

The 10 tricky states for sales tax returns

Presented by:
Sarah Faria and Matt Johnson



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



Continuing Professional Education (CPE)



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Meet your presenter

Meet our presenter



Sarah Faria

Director of Tax Compliance Services

Avalara

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Sarah leads Avalara's Premium Returns Services, Avalara for Accountants, and Beverage Alcohol returns teams at Avalara. She has a passion for delivering an excellent customer experience along with a drive for accuracy and efficiency.

Sarah has been with Avalara for more than 11 years and is based out of Sacramento. Prior to joining Avalara, she spent several years in the public accounting industry. Sarah enjoys yoga and running, and road trips to the mountains and beaches of California with her husband and four children.

Meet your presenter



Matt Johnson

Senior Director of Tax Compliance Services

Avalara

matt.johnson@avalara.com

Matt leads tax compliance services at Avalara, including returns filing, notice management, and client engagement. With more than 15 years of experience from a variety of software support and services, Matt is known for innovative problem solving, process optimization, and customer engagement.

Matt joined the Durham, North Carolina, Avalara team in 2016 and have enjoyed working with clients to help solve their tax automation needs. He has won Avalara's Impact Plater (2017) and Hard Hat (2018) awards during his time leading the Customer Experience team. Outside of work, you can find Matt competing in triathlons, cooking, and spending time with his family.

Agenda

- 1 > Introduction
- 2 > It all comes down to nexus
- 3 > The common challenges of sales tax returns
- 4 > The 10 tricky states in sales tax returns
- 5 > How automation can support
- > Q&A

