



States with complex communications tax laws

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DISCLAIMER

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.

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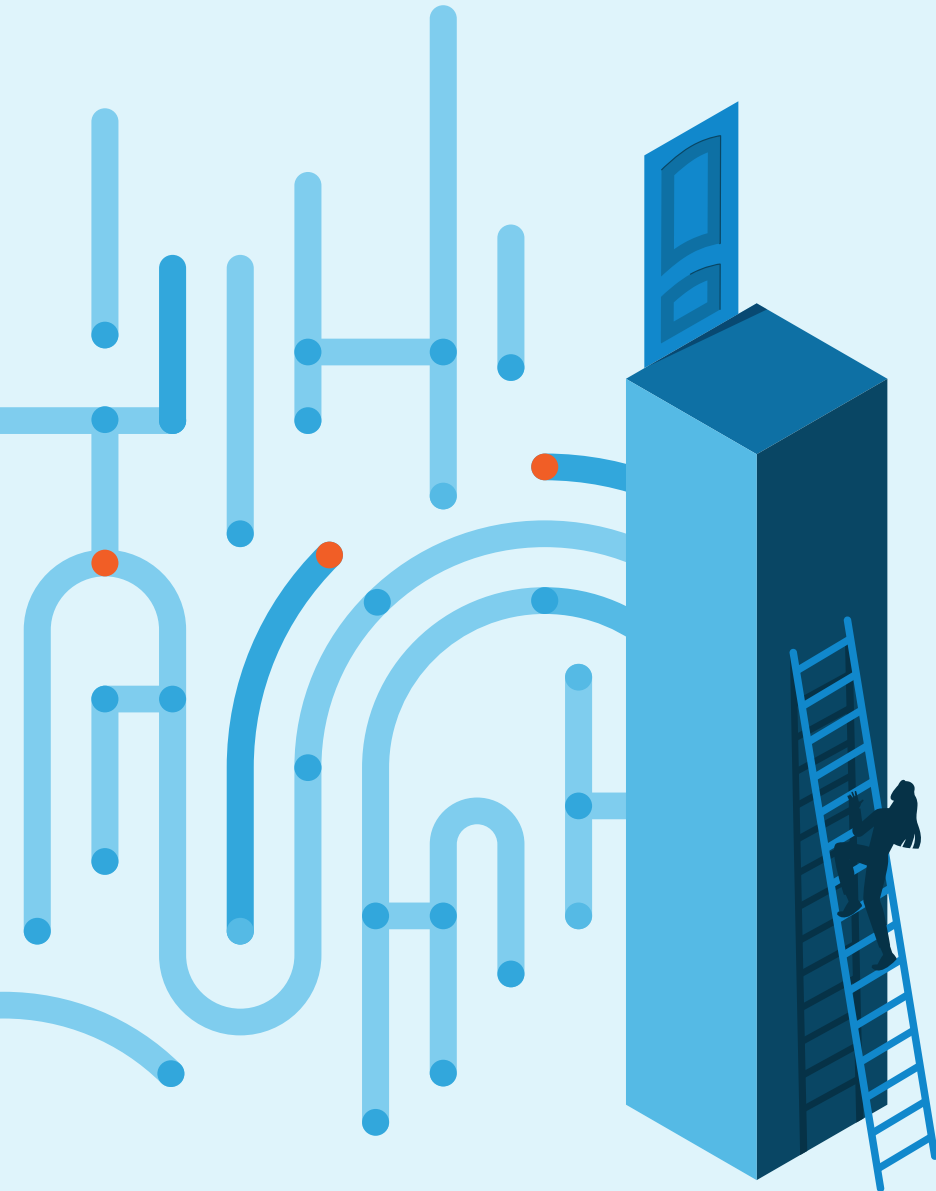
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Introduction



There's a common belief that tax is hard. When we say tax is hard we aren't talking about grumpy auditors, tax payments that carve into your bottom line, or automated phone messages that make it tough to reach a human at the Department of Revenue. We mean complying with tax requirements is hard for businesses.

As we've mentioned before, [communications tax is significantly more complicated than sales and use tax](#) in part because of the sheer volume of agencies, rates, fees, and surcharges involved. Every state in the United States taxes communications products and services differently. That's even the case for the NOMAD states – New Hampshire, Oregon, Montana, Alaska, and Delaware – that don't have a [statewide sales tax](#).

However, communications tax compliance is more difficult for some states because of filing procedures or factors that make it challenging to calculate the right rates.

2 + 2 = ? States where communications tax calculations don't easily add up

NEW YORK AND TEXAS

Trying to figure out communications taxes in [New York](#) and [Texas](#) will likely have you reaching for your calculator again and again. These states have the dubious distinction of being particularly challenging from a calculation perspective due to a multitude of taxes and fees assessed by state and local governments.

What's more, many of these taxes and fees act like a circular firing squad, taxing themselves and each other. All this perplexing math equates to a regulatory environment that can make it difficult for businesses to accurately tax their products and services and list the correct rates on invoices.

