Key compliance issues in procure to pay

Avalara
Tax compliance done right

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Avalara
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Disclaimer

While we hope you'll find this discussion helpful, this session is for informational purposes only and is not legal or tax advice.

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Qualifying for credit

- Respond to ***3 of 4*** poll questions
  - Questions display for a limited amount of time
  - Select your answer and click submit
- Attend the **full duration** of the webinar
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Downloading Certificate

- Download the certificate once you qualify
  - Find the Earn Certification box
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- Those that qualify will also receive their certificate in a post-event email

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Meet your presenters

Meet our speakers

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General Manager

Avalara

Tamra Gredell

Senior Product Manager

Avalara

Dave Williams

Director, Product Management

Avalara

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CPE POLL QUESTION 1

How would you rate your current procure to pay processes?

Agenda

1. State-of-play for accounts payable
2. Catching vendor errors before they become a liability
3. Managing vendor exemptions with ease
4. Filing 1099 forms from your vendors
5. Q&A

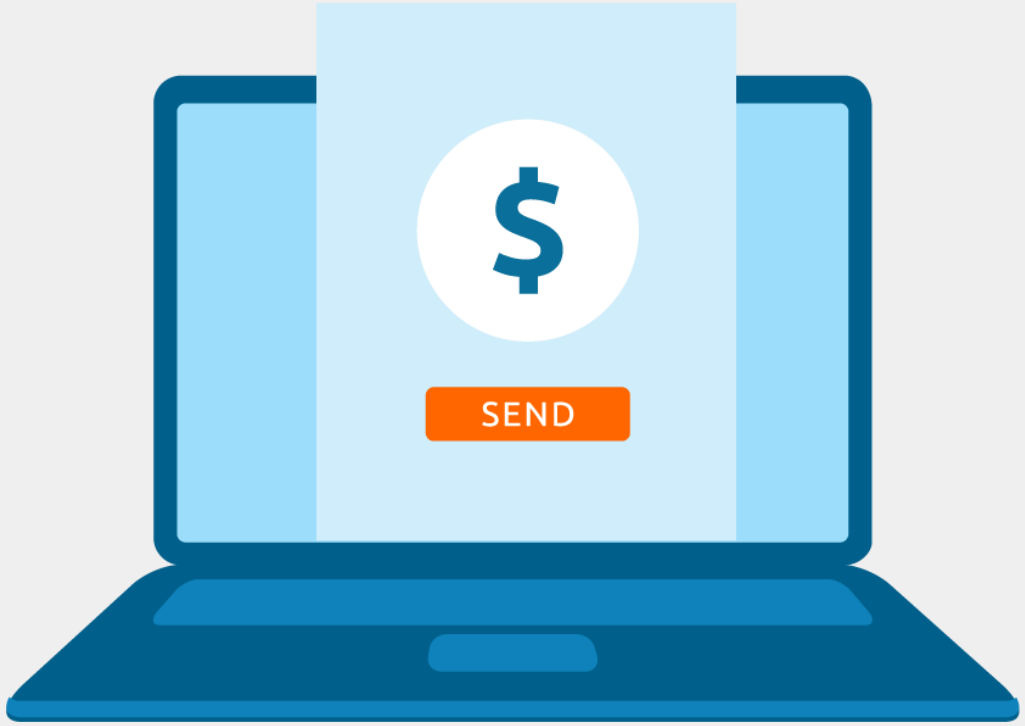
Managing accounts payable processes 101

Procure to pay processes

Overview

From the tax rates charged at checkout to IRS forms and even your accounts payable — there are a lot of moving pieces in your business.

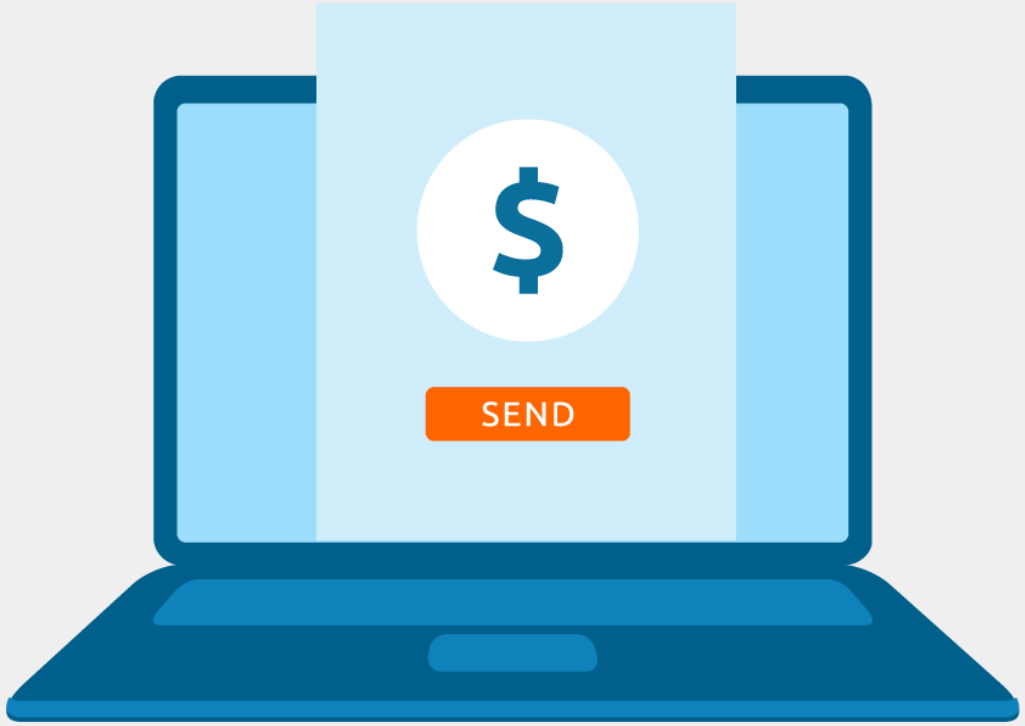
But are all those pieces moving in the right direction to keep you tax compliant?



Procure to pay processes

Overview

- Use tax gets complex when buyers are responsible for paying the sales tax
- Manually managing exemption certificates may result in overpayment of taxes, putting vendors at risk
- Filing tax returns is complicated and stressful since you need to determine which of the many forms to fill



CPE POLL QUESTION 2

How automated are your current procure to pay processes?

Catching vendor errors

Catching vendor errors

- Most common consumer use tax issues occurs when **vendors omit or incorrectly charge sales tax**
- **AvaTax for Accounts Payable** checks rates according to jurisdiction, product taxability, and any special rules that may affect the purchase, making it easier for you to manage compliance

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What is consumer use tax?

Consumer Use:

The tax that is owed by a buyer when they are not taxed the full amount owed on a purchase by the seller.

Change of disposition (usage reason or location) can also trigger the tax.

Typical examples:

- Out-of-state vendor did not collect any or all owed tax
- Purchase was originally put in inventory and was going to be resold, but instead was used
- Purchased in one jurisdiction, put into service in another

Less common examples:

- Free giveaways
- Internal service distribution
- Movement of fixed assets

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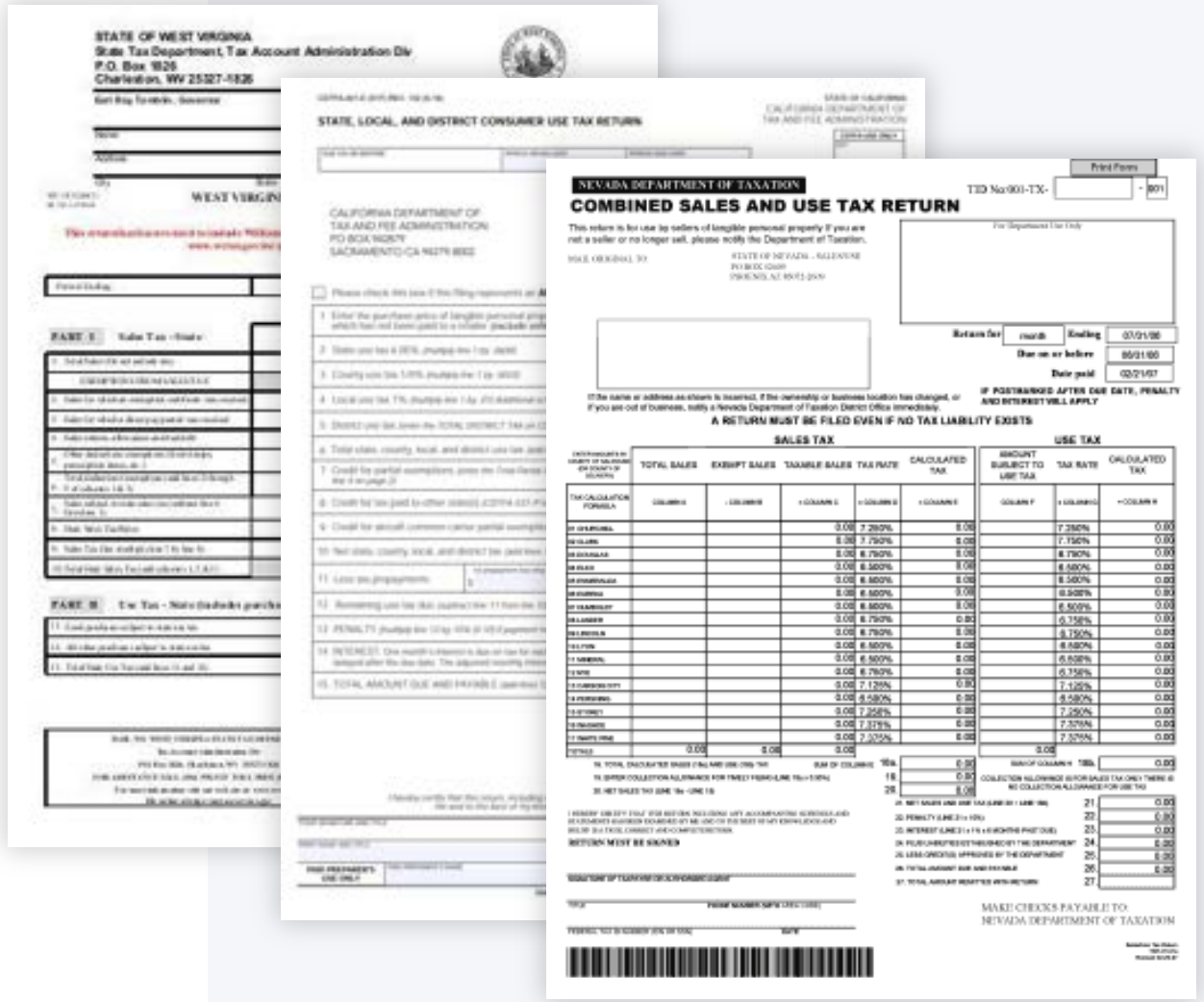
Consumer use tax challenges