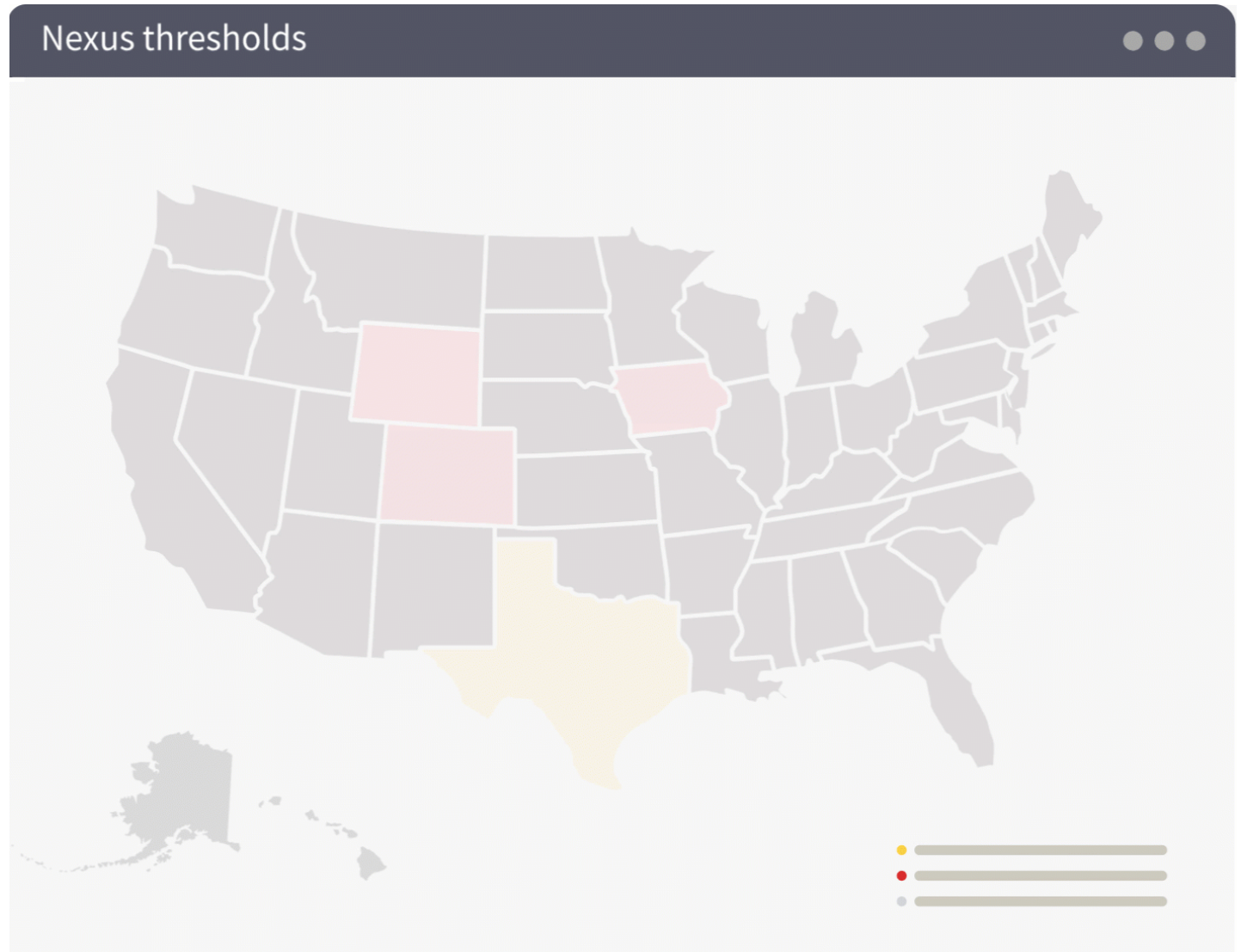
POLL QUESTION
#1

> What's your biggest
challenge in managing sales
tax returns?

It all comes down to
nexus

It all comes down to nexus

- Remote sellers
- Marketplaces
- Remote seller setup and reporting



6 years later, economic nexus is still evolving

States are updating their threshold limits:



Indiana

[SB 228](#) removed Indiana's 200-transaction threshold, retroactive to **January 1, 2024**.



Wyoming

[HB 197](#) removed Wyoming's 200-transaction threshold effective **July 1, 2024**.



Alaska

The [Alaska Remote Seller Sales Tax Commission](#) will drop Alaska's 200-transaction threshold beginning **January 1, 2025**.

