CONSUMER USE TAX: A BANE FOR BUSINESSES

The challenges of consumer use tax and how tax automation can help

GUIDE

Avalara

Tax compliance done right

Contents

DISCLAIMER

Introduction

Consumer use tax has long taken a back seat to sales tax when it comes to compliance.

Many businesses either pay it little mind because they don't understand its complexities, or are completely overwhelmed as to how to tackle compliance. It seems counterintuitive – even risky – to ignore something as significant as tax owed.

Businesses of all sizes – from small sellers to enterprise-level companies – trying to manage their consumer use tax liability will tell you: It's not that simple.

Lax rules, low compliance, high risk

Sales tax and consumer use tax have a lot in common. Both are transaction taxes on goods and services. All 45 states that have sales tax also have use tax. And rates for sales tax tend to be the same for use tax in most (but not all) states. Sales tax is the predominant standard, with consumer use tax being the wingman, so to speak. If the seller doesn't charge sales tax on a taxable sale, then the buyer is obligated to pay use tax.

Putting this onus on the buyer is risky, and a self-regulated tax is easy to overlook. States have generally focused their consumer use tax reporting and auditing efforts on businesses, rather than individuals, because the systems companies use to track their spend are the same systems auditors use to find missed consumer use tax liabilities. Those systems are not geared to tax, and even the most vigilant companies struggle to get it right. Mismanagement of consumer use tax is a common compliance error that state auditors find.

Growth or changes in your business that impact sales tax can also impact consumer use tax. This is where the big differences between sales tax and consumer use tax come into play.

Consumer use tax liability can change dramatically after invoicing based on how and where products and services are used. This can set off all sorts of planned and unplanned triggers, which can include applying the wrong tax to a vendor invoice, internally using or transferring inventory, moving assets between office locations, procuring new equipment, using a service (like software) across multiple locations that was paid for based on only one location, and donating merchandise to a charity or promotional giveaway. This makes assessment for businesses more challenging. Auditors who know this might focus on use tax as "low-hanging fruit."

Which of these activities is likely to result in consumer use tax being owed?

Jack owns a chain of retail stores in the Midwest.
He takes a table from inventory to display merchandise in one of his stores. It looks great so he makes it a permanent display fixture. He asks his store managers to do something similar in his other nine locations.

Sarah is a controller for a software business based in San Francisco.
The company is opening a new office in Seattle. She asks the purchasing department to order new laptops and ship them to the San Francisco headquarters so they can be preloaded with software programs for the new employees in Seattle.

Frank signs off on a specialized piece of equipment for the Ohio manufacturing plant for his company.
He adds cleaning supplies needed for maintenance, safety equipment for the operators, and a storage unit for the parts to the purchase order, and then attaches an exemption certificate.

Rachel is in charge of her company's sponsorship at a regional charity golf tournament in Augusta, Georgia.
Since they sell golf apparel and accessories, she brings several products for promotional giveaways and auction items.

Stacy handles parts procurement for a Texas manufacturer.
Vendors often incorrectly apply sales tax to production invoices. Stacy applies for a Texas direct pay permit so her vendors no longer charge the company sales tax on those transactions.

Answer:
All of them. Any number of scenarios like these can change your consumer use tax obligations.

Certain industries, like manufacturing, construction, and hospitality, often face even greater risks of noncompliance because the use tax rules for these businesses are more complex and can vary from state to state.

These industries may also see more companies making use of direct pay permits, which means the purchasing company takes on all the responsibility to self-assess consumer use tax.

INDUSTRIES MOST IMPACTED BY CONSUMER USE TAX

Manual, menial, and messed up

Regardless of size, organizations tend to manually manage consumer use tax using spreadsheets.

This is a laborious process with many manual steps. Check invoices carefully. Are tax rates correct? Compare tax on the purchase order to tax on the invoice. Are they the same? Be sure expense reports include sales tax for any taxable transactions. If the sale is exempt, reference a valid resale or exemption certificate. Auditors tend to zero in on invoices that don't show sales tax and will request proof that you paid tax.