Self-assessment is a manual, resource intensive process requiring specialized skills

Use tax rules and rates are complex and subject to change

Integration and automation are difficult: tax triggers come from many sources & data management is complex

Audit risks are high



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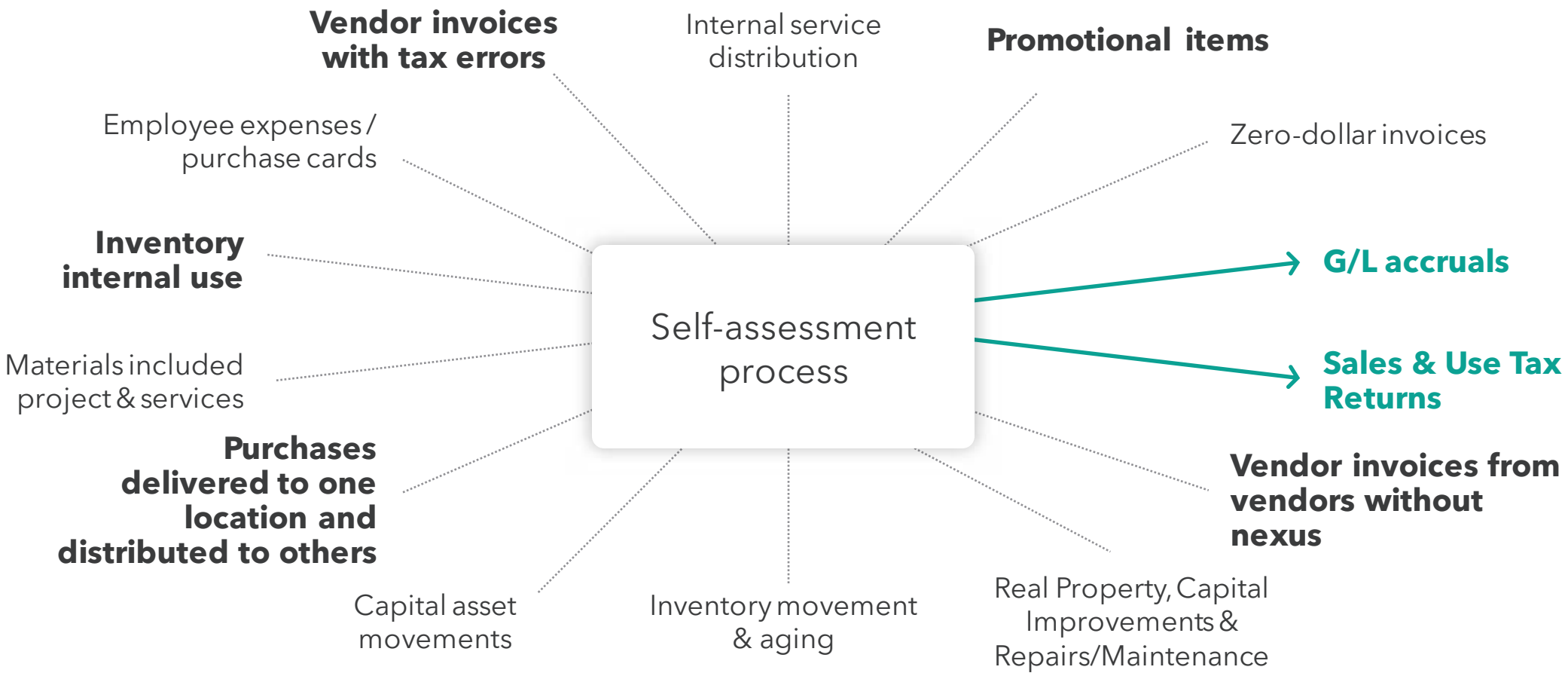
Consumer use tax challenges

Tax complexity + **No automation** = **High cost** AND **High risk**



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How do companies manage Consumer Use Tax liability?

Overwhelmingly the answer is “with difficulty”

Strategies to manage varies wildly:

- Ostrich mode
- Best guess lump sum payment
- Manual paper invoice sampling in batch
- Spreadsheet manual audit (subset of invoices)
- Manual invoice inspection at time of invoice
- Programmatic evaluation at time of invoice
- Internal reverse audit with Support Software
- External multi-year reverse audit
- Outsource entire process (big 5 firms)

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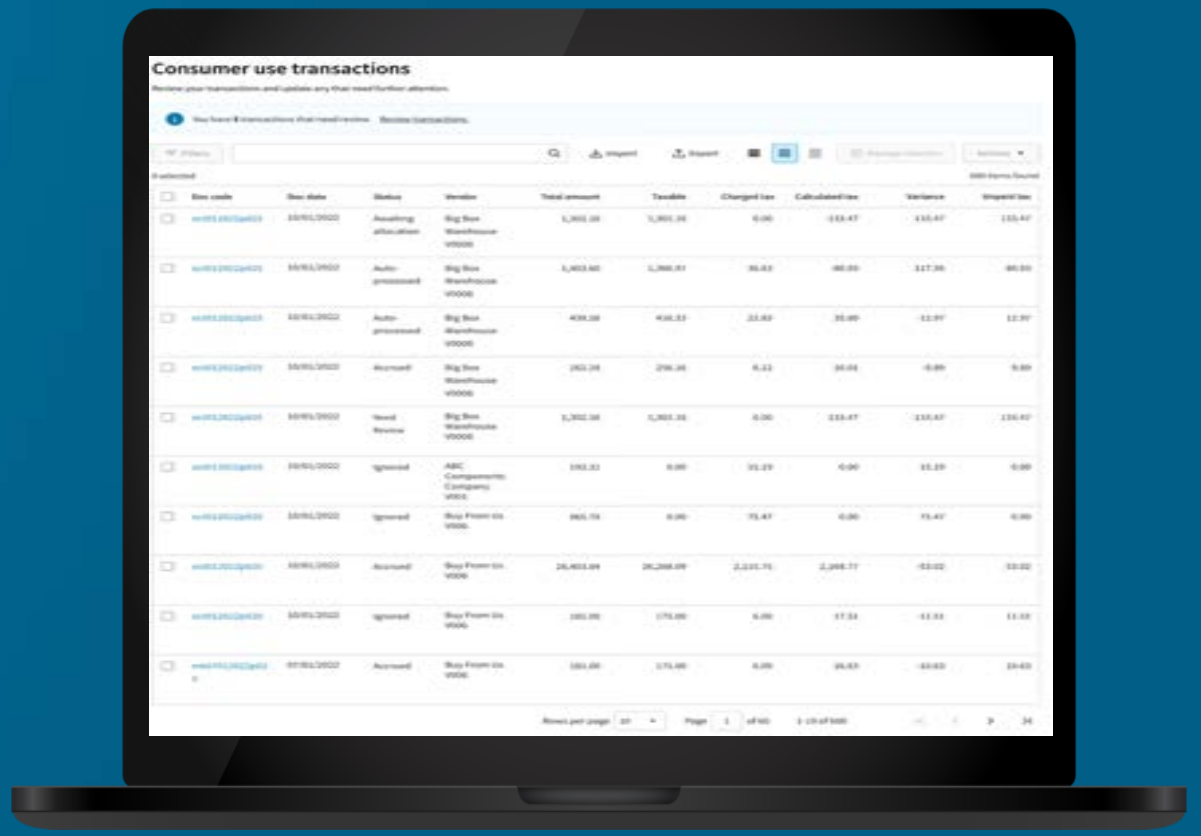
Introducing...
AvaTax for Accounts Payable

Product overview

- Process automation for consumer use tax self-assessment
- Flexible transaction import from any source, including real-time support
- Configurable rules to support automated and semi-automated processes
- Powerful reporting for process control, G/L journal entries, audit trails, and liability analysis
- Integrated with Avalara Returns



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CPE POLL QUESTION 3

What percent of your team's time is spent fixing errors or resolving vendor questions in your procure to pay processes?

Managing vendor exemptions

NEWS & TIPS | EXEMPTIONS|RETAIL

D.C. Court Affirms the Denial of Refund Claim for Hospital

The District of Columbia Court of Appeals affirmed the denial of George Washington University Hospital's (GWUH) refund claim for nearly $1,000,000 in sales tax collected between 2016 and 2019.

GWUH purchased prepared meals during the 2016 and 2019 tax periods with the intention of being resold. While D.C. requires sales tax to be paid on tangible personal property, D.C. Code § 47-2001 states that a purchaser is exempt from paying sales tax if purchase will be resold to the end consumer. However, the purchaser is required to provide the seller with a resale certificate at the time of purchase and GWUH did not follow the statue to claim the exemption for resale.

Subsequently, GWUH filed a claim for a refund with the Office of Tax and Revenue (OTR) who denied the claim due to the divergence from the statute. The D.C. Court of Appeals affirmed the OTR's decision.

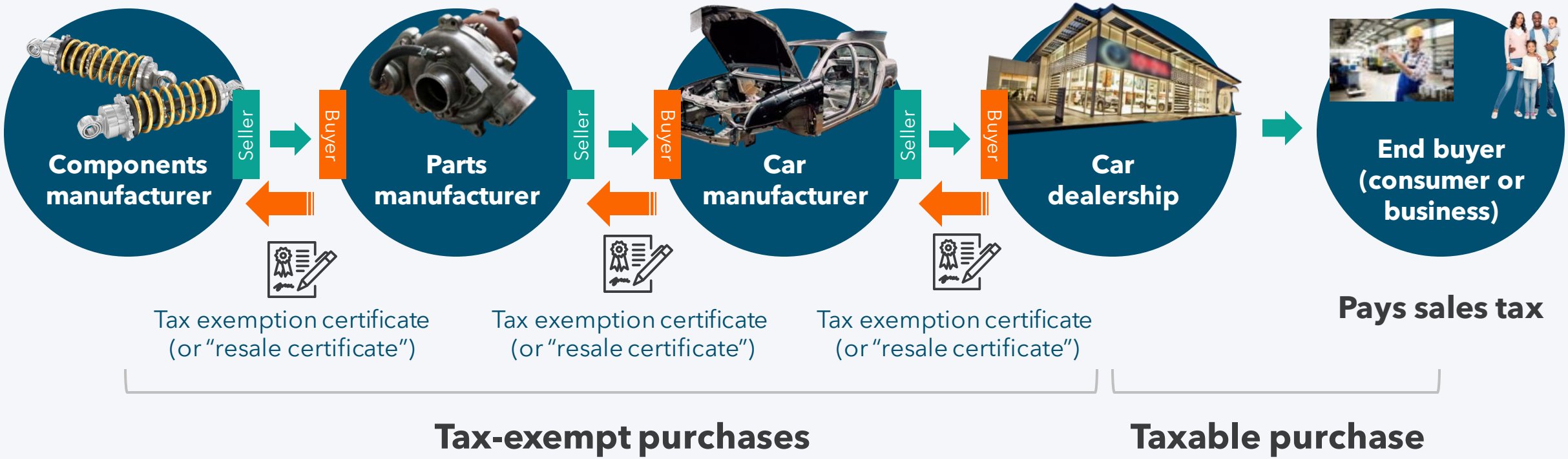
To claim exemptions it is important to follow the statutes as defined, for example, D.C. Code § 47-2010 clearly outlines the need for a resale certificate at the time of purchase. This left GWUH's legal team to argue specific semantics of other clauses in D.C. code. These arguments largely failed because D.C. Code § 47-2010 is a flat rule, and tax collected in this situation without a resale certificate is not considered erroneously or illegally collected.