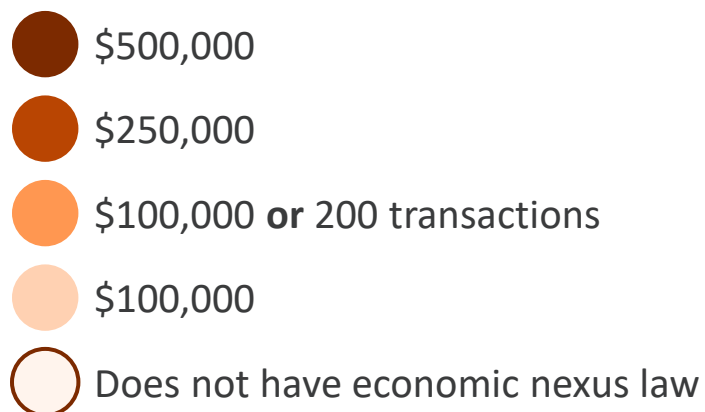


New Jersey

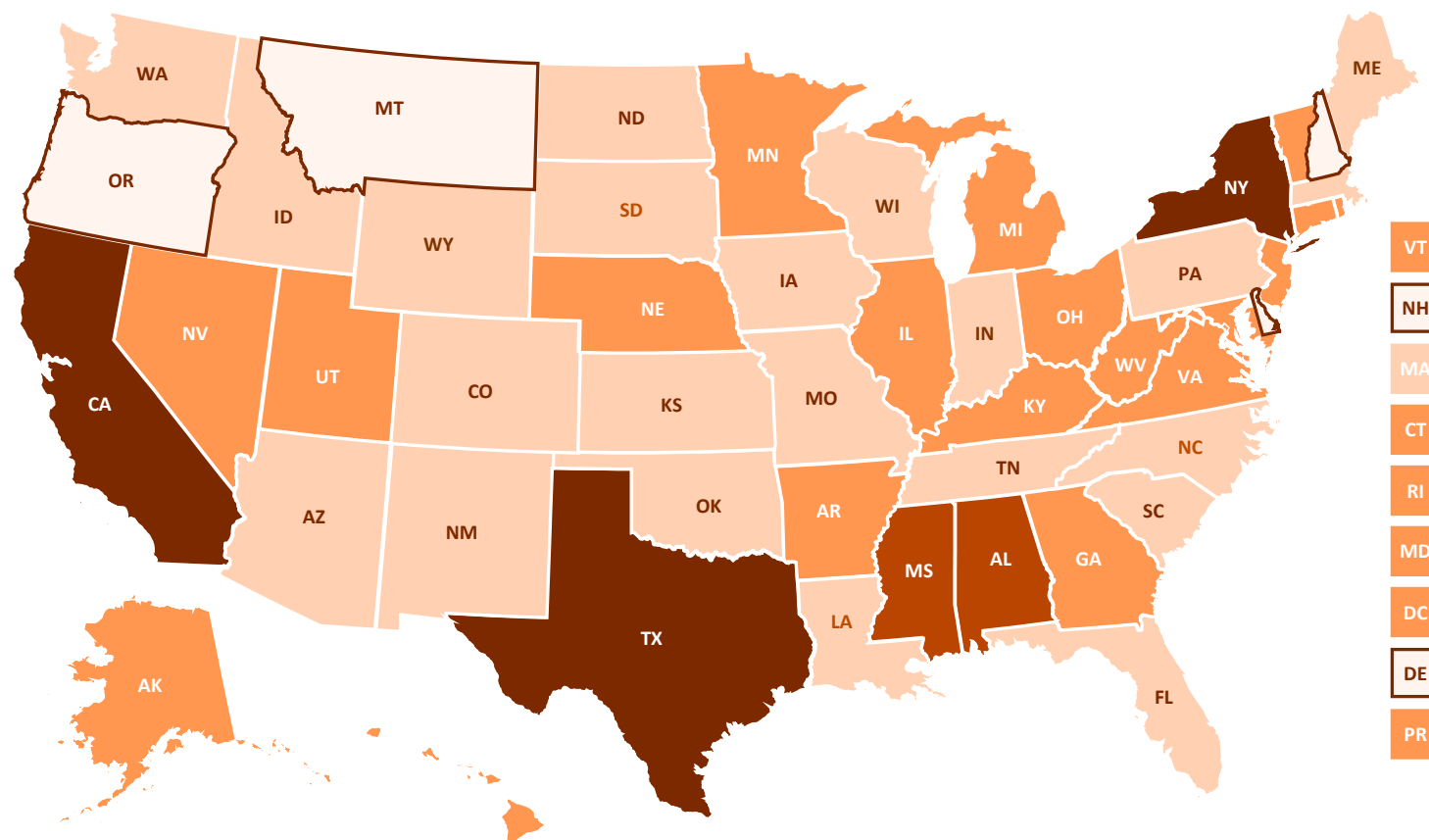
[Bill S3604](#) seeks to remove New Jersey's 200-transaction threshold.



Economic nexus thresholds by state



- > Connecticut's threshold is gross receipts of \$100,000 **and** 200 retail transactions
- > New York's threshold is \$500,000 **and** 100 transactions
- > Which states will eliminate their transaction thresholds next?

