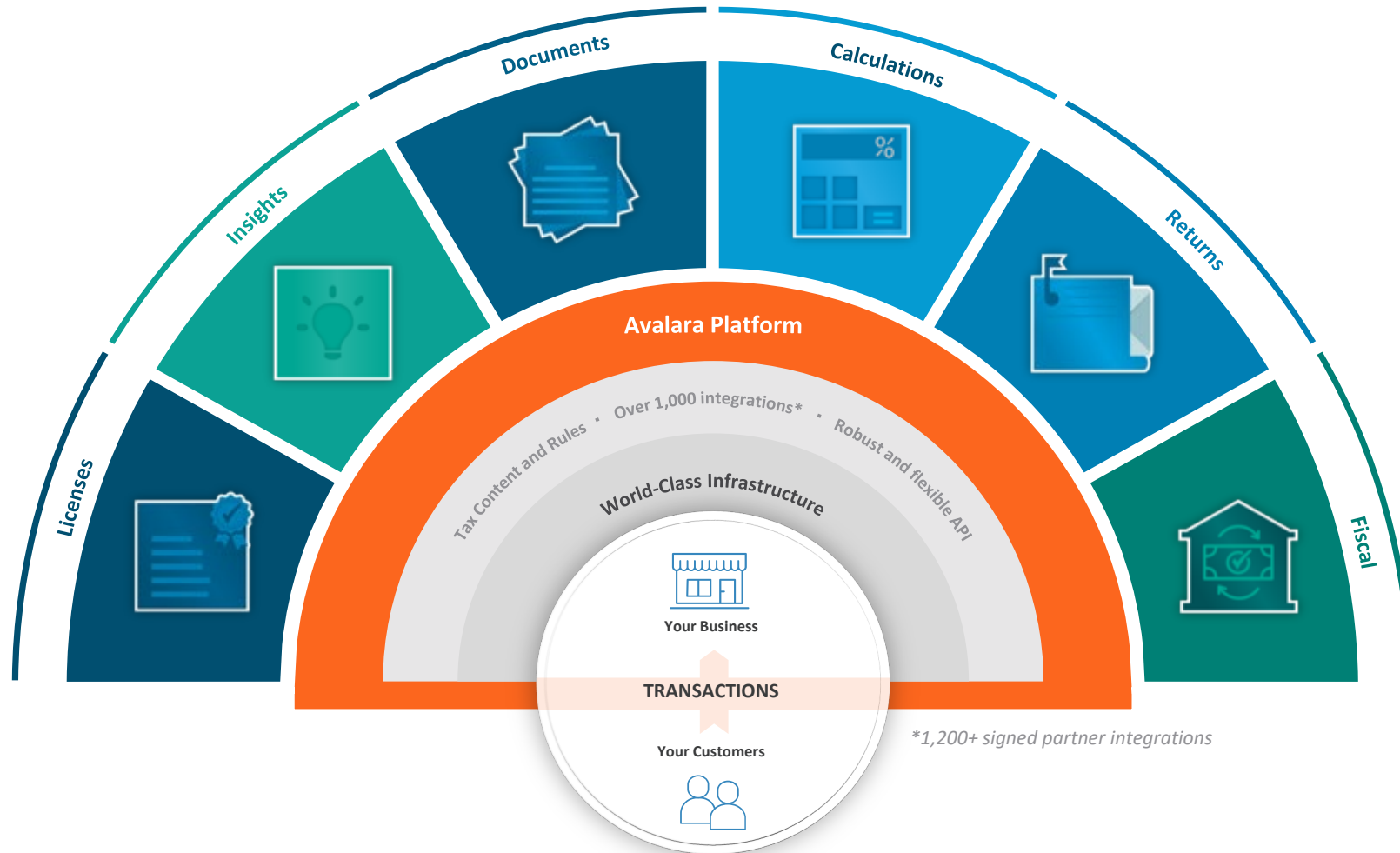
REMIT

Remit sales tax to the tax authority

Avalara
Returns

Avalara Compliance Cloud

Comprised of Six Product Clouds and the Avalara Platform



Streamlined Sales Tax (SST)