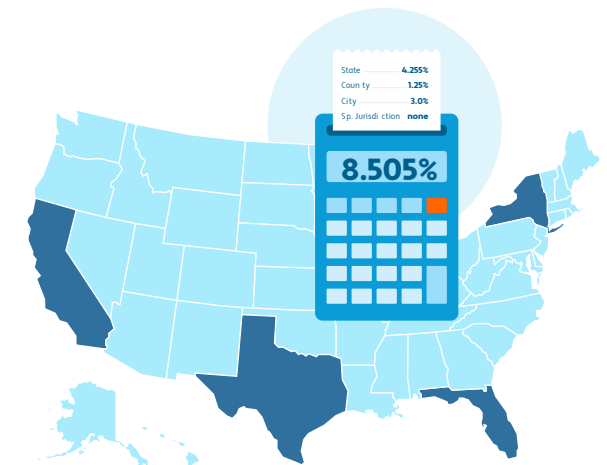
CALIFORNIA

While software, VoIP, and most other technologies aren't subject to sales tax in the motherland of Silicon Valley, companies that sell communications products or services must pay local utility taxes to home-rule jurisdictions. These jurisdictions have unique rules, rates, and [definitions for communications products and services](#) in their tax codes.

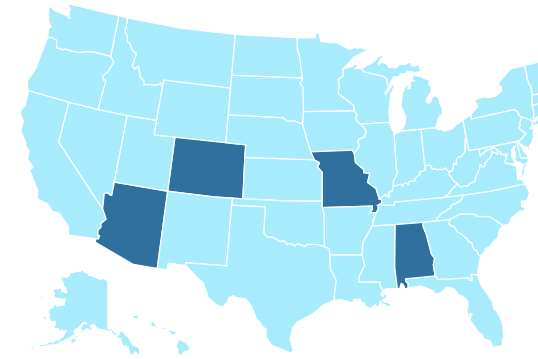
Another challenge is that it's not always clear whether newer technologies are taxable in California. For example, many cities in the state contend that their utility taxes apply to streaming video services but the [Los Angeles County Superior Court ruled differently](#) and the topic remains controversial.

FLORIDA

Florida has a state communications services tax and [481 local jurisdictions](#) charging communications taxes at various rates. Authorities there are known to diligently check that businesses have correctly matched up customer addresses to the proper jurisdictions to be sure they're using the right tax rates and reporting accurately.



The devil is in the details – troublesome states for communications tax returns



COLORADO

If you do business in [Colorado](#), you must collect and remit communications taxes to a multitude of [home-rule jurisdictions](#) and to the state. When filing returns, businesses must identify location codes for all the jurisdictions on the form. If you're not careful, your locations and codes may not align. As a result, you could underpay then be assessed back taxes and penalties.

ALABAMA

Alabama is another home-rule state where preparing returns is difficult. While one jurisdiction might require you to file your return with the state [Department of Revenue](#), another might use a third-party vendor to handle returns. Where you need to send your returns might change since jurisdictions sometimes switch vendors.

To do business in Talladega, for instance, you need to submit separate returns with the city and its police jurisdiction, which means you'll have double the liability and double the filing

locations. If you're not paying attention, you may send your documents to the wrong place.

ARIZONA

In lieu of sales tax, Arizona imposes transaction privilege tax (TPT). Businesses file one return per TPT license with the [Arizona Department of Revenue](#), which collects the tax for counties and cities. Having a central licensing and reporting agency makes for a more streamlined process, but it doesn't mean it's easy.

When completing the return, you'll need to report retail sales, communications sales, and several tax types and fees including E911 and the state Telecommunications Relay Services (TRS) surcharge. All these need to be consolidated. Plus, you'll need to provide all the right codes. Businesses are permitted to take certain deductions but it can be tricky to match up the right information in order to claim them.

MISSOURI

Tax rates can vary depending on which side of the street you're standing on in Kansas City or St. Louis. Missouri allows cities to create community improvement districts to pay for special public facilities or services. Hundreds of them exist throughout the state and each has its own jurisdictional code.

It's not enough to simply report 8.99% sales tax for Kansas City (the city's [minimum combined sales tax rate](#) as of June 2024) when filing your return with the [Missouri Department of Revenue](#). You need to report sales taxes for each community improvement district. That means you need to know where your customers reside and run those addresses through a reputable database that matches them up with the right tax district. To glean an idea of how many different jurisdictions there are in Missouri, check out the [sales and use tax rate table](#) for July 2024.



Some puzzles are best solved with the help of experts

If you find tax hard, [automating communications tax compliance](#) can make it easier. It may be time to turn to a trusted partner that specializes in solutions for calculating communications tax and sales tax, preparing and filing returns, and remitting payments to the tax authorities. We won't go so far as to say you'll look forward to a visit from a grumpy auditor, but you'll probably feel more confident.

At Avalara, many of these challenges are made nonissues through a variety of capabilities – ranging from specialized compliance experts and professional services to an automation platform that supports geocoding, unbundling, and more – designed specifically to keep providers up to date on the latest rules, rates, and filing requirements across tens of thousands of tax jurisdictions.

Contact us at 844-722-5747