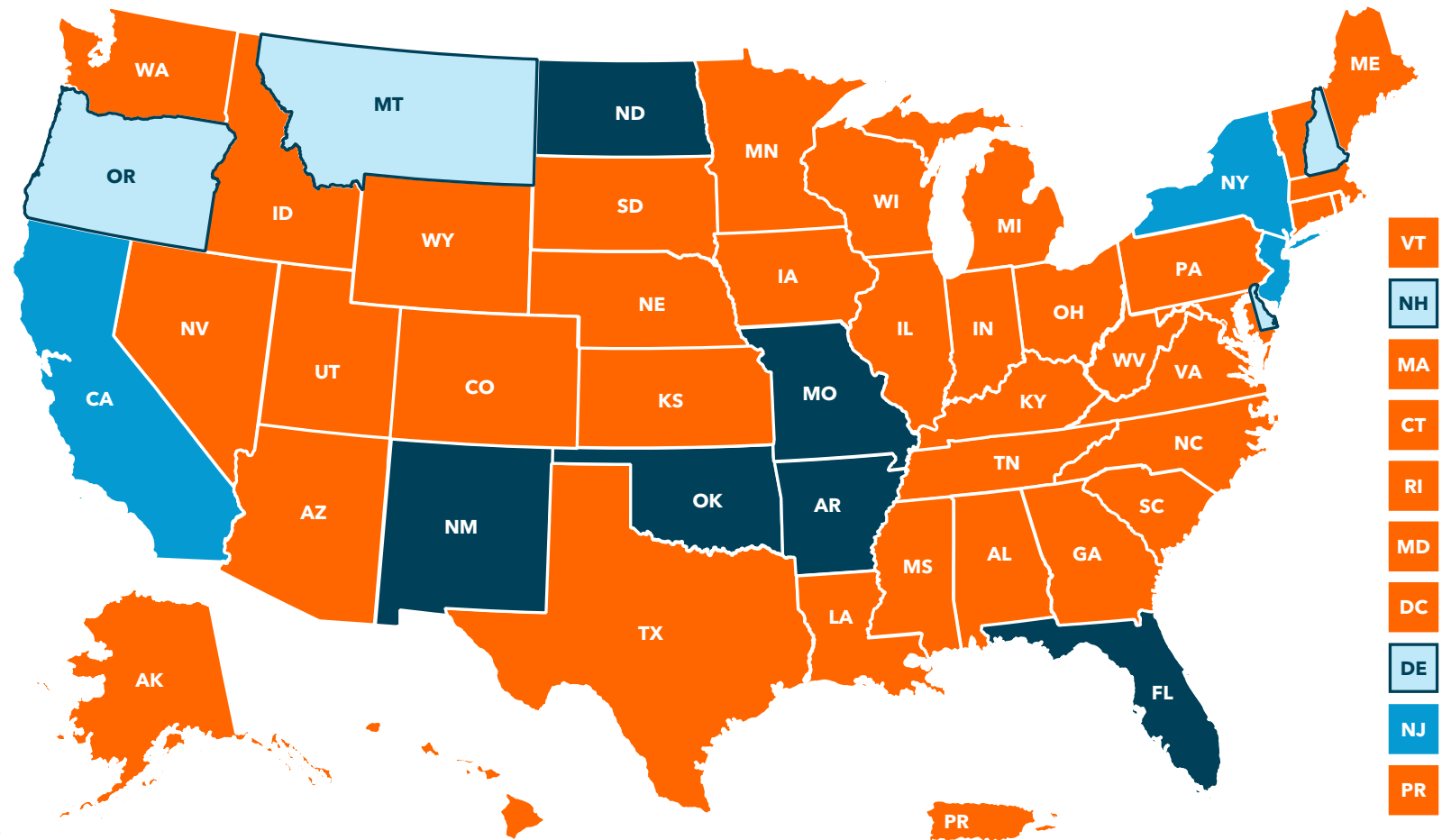


As of 9/24/2024

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

Exempt sales trigger economic nexus in most states

- Threshold generally includes exempt sales
- Threshold generally includes some exempt sales
- Threshold generally does not include exempt sales
- No sales tax/economic nexus



POLL QUESTION
#1



In how many states has your
business triggered economic
nexus?

Overcoming the 4 common challenges of sales tax returns

BEST PRACTICE #1

Stay on top of regulatory changes and evolving requirements

- State and local jurisdiction rate/rule changes
- Physical & remote seller presence triggers
- Sales and transaction threshold triggers
- Tax collected/remitted by marketplace(s)
 - May result in over- or under-reporting