SST member states simplify sales tax with uniform rates, rules, registration, remittance, and exemption certificates

Avalara is an SST Certified Service Provider

SST volunteer status member benefits with Avalara

- Uniform definitions and rules
- Free SST registration in all 24 SST states*
- Free tax calculation transactions in SST states*
- Free prep and filing in SST states*
- Audit protection*

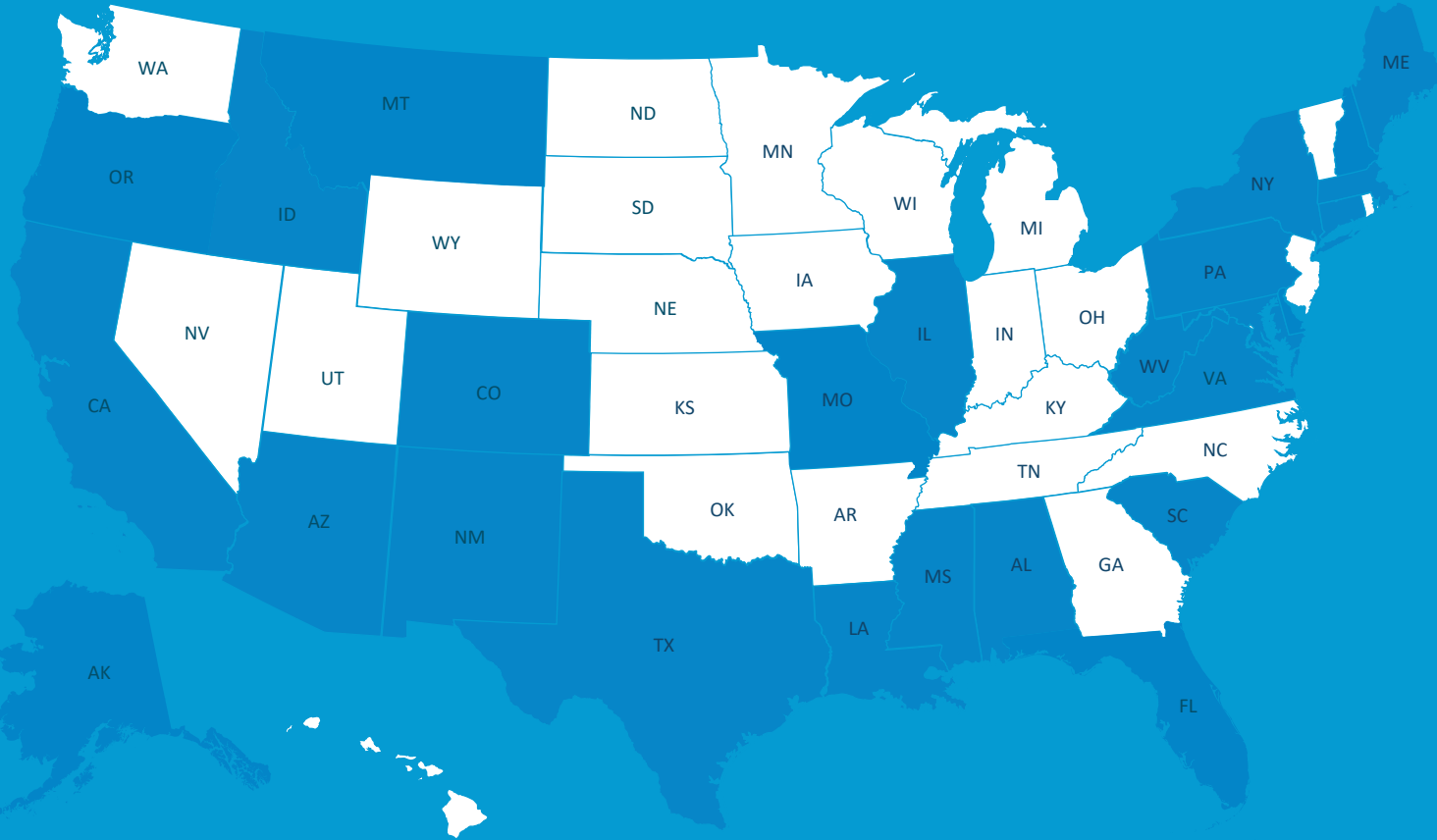
** Applies to states where a business qualifies for SST volunteer status*





Free sales tax services for qualifying businesses

IN UP TO 24 STATES, YOU MAY QUALIFY FOR:



- > Free registrations
- > Free tax calculations
- > Free returns preparation and filing
- > Audit assistance and response
- > Uniform definitions and rules
- > One registration and identification #



Why automate sales tax management?