Many Accounts Payable departments fail to take the few seconds to capture the sales tax paid by vendors when invoices are electronically captured, which makes proving that tax was actually paid much more difficult.

All this is essential to prove compliance. It's also incredibly time-consuming.

Given these hurdles, it's not surprising businesses drag their feet, or even worse, simply ignore consumer use tax. However, trying to go unnoticed by state auditors or hoping that penalties for noncompliance won't be too steep aren't sound strategies. Failing to properly assess consumer use ranks in the top five for costliest compliance mistakes made by companies.

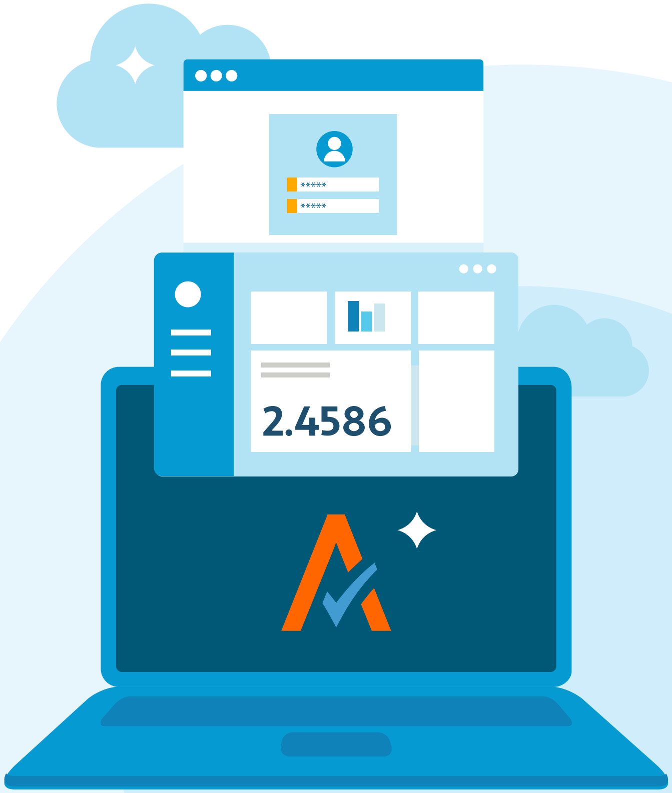
Discover life outside spreadsheets with Avalara AvaTax

Managing tax manually isn't efficient, which is why so many companies now automate it. Consumer use tax has largely been left out of that equation.

AvaTax helps thousands of customers more accurately calculate sales and use taxes based on regularly updated tax data. Businesses of all sizes can achieve compliance with sales and use, excise, VAT, GST, and other transactional taxes for their products and services. Plus, AvaTax integrates easily into your existing business systems and uses a simple transaction import process to manage your data.

And AvaTax for Accounts Payable is your key to getting use tax right. It works with the other applications in AvaTax to reduce risk and keep your business operating more efficiently, so your team can spend more time on revenue-generating business activities and less time puzzling over complex tax questions.

AvaTax for Accounts Payable is a reliable, verifiable, and scalable way to assess and report the consumer use tax you owe. It goes beyond facilitating compliance and provides you with a strategy to manage your consumer use tax state audit. Plus, AvaTax for Accounts Payable integrates easily into your existing business systems and uses a simple transaction import process to manage your data.



With Avalara AvaTax for Accounts Payable, you can:

- Save time and reduce tax errors in one centralized environment
- Identify over- and underpaid tax on your purchases and apply the correct tax
- Avoid fines and fees by automatically applying the tax owed on your returns

So what are you waiting for?
Learn more about **Avalara AvaTax for Accounts Payable** today and see how easy it can be to tackle use tax (and redirect resources toward revenue-generating business tasks).