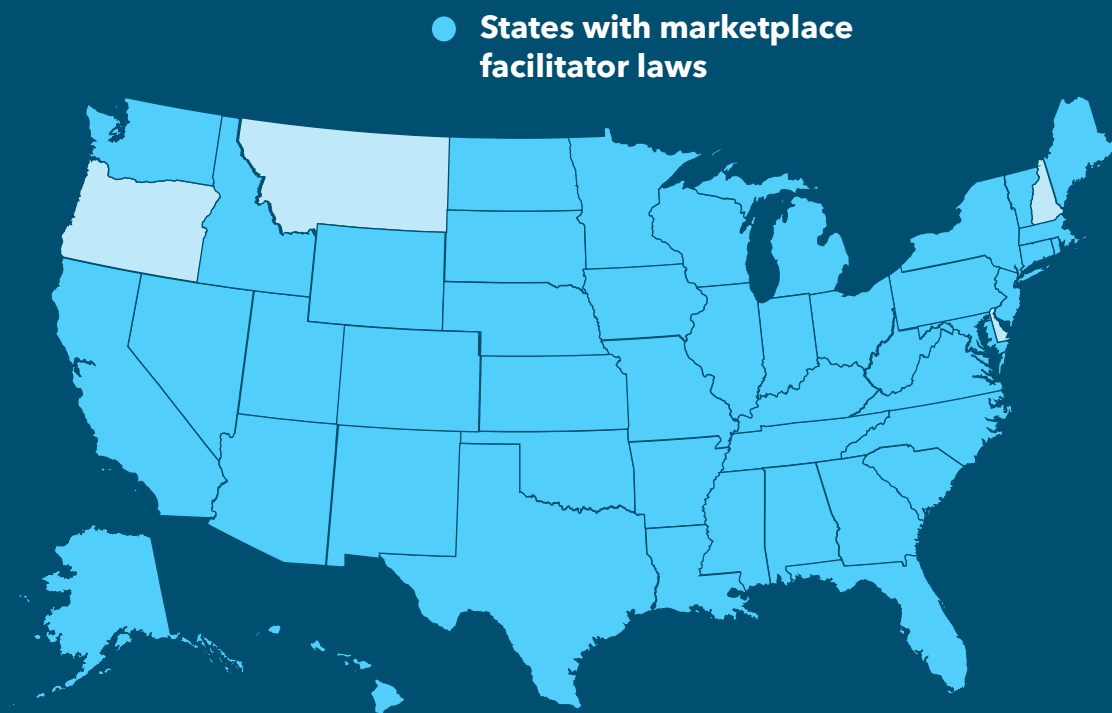


CONSIDER

- **Monitor tax changes** in each state you sell into.
- **Assess distribution of your online sales** in each state to determine nexus obligations.
- **Discuss with your CPA** a plan to regularly assess your registration requirements.

MARKETPLACE FACILITATOR LAWS

The responsibility to collect and remit sales tax lies with facilitators



45 states, plus Washington, D.C., Puerto Rico, and some localities in Alaska have adopted marketplace facilitator laws.

Require marketplaces to collect and remit sales tax on behalf of their third-party sellers, but sellers may still have reporting obligations.

Some states include marketplace sales in their economic nexus thresholds.

Managing returns deadlines

Returns filing frequency

- Monthly, quarterly or annually (subject to change)
- Pre-payments

Filing deadlines

- Vary by state: 15th, 20th, 25th, or last day of the month
- Timely filing discounts and late filing penalties



CONSIDER

- **Track deadlines**
Excel, triggered calendar reminders, etc.
- **Immediately update systems**
of new deadlines or changes in filing frequency.

Aggregating tax data

Multiple data sources

- POS, ecommerce, marketplace, accounting/ERP systems, etc.

Consolidation & breakout

- State & local jurisdictions
- Business type & exemptions

Review & reconciliation

- Process for validation and archive in case of an audit



CONSIDER

- **Keep an inventory** of the systems and data sources needed to gather your tax data.
- **Develop a process to gather tax data** as well as perform checks and balances.

Managing returns filing

Thousands of jurisdictions / hundreds of forms

- Latest forms
- Due dates & filing schedule

Filing and payment options

- Mandatory online filing: Account setup & filing time
- Web site changes
- Coordinating filing and payment