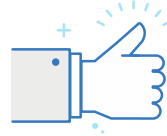
Accuracy

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



Avalara's Streamlined Sales Tax helps dental equipment manufacturer scale in 40 states

The Problem

An established dental equipment manufacturer had a growing sales footprint and a growing sales channel. Their owner wanted to remain tax compliant, but the volume and increasingly complex web of economic nexus obligation was making it difficult to keep up.

The Solution

In 2016, the company made the decision to implement the Avalara tax compliance suite to help them understand where they had additional nexus requirements. After undergoing a nexus study, the company was made aware that they weren't collecting in some states where it should be. So they decided to leverage the Streamlined Sales Tax program (SST).

The Benefits

For those who qualify, working with a Certified Services Provider—such as Avalara — streamlines the sales tax process, minimizes costs, and supports compliance. Working with state auditors on the company's behalf, Avalara was able to register, calculate, and remit on the customer's behalf at no cost in SST states, and significantly reduced their audit risk across 40 states.

"If SST wasn't a thing, I'd be paying Avalara for those transactions and returns. It's astounding how many companies don't understand those benefits." - CFO



Agricultural Machinery manufacturer reduces exemption certificate processing time by 40%

The Problem

After a series of merger and acquisitions, a largescale manufacturers of sophisticated harvesting machinery was having trouble keeping up with a web of tax exemptions. Managing nexus and exemptions manually was literally a full-time job at the manufacturing company. “We had to do all of the research into each state’s tax laws that apply to agriculture... the setup was quite horrific for each state. Our systems really confined us.”

The Solution

After shopping around, the company came to Avalara, and began to automate their process using Avatax and Cert Capture. “The team at Avalara showed a remarkable willingness to dig in and figure out how to handle our specific set of needs... After eight or nine months of testing, we were surprised at the results.”

The Benefits

Avalara AvaTax dynamically evaluates invoices, makes tax decisions, and applies them across 16,000+ jurisdictions at the point of transaction, within any ERP or billing system. Avalara CertCapture automates the entire process of managing exemption certificates, digitally capturing and storing them in a central repository. The combination of these tools reduced certificate processing by 40%.

“We’ve been able to put people on more meaningful work...We didn’t want to have staff dedicated to managing sales tax. We want to focus on what we do best, and that’s selling agricultural machinery.”
– Sales Account Supervisor



Joint Avalara & Strategic Information Group Wins



Current State/Pain

- Manual sales tax process in 33 states, and unsure which remaining states they needed to get registered in
- Haven't updated sales tax rates in 3 years – and have no way to track exemption validity, expiration dates, etc.
- Will continue to keep returns in-house for now and will leverage Avalara reports to make the filing process easier

How we helped

- Avatax for QAD – automated the sales tax calculation process, removing the need for tedious manual tracking. Avatax reports also simplified their filing process allowing employees to focus on customer satisfaction or revenue-generating activities
- Exemption Certificate Management – Automated the process for collecting the right certificate and tracking expiration dates,
- Nexus Study – help them understand where they should be registered and if they have any past liability that needs to be addressed moving forward

Current State/Pain

- Product taxability vary from state to state and were being handled manually
- Employee responsible for sales tax and compliance is retiring and outsourcing to a third-party accountant was too costly
- No process of handling exemption certificates or tools for tax research or tax decisions

How we helped

- Implemented end to end compliance solutions for sales tax calculation, exemption certificate management and return filing/remittance.
- Automation allowed all employees to handle sales tax and compliance simply and in a timely manner
- Exemption certificate management software – High risk area in audits and very easy for auditors to identify problems without a software to help.



Questions?



Thank you!

If you have additional questions, please contact your Avalara or Strategic account manager:

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