

Avalara

Managing tax-exempt sales 101

Presented by:

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Kael Kelly

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Avalara

- Joined Avalara in 2012 and has served in leadership roles in marketing, customer acquisition, and strategic initiatives.
- Has 25 years of software and technology experience in industries ranging from telecommunications to internet to software as a service.
- Has worked across company growth stages, from the Fortune 500 to mid-market firms to start-ups in roles that include market research, product management, marketing, sales, and executive leadership.



Maria Tringali
Senior Solutions Consultant
Avalara

- Joined Avalara in 2014, and is focused on training, educating, and supporting customers, prospective customers, sales teams, and partners on tax compliance requirements for B2B sellers.
- Passionate about improving the exempt customer experience and helping businesses improve upon and automate traditionally laborintensive and risk-prone activities.

Agenda

- > Compliance landscape for tax-exempt sales
- > 4 common compliance challenges for tax-exempt sellers
- > Best practices for getting and staying compliant
- > Q&A

The tax-exempt landscape

Understanding tax-exempt sales

- For any tax-exempt sale, a corresponding exemption certificate is required to prove exempt status if the company has nexus.
- > The form is presented by an exempt organization or individual to the seller.

UNIFORM SALES & USE TAX EXEMPTION/RESALE CERTIFICATE — MULTIJURISDICTION

The below-listed states have indicated that this certificate is acceptable as a resale/exemption certificate for sales and use tax, subject to the notes on pages 2—4. The issuer and the recipient have the responsibility to determine the proper use of this certificate under applicable laws in each state, as these may change from time to time.

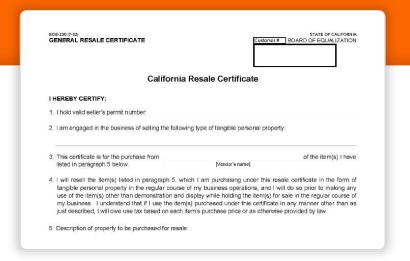
Issued to Se	eller:_						
Address:							
I certify that: Name of Firm (Buyer): Address:						tomer#	
			Str	eamlined Sales and Use Tax Agreement	Certifi	cate of Exemption	
			clai	s is a multi-state form. Not all states allow all exemption in exemption from tax in the state that would otherwise	be due tax on this sale. The seller may be requi	ired to provide this exemption	
wholesale, re	esale, or	h the below-listed states and cities within which your firm ingredients or components of a new product or service ¹ to holesaling, retailing, manufacturing, leasing (renting) selli	The	ificate (or the data elements required on the form) to a s e purchaser will be held liable for any tax and interest, ar chaser is not eligible to claim this exemption. A seller m	nd possibly civil and criminal penalties impose	d by the member state, if the	
Description		of tangible property or taxable services to be purchased fr		de at a location operated by the seller within the designa			
Contain desic	puou	or samples property or same services to be purchased in	1.	Check if you are attaching the Multi-state Suppler If not, enter the two-letter postal abbreviation for		nption.	
	State State Registration, Seller's Permit, or ID S Number of Purchaser			nd enter the related invoice/purchase order #			
A A	R.	M NI NI	3.	Please print	•		
C	A'	NI NI		Name of purchaser			
C C D F	T°	NO NI		Business Address	City	State Zip Code	
G G	L' A ⁸ I ^{4,9}	OI OI PA		Purchaser's Tax ID Number		ntry of Issue	
II	4,10	RI SC		Enter one of the following:	ver's License Number/State Issued ID Number e of Issue: Number	Foreign diplomat number	
L/ K	A. S	SI T)		Name of seller from whom you are purchasing, leasing or			
M	Y ¹¹ IE ¹² ID ¹³	D UI		Seller's address	City	State Zip code	
M	III ¹⁴ IN ¹⁵	VI W.	4.	Type of business. Circle the number that describes your	business		
				01 Accommodation and food services	11 Transportation and w	varehousing	
I further certify that if any property or service so purchased tax free is used or tax due directly to the proper taxing authority when state law so provides or it				02 Agricultural, forestry, fishing, hunting 12 Utilities 03 Construction 13 Wholesale trade			
sach order that we may hereafter give to you, unless otherwise specified, and				04 Finance and insurance 05 Information, publishing and communicati			
Under penalties of perjury, I swear or affirm that the information on this form				06 Manufacturing 16 Education and health-care services 07 Mining 17 Nonprofit organization			
Authorized Signature: (Owne				08 Real estate 09 Rental and leasing	18 Government 19 Not a business		
Title:			_	10 Retail trade	20 Other (explain)		
Date:			5.	5. Reason for exemption. Circle the letter that identifies the reason for the exemption.			
Revised 1/29/2016				A			
				D Foreign diplomat # E Charitable organization # F Religious or educational organization # G Resale #	K Direct mail #		
THE RESERVE			6.	Sign here. I declare that the information on this certifica			
				Signature of Authorized Purchaser	Print Name Here Title	Date	
			SS	IGB Form F0003 Exemption Certificate (5/10/11)		Forms by www.CertCepture.com	

