

Avalara CRUSH



Managing tax compliance risks:
Preparing for growth and audit
readiness

Steve Cabrera - Tax Director

Scott Peterson - Vice President of Government Relations



Disclaimer

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Steve Cabrera

Tax Director, Avalara

Scott Peterson

Vice President of Government Relations, Avalara

POLL QUESTION 1



Agenda

1 Nexus considerations

- Understanding sales tax and nexus
- Types of nexus
- Common risks

What to expect during a sales tax audit

- What auditors look for
- Types of audits
- Why businesses get audited

Audit best practices

- Tips and tricks
- Growth strategies
- Consequences of non-compliance
- 4 Taking action

3

What you can do



Nexus considerations



Comprehensive tax compliance content

Structured tax content repository



9,000+ Tax codes



20+
Industries



330+

Categories



30K+Jurisdictions



82K+
Rates



Types of nexus



Physical presence

nexus is having employees, inventory, kiosks, offices, stores, trade show attendance, warehouses, or other physical ties



Economic nexus

is having a certain amount of sales or number of transactions in a state



Affiliate nexus

is having ties to affiliates, partners, brokers, or other businesses in a state



Click-through

nexus is getting referrals from instate entities through links on a website



Marketplace nexus

nexus is getting referrals from instate entities through links on a website A GROWING LIST

Physical Nexuscreating activities:



Payroll



Multi-state locations



Warehouse



On-site field service/repair/supervision



Installation / training



Own/lease/rent real or personal property



Field sales/ service staff



Maintain inventory



Affiliates, franchises, partners & influencers



Traveling sales representatives



Commissioned agents or contractors (1099s)



Investors/board members/ employees



Marketing/web advertising



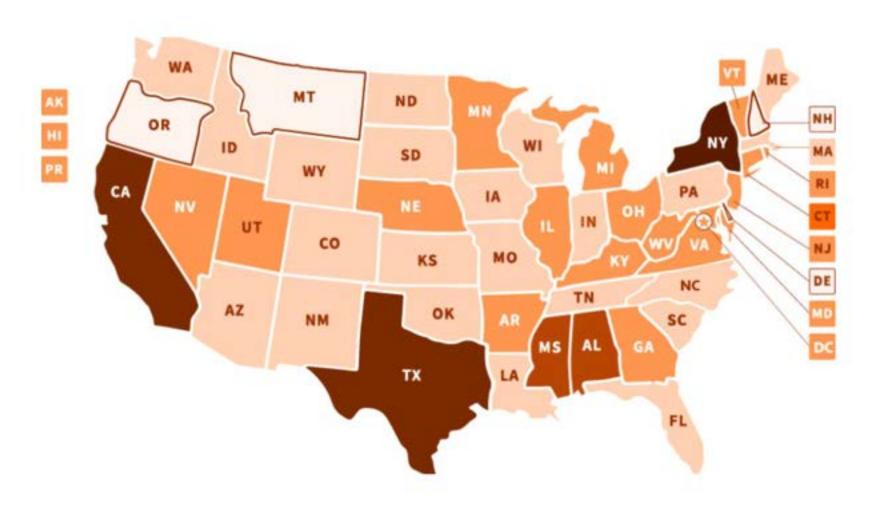
Tradeshows



Delivery in companyowned vehicle

Economic nexus thresholds by state





Impact of mergers & acquisitions on nexus obligations



Expansion of physical presence

Can establish physical nexus.



Increased economic nexus

Combined sales or transactions might exceed economic nexus thresholds



Changes in business structure

Legal or operational restructuring may require updated tax registrations and compliance measures.



Data integration challenges

Merging disparate IT systems can lead to data and reporting inconsistencies

When are transactions tax-exempt?