This case also illustrates the necessity of certificates beyond the legal requirement. Certificates serve a very important role in the documentation for the seller and the purchaser, not just governing authorities. Thoughtful investigation into your sales tax requirements prior to purchasing or selling

Tax exemption resale example: Auto supply chain

Seller **CUSTOMER exemptions** scenario ("I need to collect exemption certificates from my tax-exempt customers.")

Buyer **VENDOR exemptions** scenario ("I need to make sure all my suppliers have my tax exemption certificate(s).")



Vendor Exemptions from Ford's perspective as a buyer

Example

Vendor Exemptions:

- Enables ***buyers*** to proactively, & intelligently send Exemption Certificates to vendors
- Ensures tax isn't paid when it shouldn't be and is paid when it should

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Vendor Exemption Management

Adds **control** to procurement process

Minimizes time and need for tax expertise

Allows **web-based automation** and process centralization

Creates **pre-populated** certificates (signature)

Improves vendor/supplier relationship, creates **more efficient** buying process

- Automates vendor exemption management workflow
- Supports efficient use of business resources
- Enables Centralized Storage
- Improves supply chain agility and efficiency

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Vendor Exemptions Addresses Buyer Challenges

Buyer	Send	Manage	Validate	Workflows	Analyze exposure
Before Scenario	• Don't know when and what to send	• Certs stored in various formats and locations	• Inability to validate company cert information in real time	• Need certs in advance of PO/invoice	• Manually track & identify missing, invalid, or expired certs
Challenges	• Missing cert could result in tax charges • Incorrect certificate increases use tax liability • Disrupts purchase cycle	• Not accessible when needed	• Potential vendor tax liability from expired certs	• Credit & re-billing • Order delays	• Expired certs may lead to sales tax erroneously charges • Labor-intensive, Potential non-compliant purchases
Vendor Exemptions Solution	• Intelligently determines correct forms & reason for exemptions • Manage any volume with high velocity	• Visibility to vendors & exemptions • CertExpress storage and delivery	• Real-time validation with correct company information and controls	• Approval workflows Tax/AP • Integration API's • Control vendor onboarding	• Review vendor information and types of exemptions

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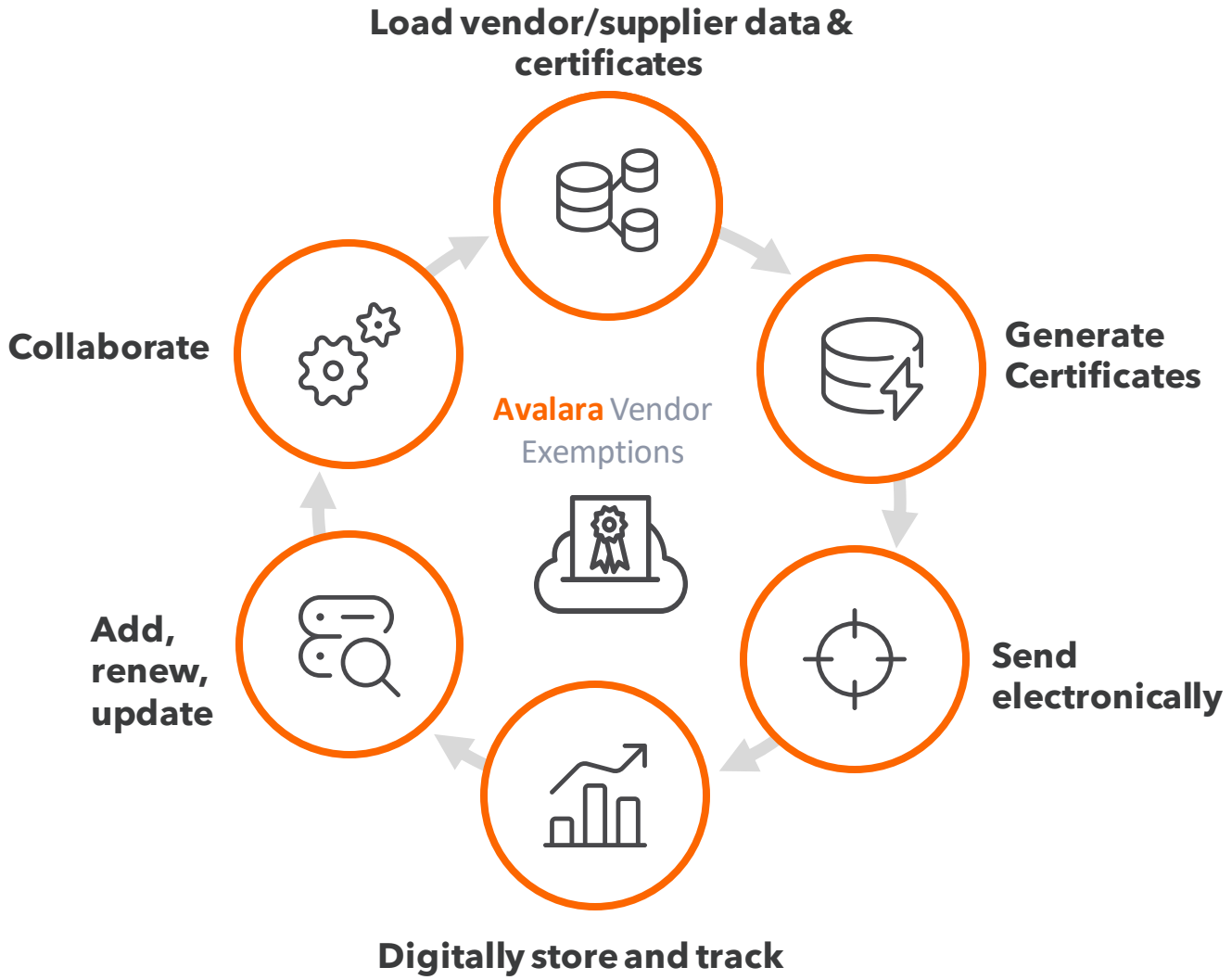
Vendor Exemption Management Features

Simplifies purchasing, reduces credit & re-bills, minimizing tax over-payment

- Adds controls & policy enforcement to purchasing across the organization
- Minimizes need for internal tax expertise
- Reduces potential tax overpayment
- Improves vendor/supplier relationships by minimizing order delays and incorrect invoicing



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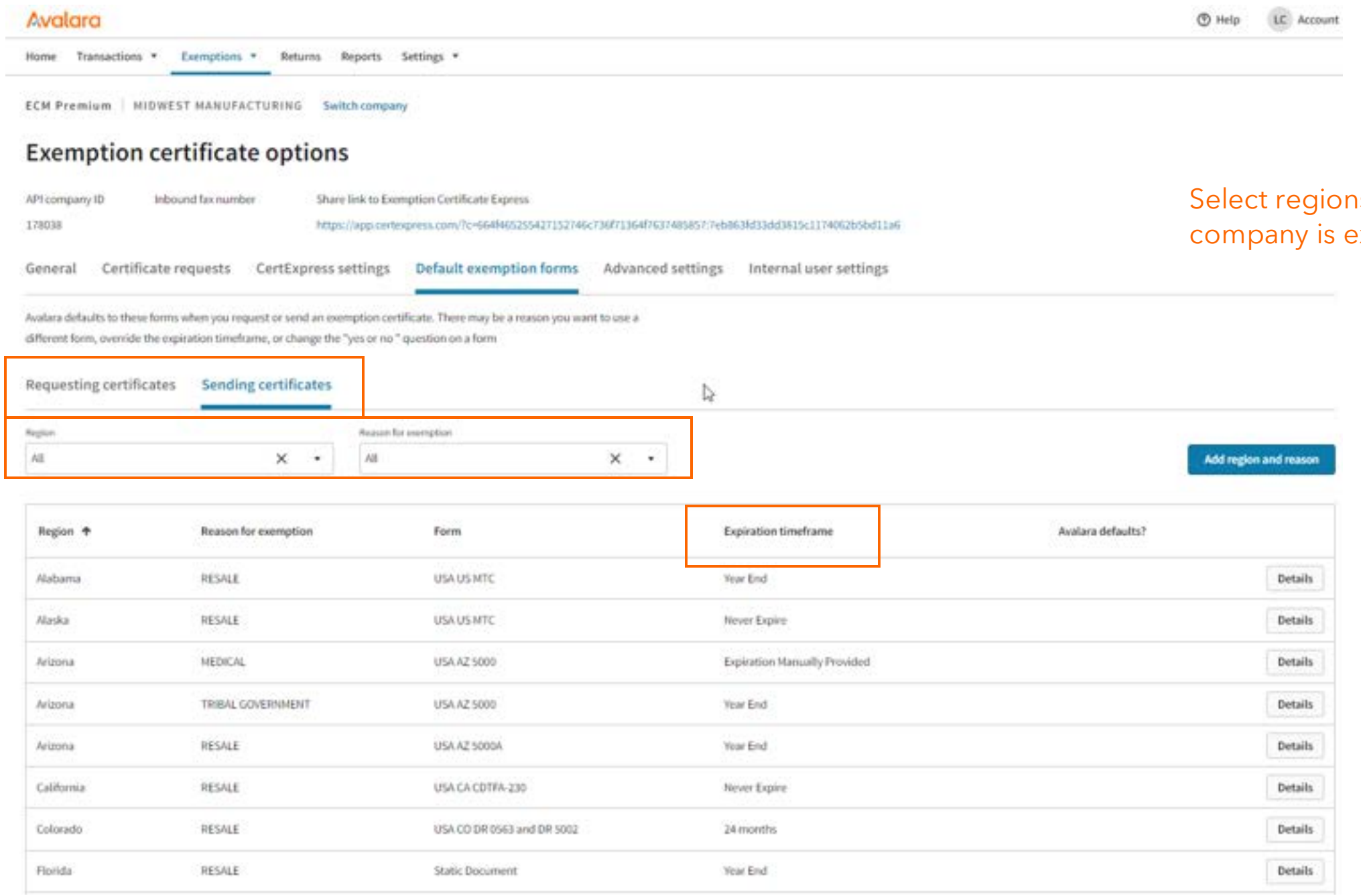
Vendor Exemption
Management