Historical records

- Proof of filing & remittance in case of audit



CONSIDER

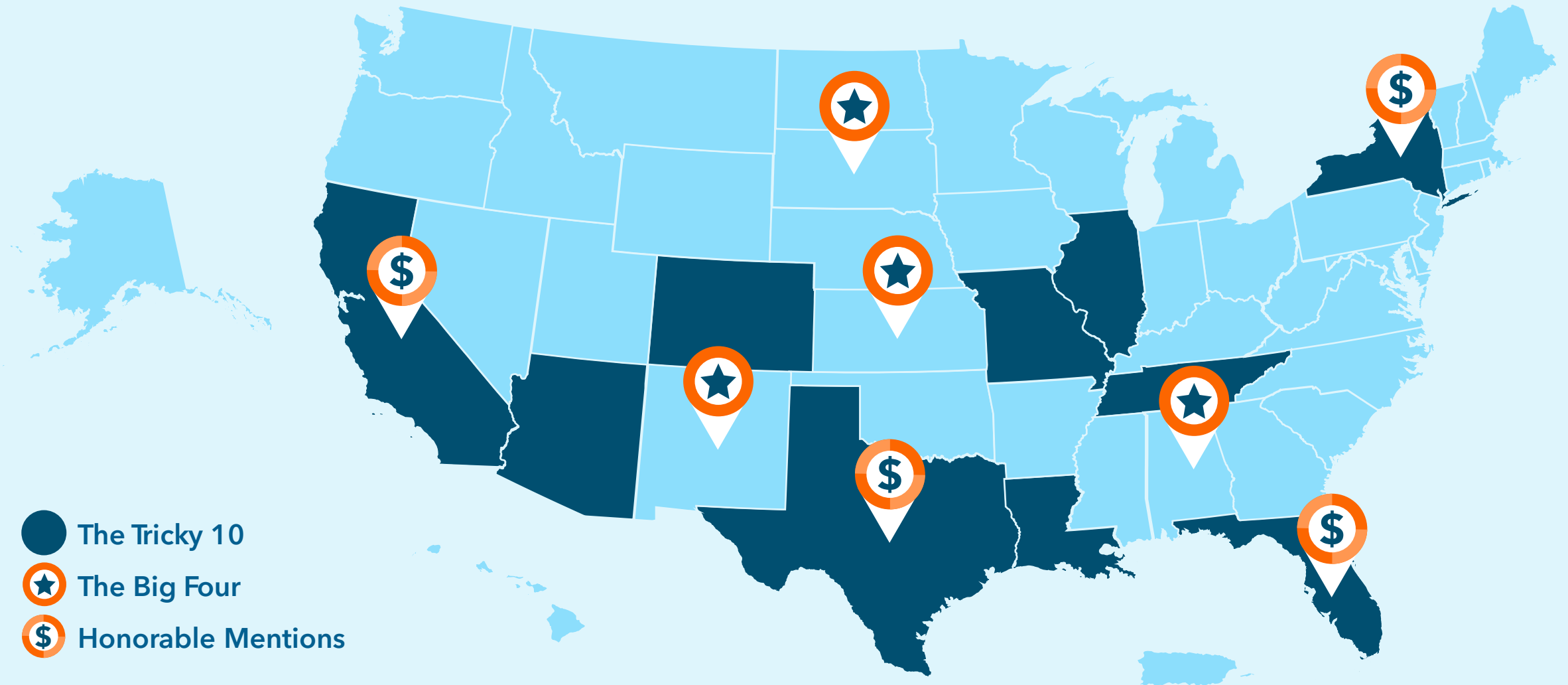
- **Schedule time each month** dedicated to completing and filing returns.
- **Build in time to keep current** on reporting changes in your registered jurisdictions.
- **Leverage technology** to save time and reduce risk.

POLL QUESTION
#2

➤ How is your business
currently managing sales tax
returns?

The tricky 10 states
of sales tax returns

The 10 tricky states



- The Tricky 10
- ★ The Big Four
- \$ Honorable Mentions

Breaking down the tricky 10 states for returns



Arizona

- Transaction privilege tax in lieu of state sales tax
- Home rule state
- Early filing discounts
- City and county tax must be broken out for individual locations
- Deduction breakdown requirements
- Annual prepayment required based on prior year liability
- Mandatory electronic filing for registered customers with multiple locations



California

- **Big Four state**
- Optional local jurisdictions
- Multiple schedules
- Monthly prepayment with quarterly return
- Deduction breakdown requirements
- Location or outlet reporting requirements



Colorado

- Home rule state
- Dozens of local, self-administered taxes
- Special rules for short-term rental filings
- Location or outlet reporting requirements
- Early filing discount for small businesses
- Consumer use tax notice and reporting for non-collecting sellers