BUYER'S BUSINESS STATUS

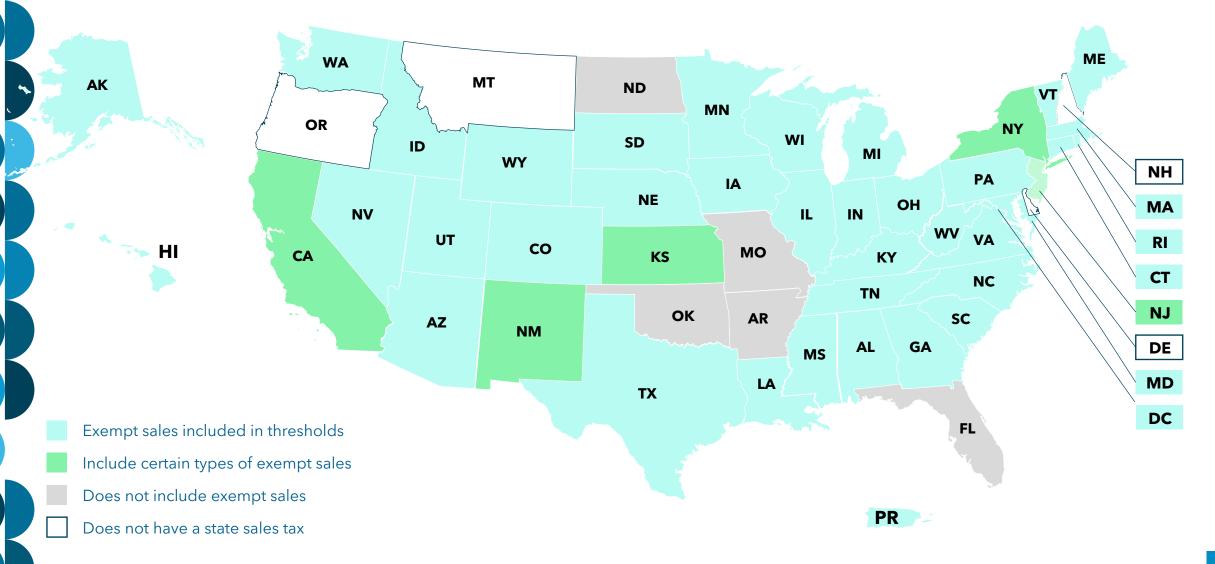
- Not-for-profit: Charities, religious organizations, educational institutions, hospitals
- Government: Federal, state agencies



INTENDED USE OF GOODS SOLD

- Merchandise intended for resale
- Use in product that will be resold
- Agriculture
- Manufacturing
- Tangible personal property purchase to lease or rent

Economic nexus with exempt sales



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Common risks in compliance

- Misunderstanding the taxability of a good and/or service
- Assuming other states handle tax the way your state handles tax
- Letting the tax code determine the taxability of your good or service
- Not knowing where you have nexus/reporting obligations

POLL QUESTION 2



What to expect during a sales tax audit



What auditors are looking for

- Are tax returns accurately reflecting taxable and exempt sales?
- Is the proper amount of tax collected correct?
- Does the amount of tax collected in the accounting records match what was reported to the state?
- Does the amount of taxable sales in the accounting records match the reported amount of sales on the return?
- Does the amount of exempt sales in the accounting records match what is claimed on the tax return?
- Are exempt sales properly supported with exemption certificates?
- Was use tax properly reported on taxable goods or services used by the company if sales tax was not charged by the vendor?
- If use tax was accrued does it match what was reported on the return?
- Overall does the company have the correct understanding of the taxability of its products and services?



Types of audits



Correspondence audit or "office audit"



Field audit

at your place of business



Combined audit of all taxpayers in a group



Combined business tax audit

sales and use and other local tax

e.g., Washington State Department of Revenue

Retail sales tax and the business and occupation tax

Why do businesses get audited?

Audit triggers



Frequent late filings and/or payments



Inconsistent reporting patterns



Large amount of exempt sales



Lack of consumer use tax reporting



Having nexus and not registered



Issuing resale certificates with no tax registration

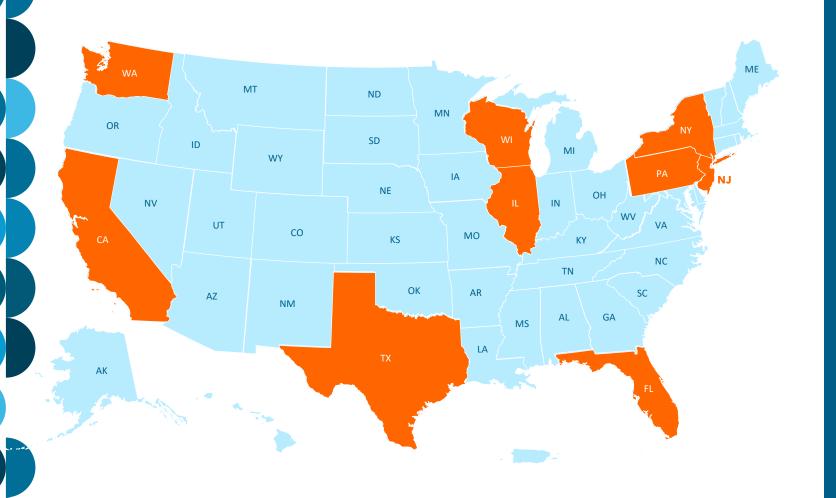


Trickle up from audits of customers



Competitive whistleblowers

Aggressive states in pursuing unregistered taxpayers and audits



- California*
- > Florida
- Illinois
- New Jersey
- New York *
- Pennsylvania
- Texas*
- Washington*
- Wisconsin*