Select regions and reasons your company is exempt from tax

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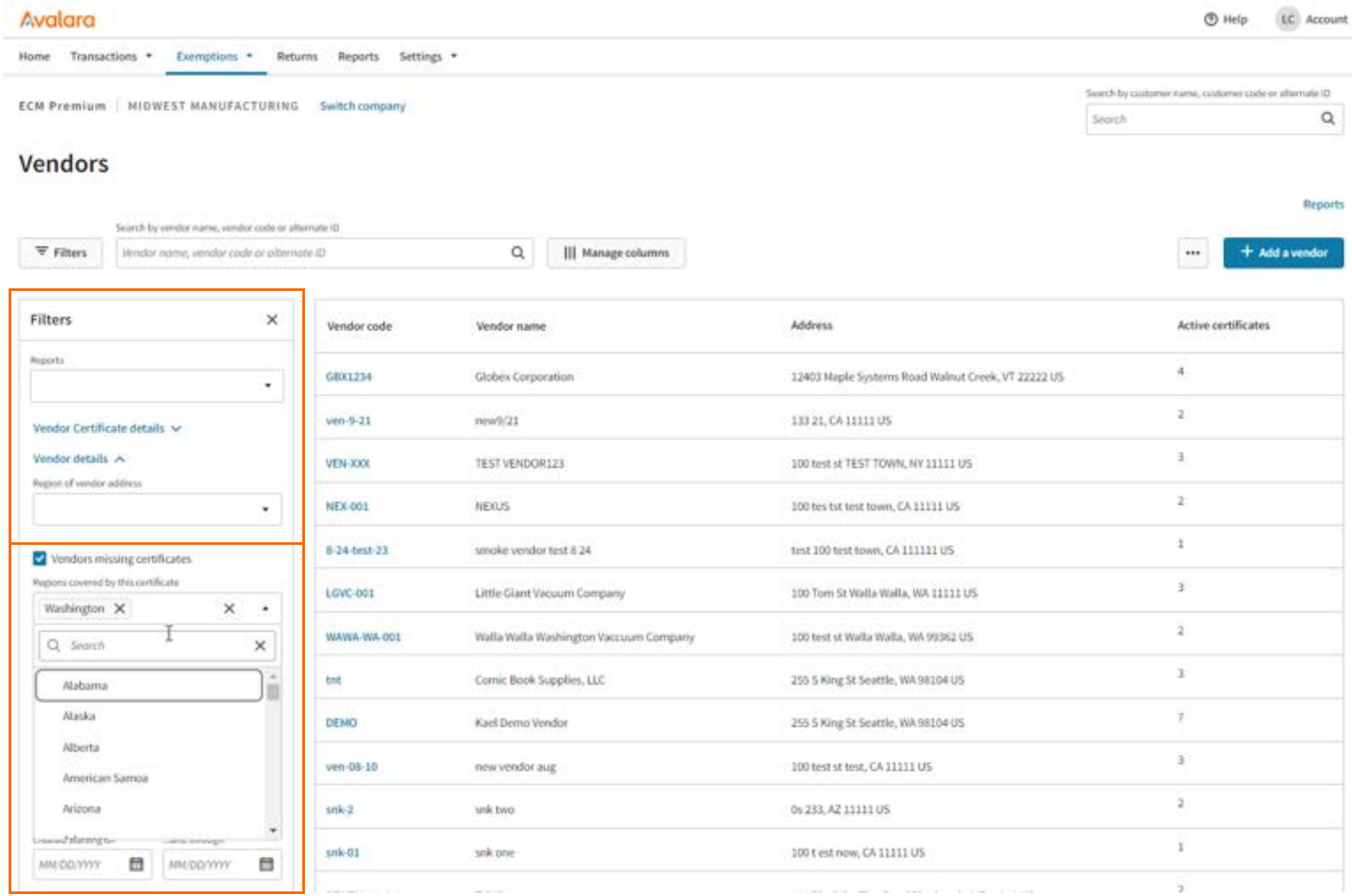
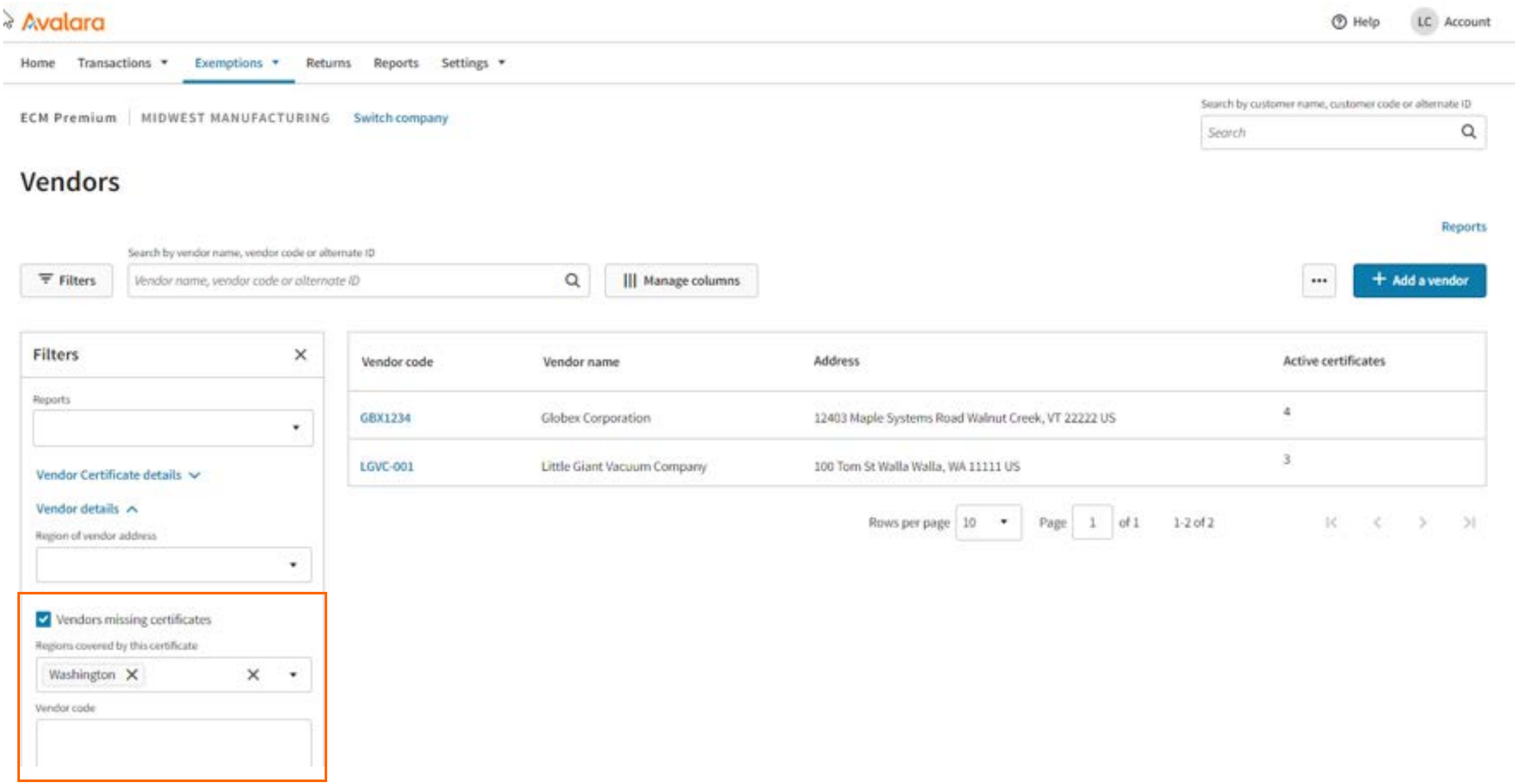