Florida

- **Big Four state**
- Early filing discount
- Complex rate calculation, including Florida Discretionary Sales Surtax: a county sales tax
- Minimum monthly prepayment required

Breaking down the tricky 10 states for returns



Illinois

- Gross receipts tax
- Retailers' Occupation Tax and Service Occupation Tax; state and local
- Mixed sourcing rules
- Local tax complexity: City of Chicago
- Tax rate varies depending on transaction type
- Early filing discount
- Multiple forms sometimes required
- Prepayment required based on revenue threshold



Louisiana

- Local tax complexity: home-rule state
- Jurisdictions defined by parish
- Deduction breakdown requirements
- Consumer use tax notice and reporting for non-collecting sellers



Missouri

- Complex new rates every quarter
- Separate returns for each tax type
- Spreadsheet-based returns
- Many local jurisdictions and local governments overlap
- Prepayment required based on revenue threshold



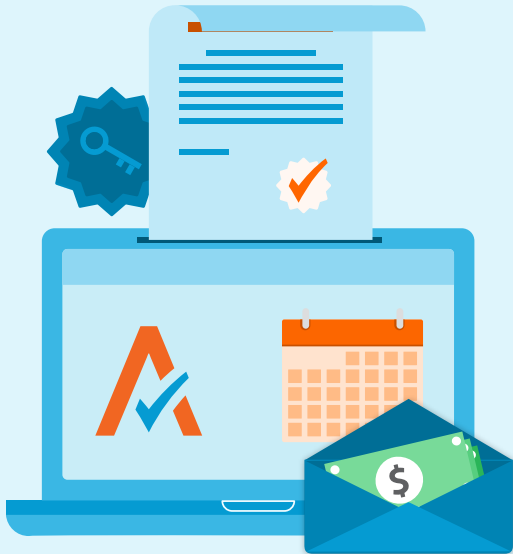
New York

- **Big Four state**
- PromptTax required for large sales tax vendors
- Different forms required for different filing frequencies
- Offset quarterly filing requirements for some vendors
- Retail sales breakdown reporting requirement