POLL QUESTION 3



Audit best practices



Tips and tricks



Tax is not paid on an honor system

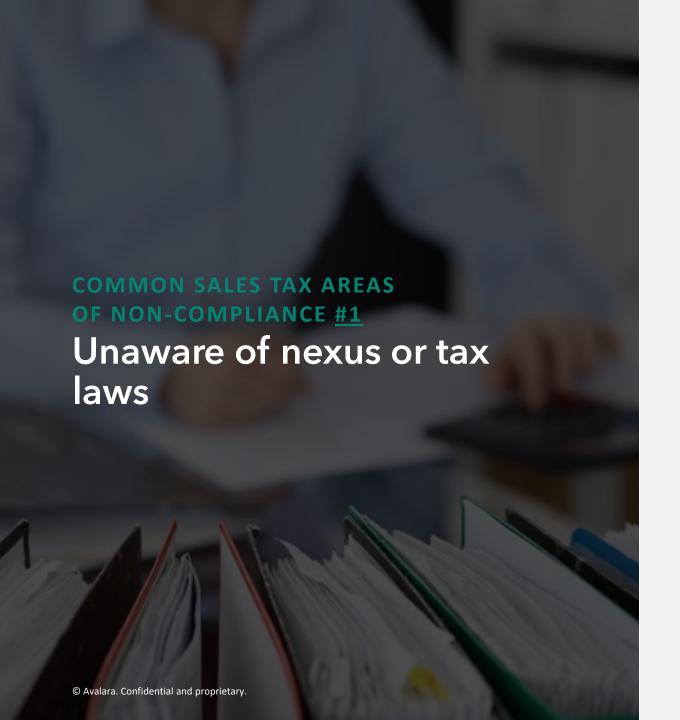
- > Notification: Do not ignore, respond timely
- Statute of limitations does not apply if never registered
- > Books and records (lack of)
- > Schedule kick off call, understand your business
- Be respectful
- Manage the audit and auditor
- > On a need-to-know basis



Contacted for audit?

- > Get everything in writing and over communicate
- Track deadlines
- Complete the audit as soon as possible
- Audit findings and draft schedules
- Appeal
- Nothing is final
- Go at it alone or hire a tax expert

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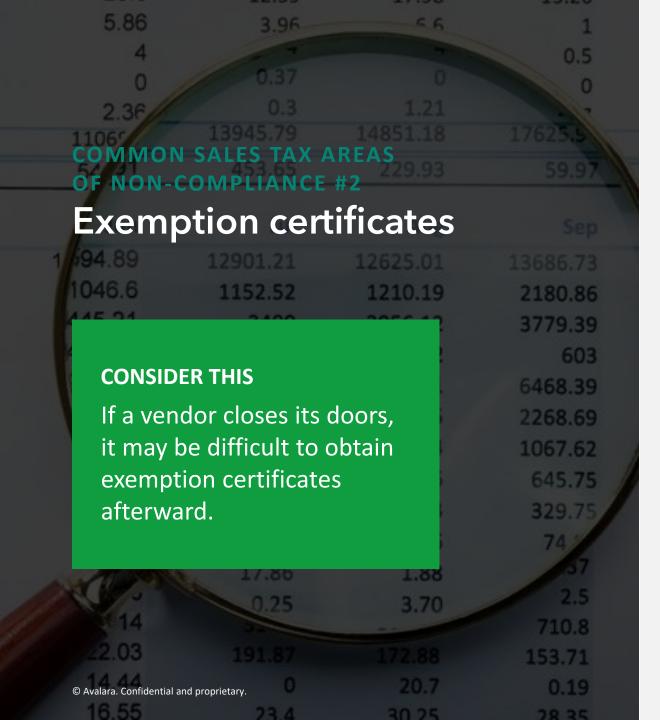