Add vendors and filter to just those missing exemption certificates

Filter to specific exemption regions



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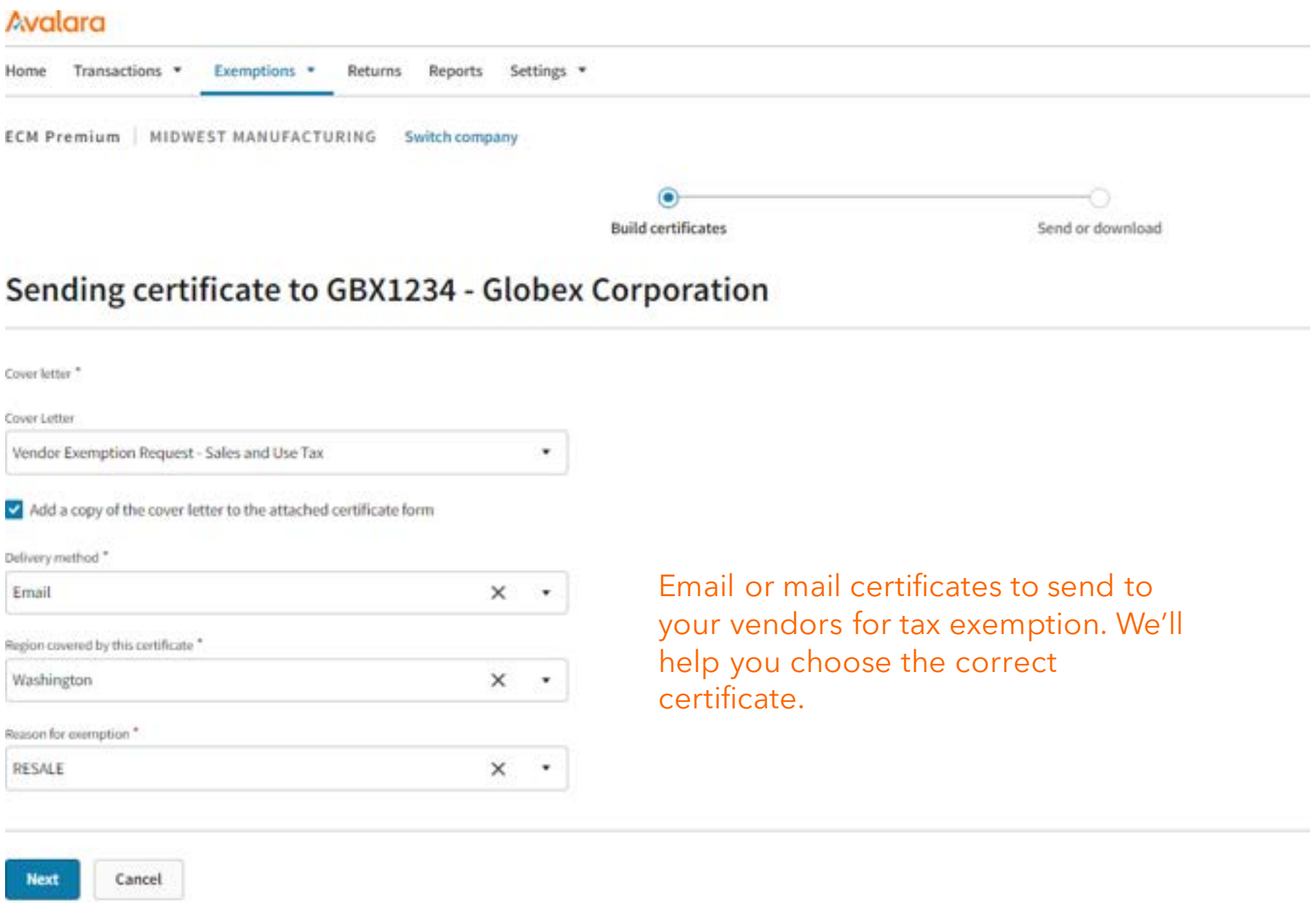

Email or mail certificates to send to your vendors for tax exemption. We'll help you choose the correct certificate.

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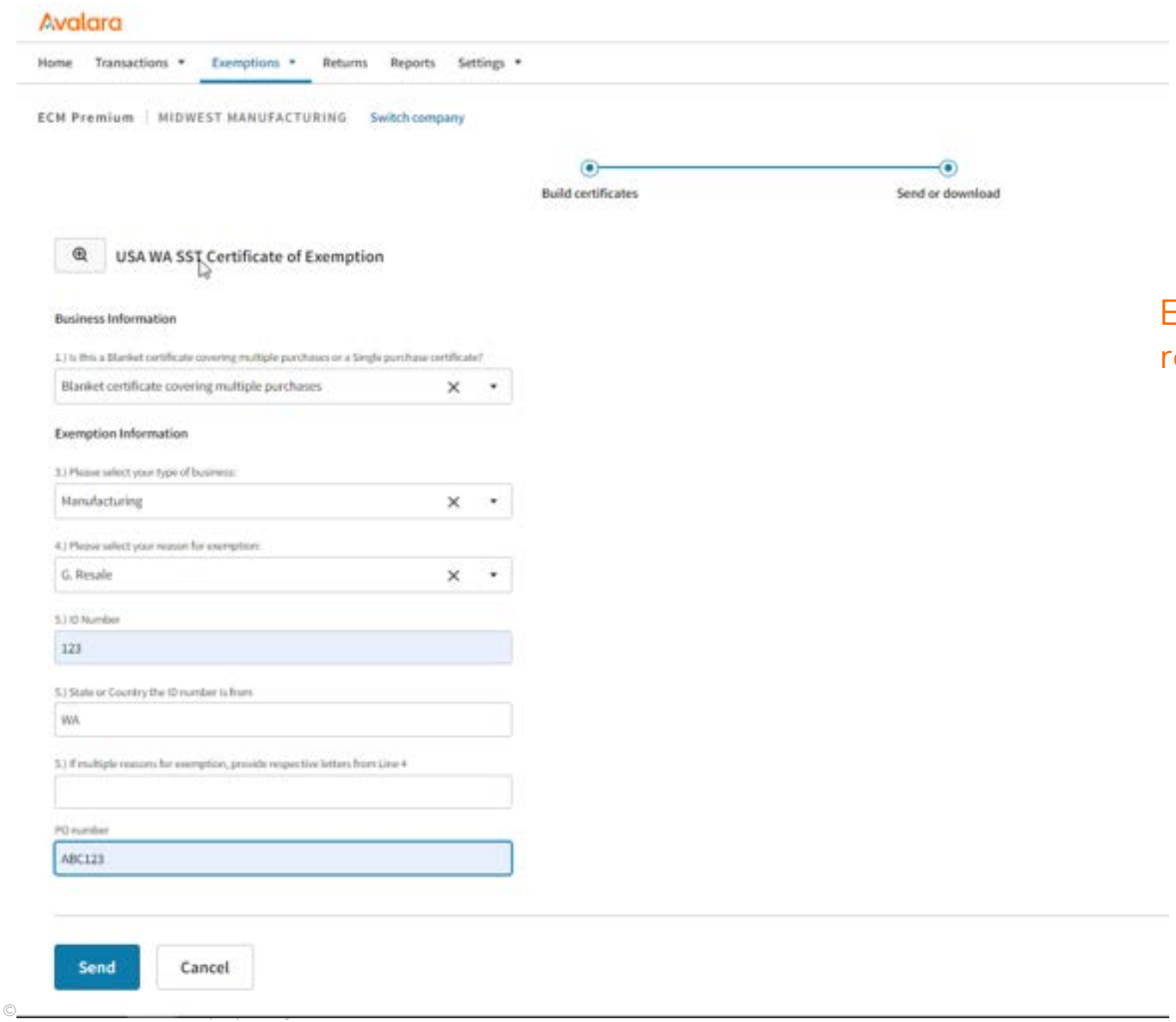

Enter relevant details that are required by each tax jurisdiction

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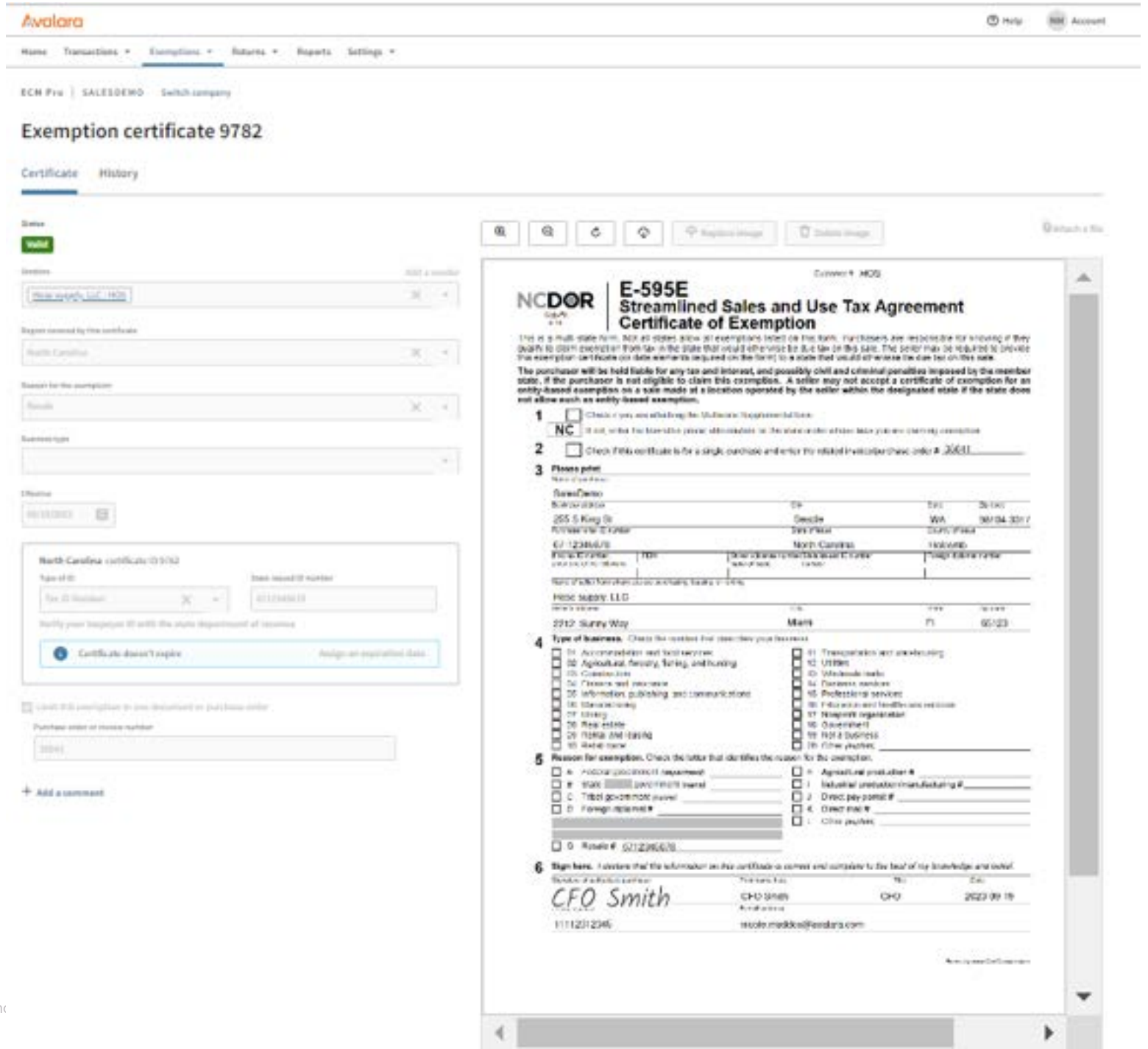