Breaking down the tricky 10 states for returns

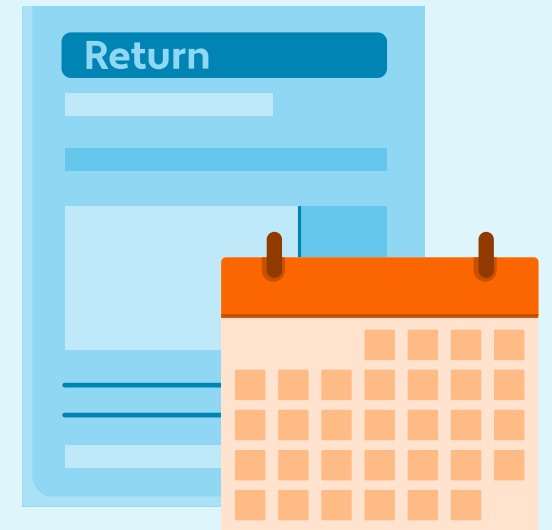
Tennessee

Texas



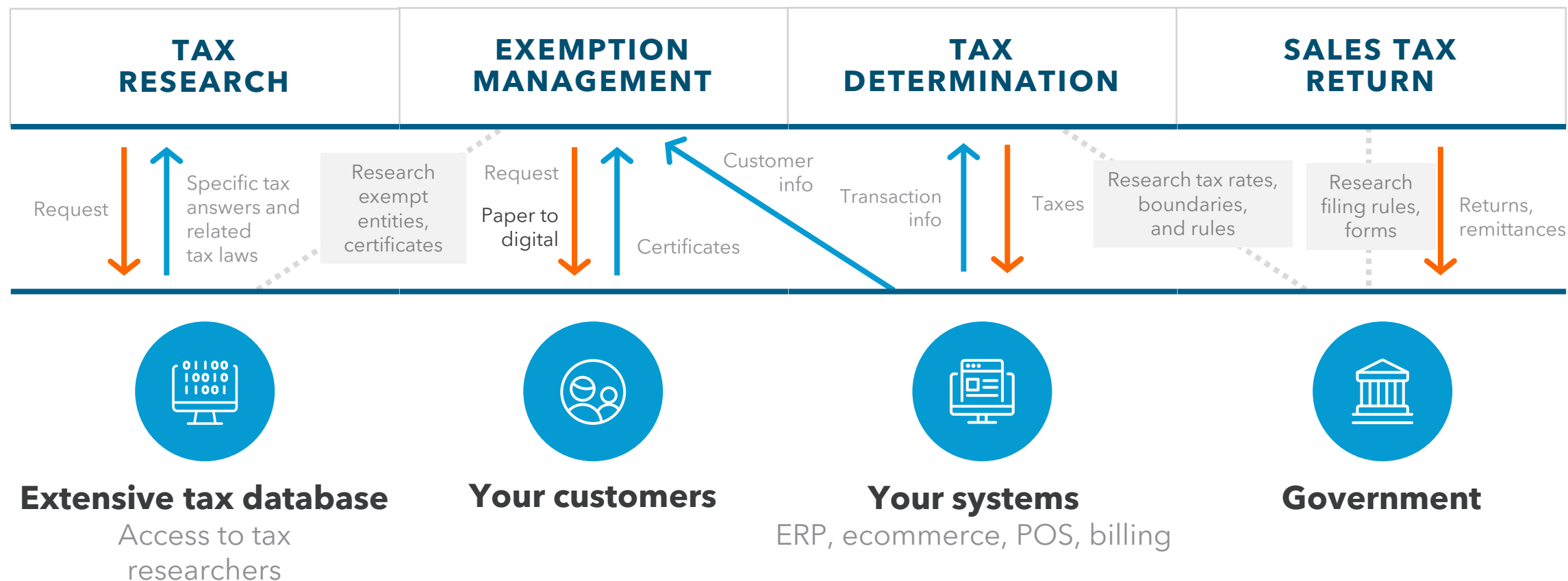
- Complex rate calculation, including the Location Option Sales Tax and the Single Article Tax
- Deduction breakdown requirements
- Location or outlet reporting requirements

- **Big Four state**
- Prepayment required based on revenue threshold
- Location or outlet reporting requirements
- Proposed consumer use tax notice and reporting for non-collecting sellers
- High volume of auditors with expedited enforcement plants

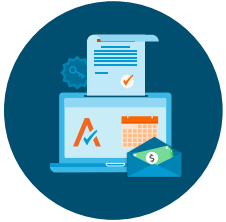


Beating the challenges
of returns through
automation

The Avalara Tax Compliance Suite



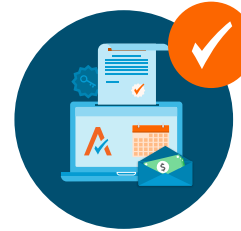
Meeting your business where you are



AVALARA MANAGED RETURNS

Ideal for businesses that need to file in multiple tax jurisdictions and want to outsource the end-to-end returns process.

- ✓ Sales and sellers use tax forms for every state
- ✓ Outsourced filing for all returns
- ✓ Automated syncing with multiple sales and accounting channels
 - + Local jurisdictions
 - + Multilocation returns
 - + Single source of payment
 - + Notice management



AVALARA MANAGED RETURNS PREMIUM

Meant for businesses with complex transactions or that want dedicated support.

- + A dedicated preparer and point of contact

ACCOUNTANT SOLUTIONS

Key takeaways

Selling into multiple states can increase tax obligations in state and local jurisdictions.

Each state/jurisdiction has its own returns requirements: filing schedules, forms, etc.

Your business must:



Avalara Returns can offload the high-cost and hassle of returns.

Understand and track nexus obligations by state.



Keep track of filing frequency for the taxing jurisdictions you collect in.



Find a way to aggregate and organize sales data from multiple sources by taxing jurisdiction/business type.



Keep track of changes in taxing jurisdictions to accurately manage filing returns by the deadline using correct forms.



POLL QUESTION
#3

> Would you like a follow-up
from an Avalara sales
representative?

Q&A

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Avalara

Tax compliance done right