Taxability of products and services

Tax law changes

Sellers liable for the uncollected tax, interest and penalties

Sellers are liable for **not collecting the right** amount of tax



Unsupported exempt sales

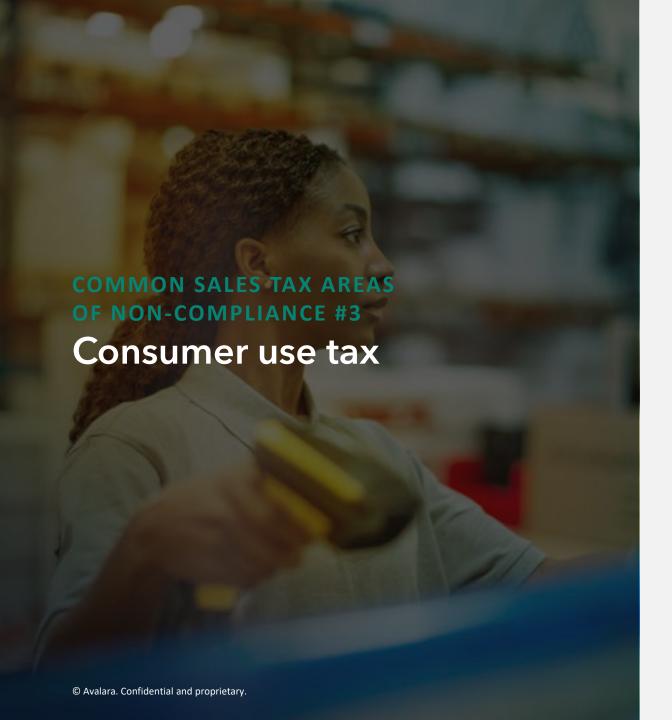
- Lack of valid documentation for sales claimed as exempt
- Date issued does not match invoice date
- Expired

Missing items on exemption certificate

- Signatures
- Issue dates

Incorrect information

- Wrong claim type
- Certificate not accepted
- Document not recognized by state authority
- Name/address doesn't match direct buyer/seller
- Wrong state tax ID



Buyers will owe consumer use tax when seller doesn't collect tax on purchases including

- Tangible personal property
- Freight
- Some virtual goods (e.g., software)
- Certain taxable services

Regulations vary state-by-state

Auditors will expect to see **invoices for all fixed assets** (e.g., computers, equipment, etc.) and **consumable supplies**

Industries at higher risk of use tax noncompliance

Manufacturing

Construction

Retail stores

Hospitality

Growth considerations and audit preparedness

Establishing strong financial processes and risk management to fuel growth

Build credibility and trust

Accurate, transparent, and well-organized finances establish trust with investors

Highlight growth potential

Organized financials reveal revenue trends, profit margins, and areas for growth

Supports accurate validation

Clear and accurate financial records help ensure your company is valued correctly

Mitigate risk

Address any potential compliance risks which could deter investors

Facilitates due diligence

Streamline due diligence process, showcasing your readiness and reducing red flags

Consequences of non-compliance



Statute of limitations does not apply



Sales tax, interest and penalties will continue to accrue



Inviting sale tax audits



Financial audit accrual for contingencies (ASC 450)



Responsible person rules



Accountability to owners, Board, investors or shareholders



Due diligence triggered by an acquisition

POLL QUESTION 4



Taking action



The 5 steps to managing sales tax compliance + -x = **CALCULATE TRACK** WHERE **REGISTER REMIT** Know where your Register to collect and Calculate the correct Track and manage Remit sales tax to the business must collect remit sales tax exempt sales sales tax amount tax authority

and remit sales tax

Avalara Nexus Study

Avalara Licensing Avalara AvaTax

Avalara Exemption Certificate Management

Avalara Returns

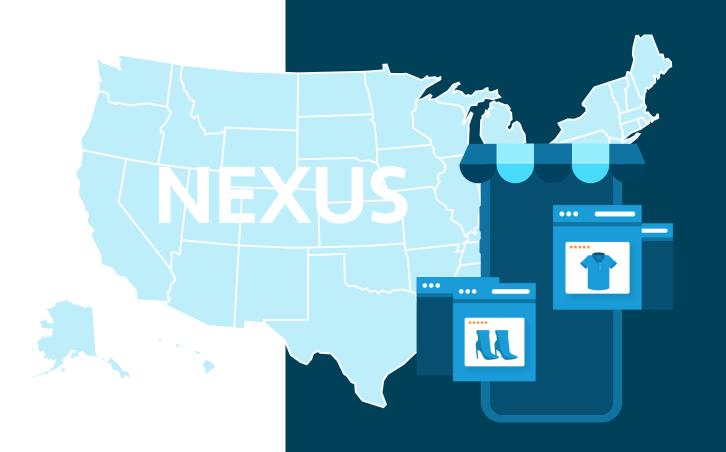
Nexus study

Avalara Sales Tax Risk Assessment Premium

The risk assessment determines

- Where the company has nexus
- When did it create nexus
- How much, if any, is liability

It then provides recommendations for compliance such as the voluntary disclosure program.



What can you do

- If delinquent taxes are due, a voluntary disclosure agreement (VDA) may be ideal for resolution
 - What is a VDA
 - Why it is a good idea
 - VDA is similar to a tax amnesty program
 - VDA provides penalty abatement and a shortened liability period where applicable
 - VDA includes the registration for the business
- Sign up for state tax bulletins
- Tax automation tools





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