Certificate has been created and sent via e-mail along with CertExpress link

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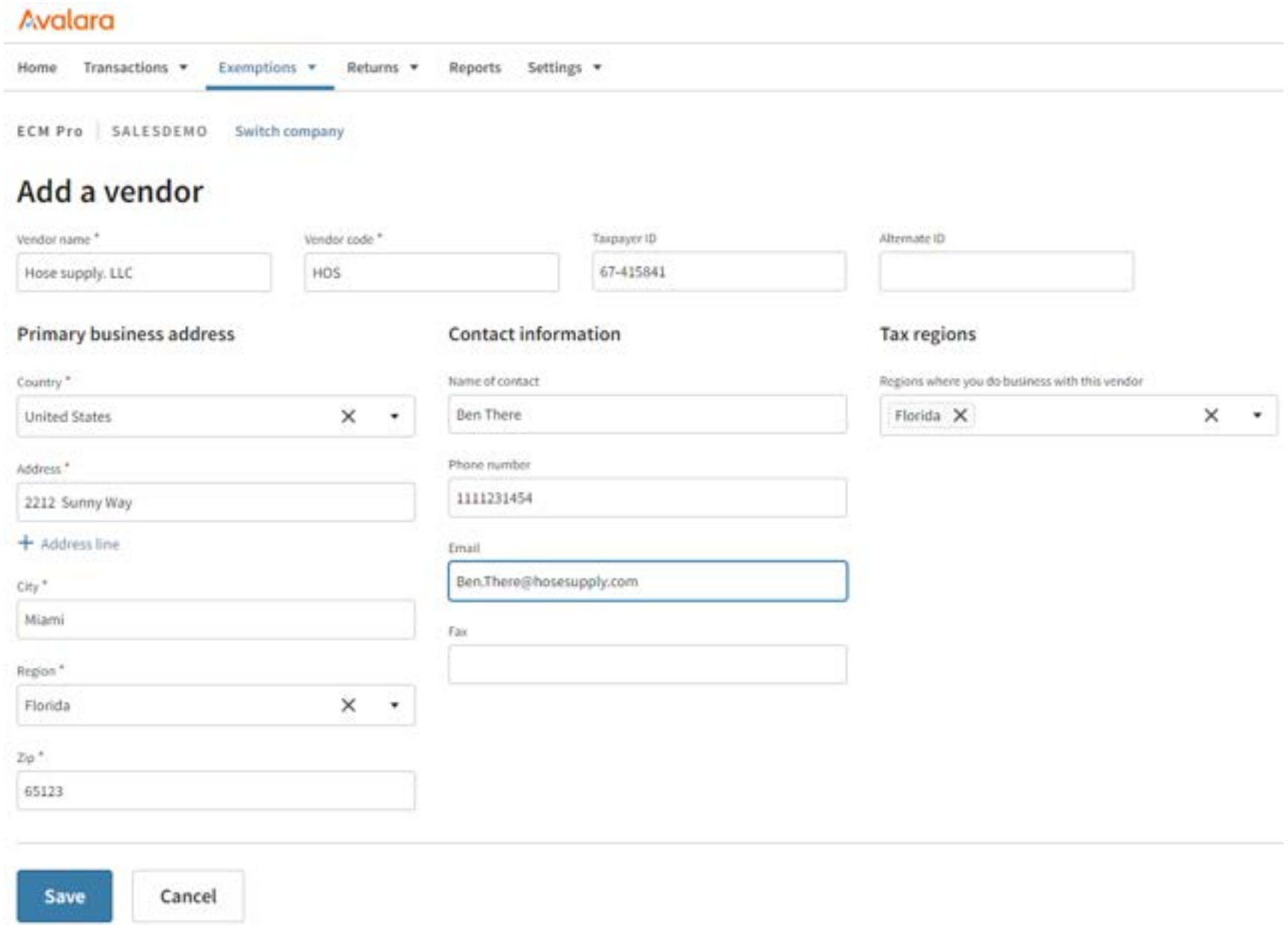
Adding a Vendor & Creating a Certificate



Select +Add a Vendor and complete business information >Save.

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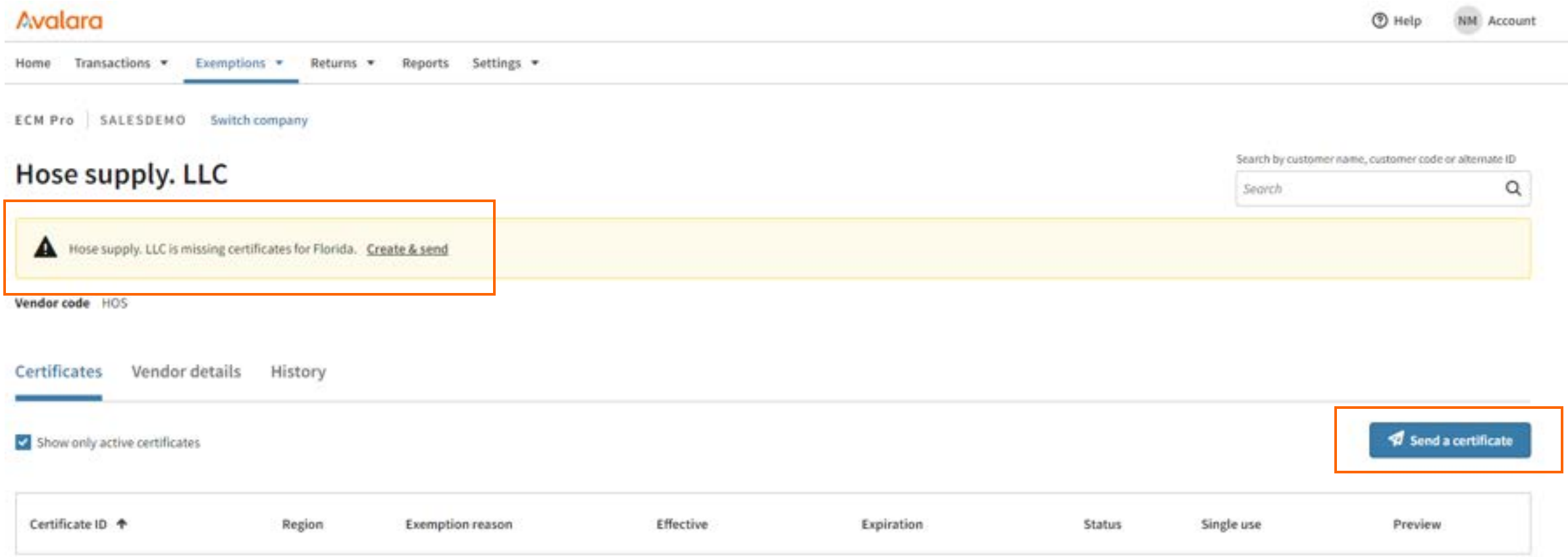
Vendor Exemptions identifies missing certificates > Click “Create & send”.



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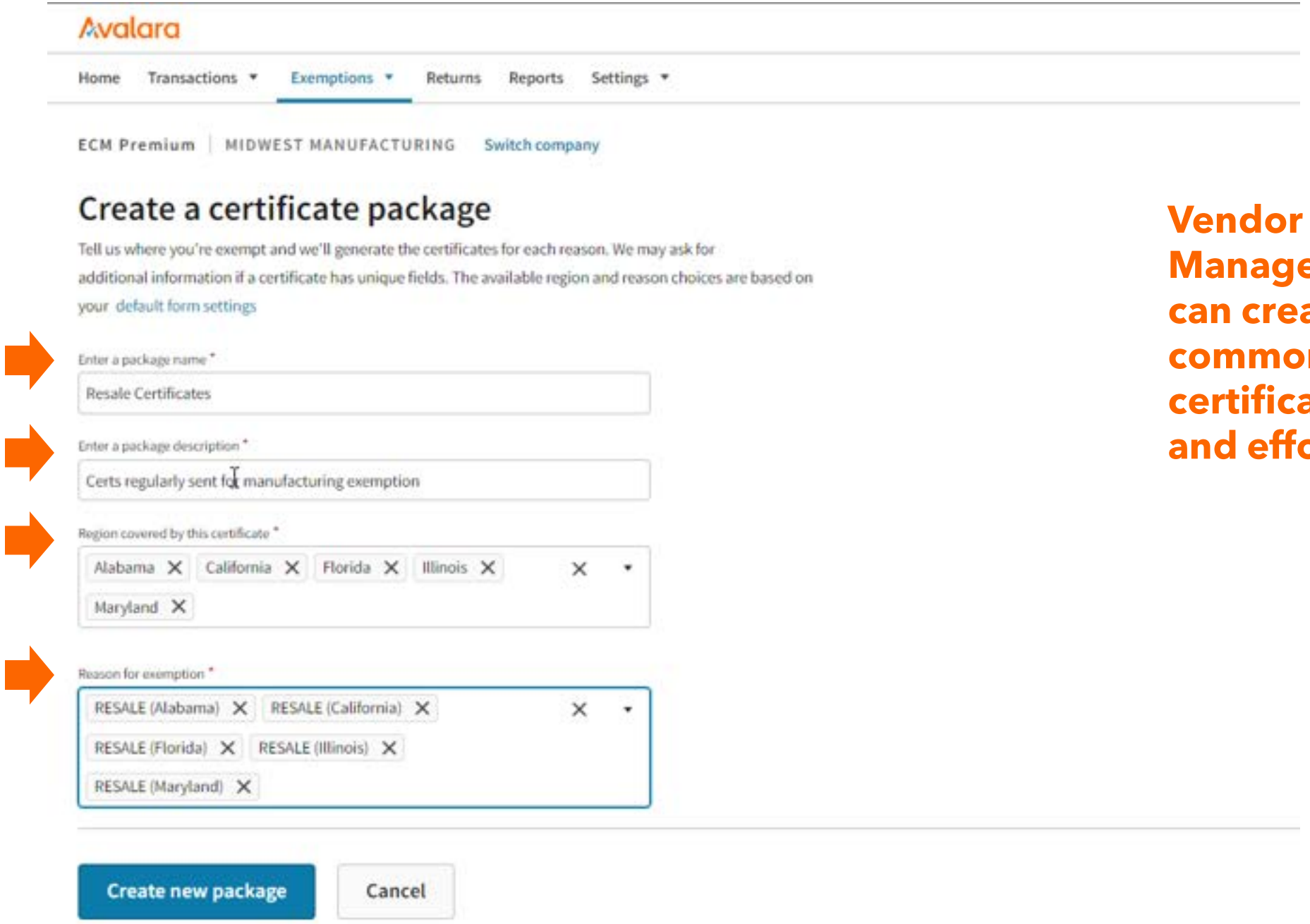
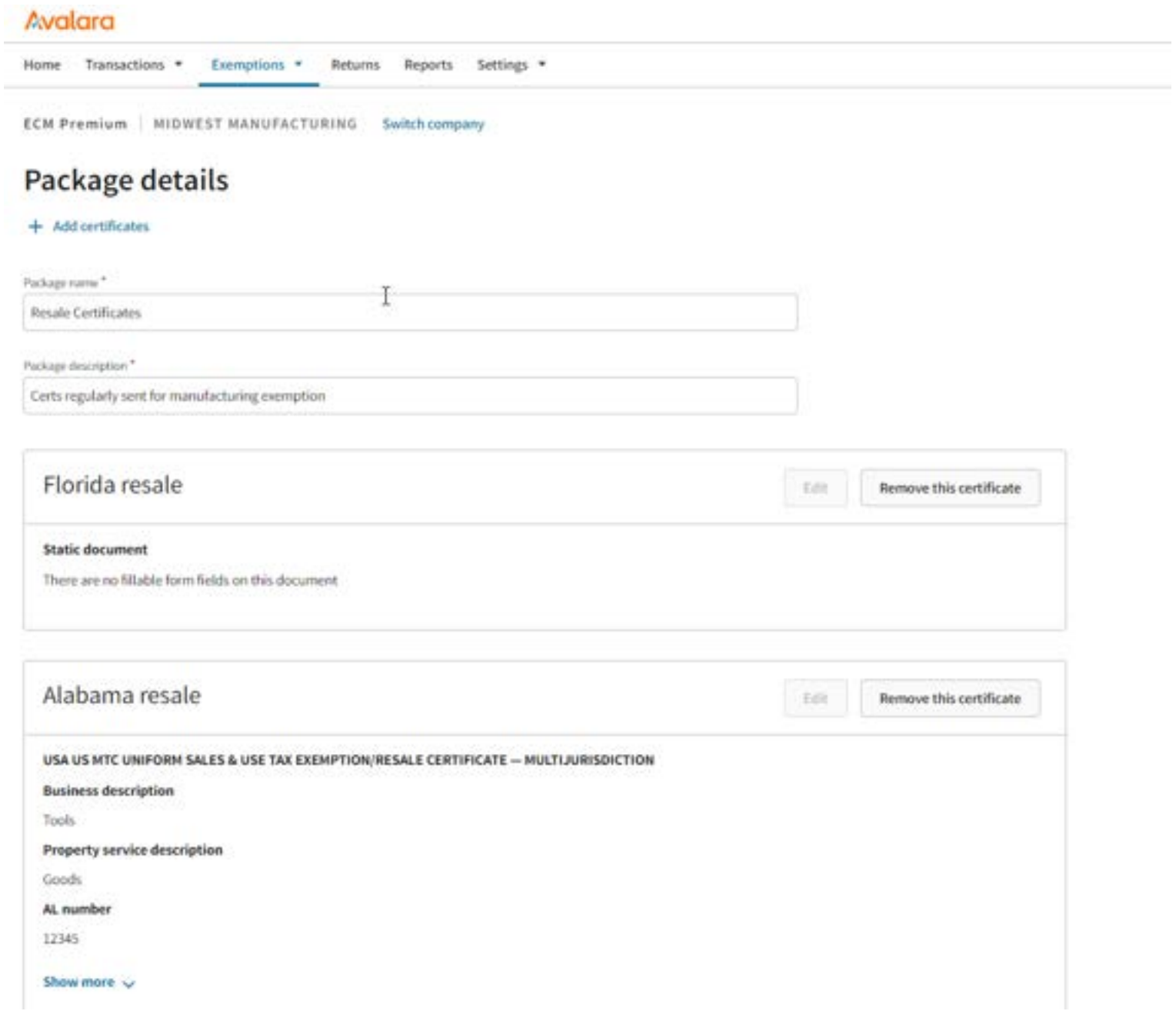


Vendor Exemption Management Premium can create a package of commonly sent certificates to save time and effort



Package can be sent to one or multiple vendors – vendor(s) receives *all* exemption certificates for *all* regions you specify

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Avalara Vendor Exemption Management

- Centralize & control your tax-exempt procurement processes
- Create and send documents directly to vendors quickly, accurately, and at scale
- Securely collect, store, and manage your exemption certificates
- Manage vendor list & information
- Save time and improve agility
- Reduce credit & re-bills, tax overcharge, hassle and time with suppliers

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1099 & W-9 reporting for your vendors

CPE POLL QUESTION 4

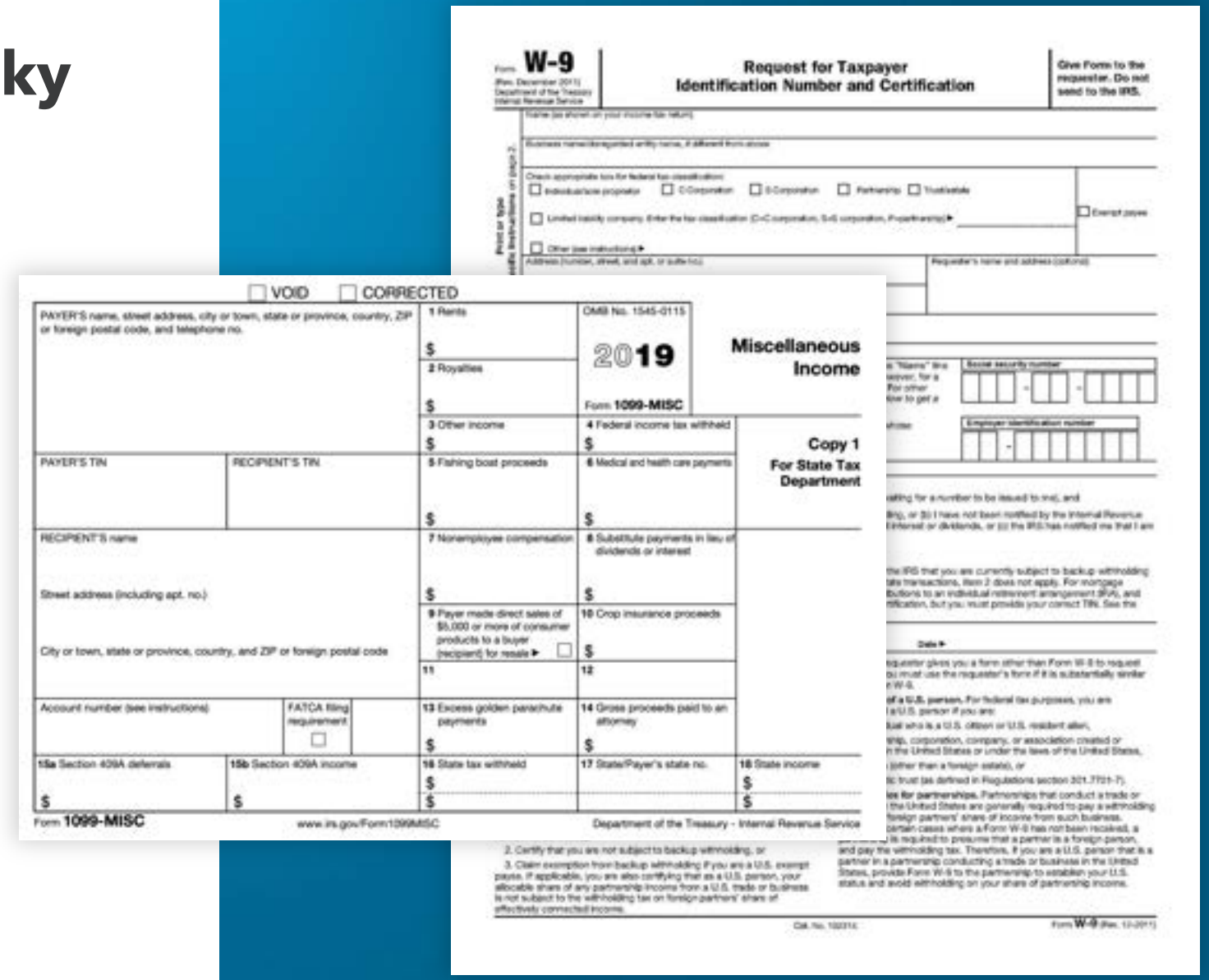
What is the hardest part of managing tax compliance for your company?

Maintaining IRS compliance can be tricky

Companies file 1099s and other information returns for work completed by vendors, contractors, and freelancers.

Information returns come in varying types:

- W-9s
- 1099s
- W-8s
- 1042Ss
- TIN
- TIN Matching
- B-Notice
- FATCA
- IDR audits



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Customer pain points

W9 & 1099 forms

Lack of a **structured, validated W9 collection process**

Can be a liability to the business

Lack of **W9 compliance**

Businesses required to withhold a percentage from vendor payments automatically

W9s are stored as **printed copies**

Inaccessible and the number of forms managed is becoming unwieldy

Tracking **W9 expirations**

Complex and varies across the different form types and is regulatory driven (FATCA)

Managing and remediating **federal B-Notices**

Manually intensive process (based on bad W9)

Rush to send and collect W9's

1099's are then created and filed last-minute

Too much resources spent on W9/1099

Wasteful and inefficient use of employee resources

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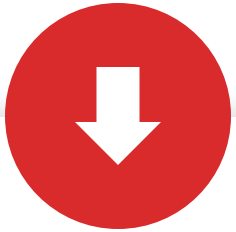
Legislative changes complicate 1099

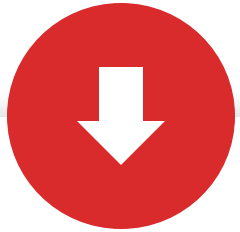


$600

1099 threshold reduced from $20,000 for payment processors

Marketplaces impacted more

Red Tape Reduction Act proposed to raise threshold back to $10,000



10 forms

Electronic filing reduced from 250 forms

Small businesses are most impacted

Electronic filing is a requirement

Penalties

Collected by IRS are increasing this year

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Legislative changes complicate W-9 & 1099

Providing an incorrect tax ID for vendors when filing a 1099

Notified by IRS and must rectify with vendor, otherwise business will incur penalties

W9 was never collected

Fined $50 – $280 per missing W9

Manually managing your own W9 or 1099 collection and storage

Security must be up to par; W9s include VERY sensitive information

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How Avalara 1099 can help

(powered by Track1099)

- Generate and e-file IRS Forms 1099, W-9, W-2, 1095, and more
- Fully paper-free process, from IRS e-files to recipient e-delivery, to e-corrections, and state e-filing
- Match taxpayer identification numbers (TIN) to prevent IRS fines for errors
- Secure delivery to IRS and recipients is easy
- Continue to save and transfer the data from year-to-year
- Store and manage W-9s in a secure repository

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W9 & 1099 business use case scenarios

Use case	Avalara 1099 unique value
We are a shopping platform and sign our 'merchants' up online and would like to receive a W9 as a part of the merchant sign up process.	Avalara provides a vendor plugin that allows for the TIN validation, renewal, and storage, and retrieval of W9s at the point of vendor on-boarding.
We have a lot of vendors and need to collect W9s from them, and then we want to use that information on the complimentary 1099s.	Avalara 1099 will automatically transfer accurate information from the W9 to the 1099s so there are no discrepancies
We need help to digitize our paper W9 IRS forms	Avalara provides managed services that will digitize paper documents and attach the W9 directly to the vendor records.
We need help knowing who to request W9s from and keep track of who has and hasn't filled a form out and remind them to fill it out in time.	Avalara provides a centralized W9 form repository to track and manage complete and incomplete forms.

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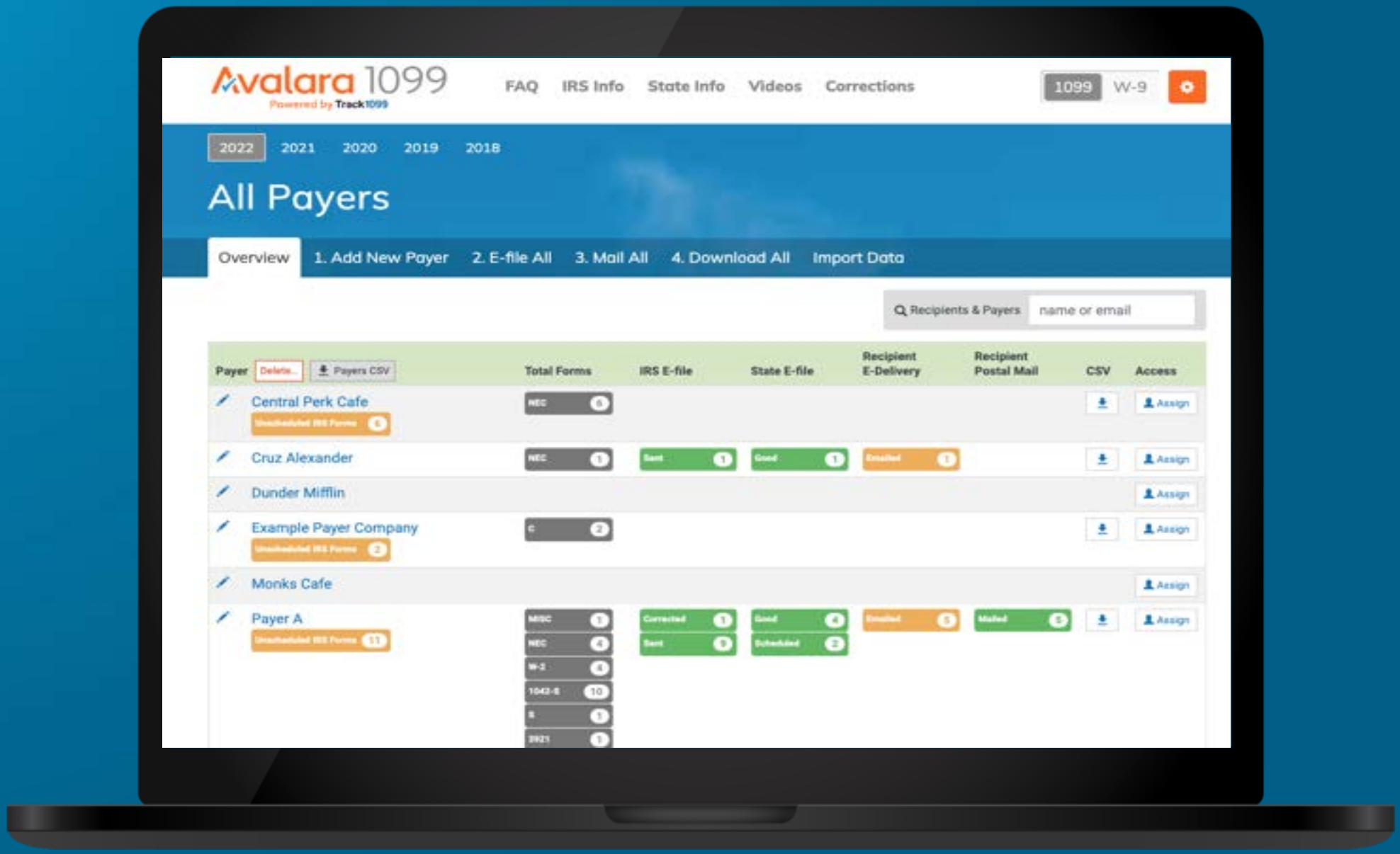
Avalara 1099
Powered by Track1099
FAQ
IRS Info
State Info
Videos
Corrections
1099
W-9
2022
2021
2020
2019
2018
All Payers
Overview
1. Add New Payer
2. E-file All
3. Mail All
4. Download All
Import Data
Recipients & Payers
name or email
Payer
Delete...
Payers CSV
Total Forms
IRS E-file
State E-file
Recipient E-Delivery
Recipient Postal Mail
CSV
Access
Central Perk Cafe
Cruz Alexander
Dunder Mifflin
Example Payer Company
Monks Cafe
Payer A
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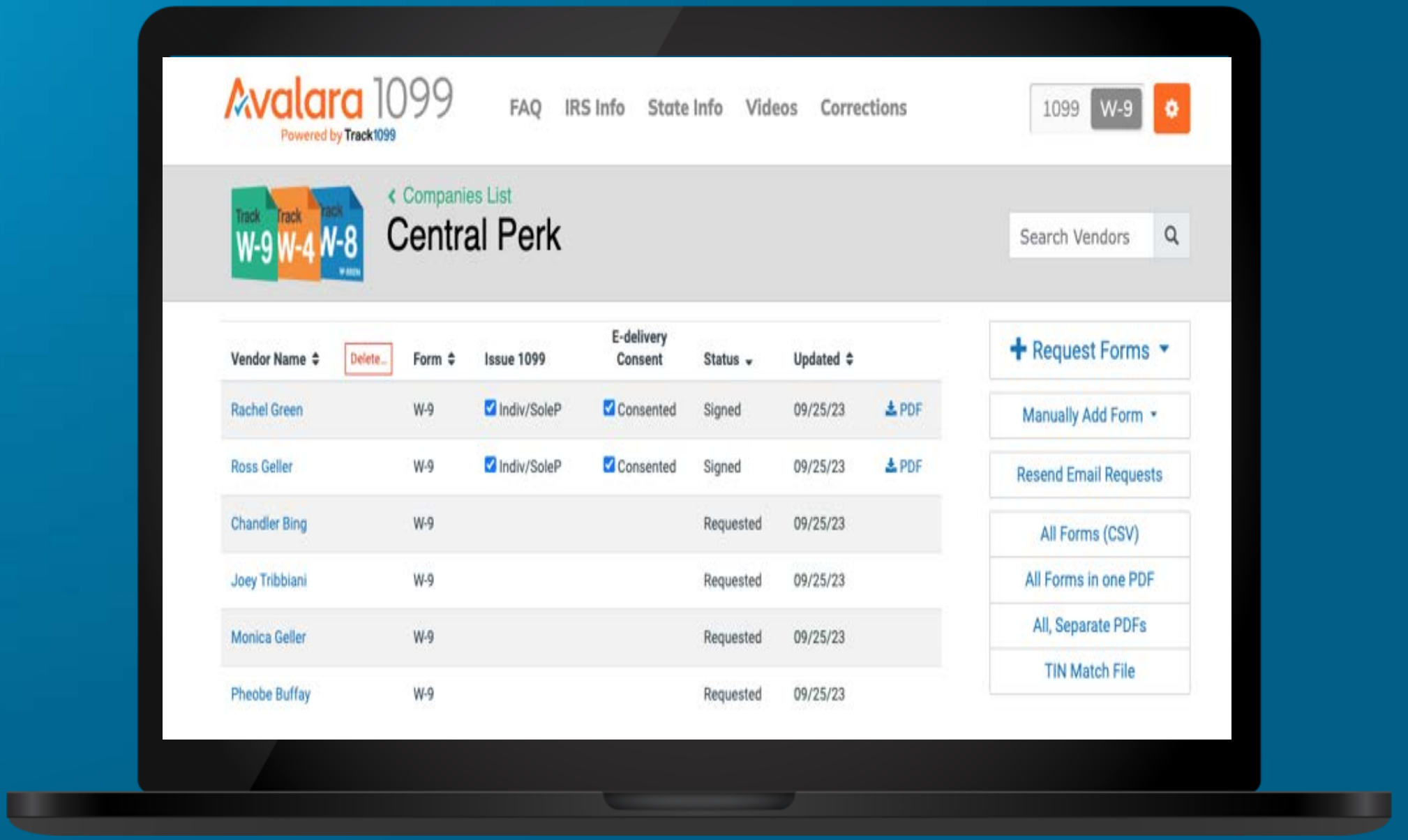
Avalara 1099
Powered by Track1099
FAQ
IRS Info
State Info
Videos
Corrections
1099
W-9
Companies List
Central Perk
Search Vendors
Vendor Name
Delete...
Form
Issue 1099
E-delivery Consent
Status
Updated
Rachel Green W-9 Indiv/SoleP Consented Signed 09/25/23 PDF
Ross Geller W-9 Indiv/SoleP Consented Signed 09/25/23 PDF
Chandler Bing W-9 Requested 09/25/23
Joey Tribbiani W-9 Requested 09/25/23
Monica Geller W-9 Requested 09/25/23
Pheobe Buffay W-9 Requested 09/25/23
Request Forms
Manually Add Form
Resend Email Requests
All Forms (CSV)
All Forms in one PDF
All, Separate PDFs
TIN Match File

Q&A

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Downloading Certificate

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Vendor Exemption Management use case examples

Business use case scenarios	Avalara Vendor Exemption Management unique value
Our vendors are requesting certificates for any tax-exempt purchase in advance of order processing	• Receive requests from vendors for exemption certificates • Save time with orders that are processed right the first time • Automated and efficient process • Only approved certificates are issued to vendors • Central repository of all issued vendor exemption certificates makes tracking, management, and retrieval easy
Our regular vendor is unable to meet our delivery schedule and we need an alternate vendor to avoid supply chain disruption	• Easily set up new vendors and decrease supply chain disruption • Easily issue exemptions to new vendors to enable purchase order fulfillment
Our vendors need to ship directly to a customer who is in a different state	• Vendors drop ship to your customer in a new state • Issue a resale certificate to the new state BEFORE the order is placed so no tax is charged

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