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

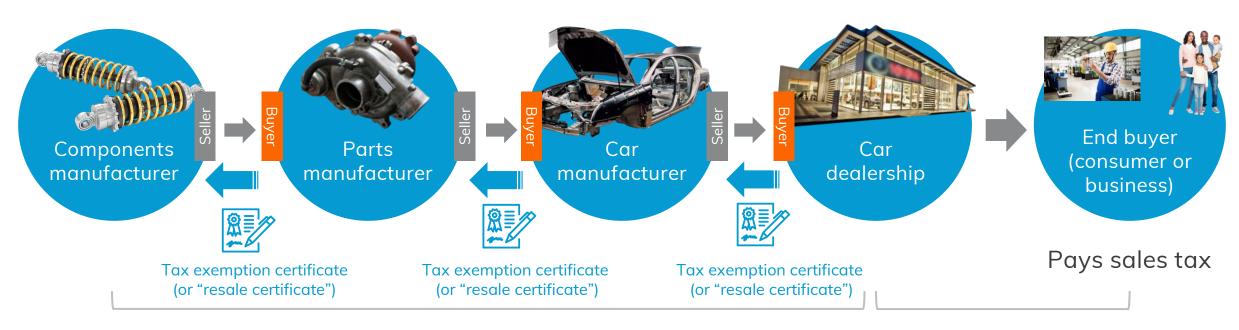
- Merchandise intended for resale
- Use in product that will be resold
- Agriculture
- Manufacturing
- Tangible personal property purchase to lease or rent

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).")



Tax-exempt purchases

Taxable purchase



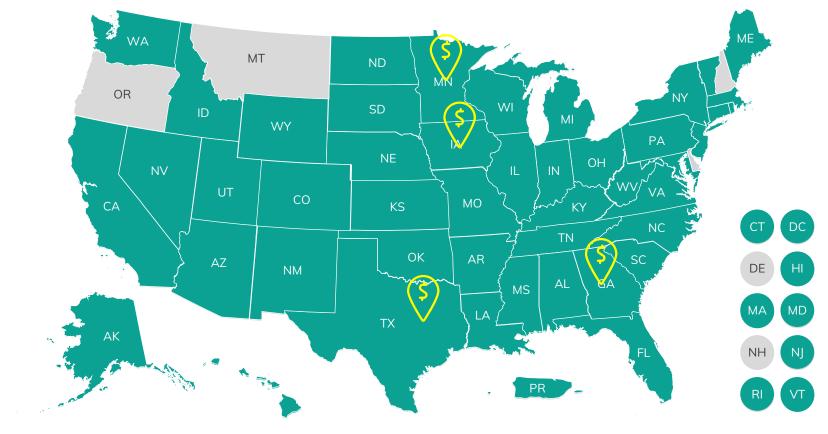


In the beginning, there was physical nexus ...



Example: A distributor selling <u>nationwide</u> but with only four locations usually only had a to worry about tax compliance in those four states.

Economic nexus today



States without sales tax:

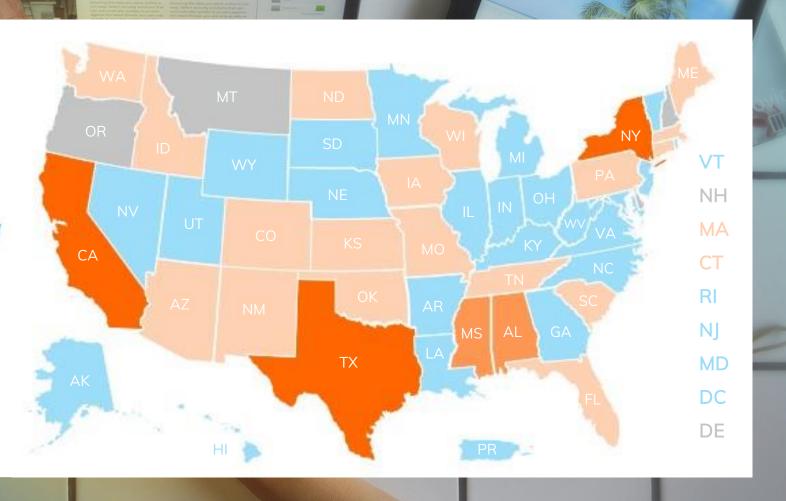
- > Alaska
- > Delaware
- > New Hampshire
- > Montana
- > Oregon

States with economic nexus laws

Example: A distributor selling nationwide but with only four locations must be concerned with nexus in potentially 46 states

Economic nexus thresholds by state

- \$500,000
- \$250,000
- \$100,000
- \$100,000 **or** 200 transactions
- Does not have economic nexus law
- Connecticut's threshold is gross receipts of \$100,000 and 200 retail transactions
- New York's threshold is \$500,000 and 100 transactions





Examples of the impact of South Dakota v. Wayfair, Inc.

MANUFACTURER IN NY

- > 99% of sales are to other OEMs or reseller dealers (no tax)
- > Wayfair ruling increased their burden to prove exempt sales
- > Previous exemption certificate count: <75 on file</p>

New docs needed: 1,175

NATIONAL WHOLESALER

- Sells to resellers who sell to endusers; drop shipment is part of their model
- > Wayfair grew nexus from just their physical HQ in NY to most U.S. states
- Previous exemption certificate count: 500 on file

New docs needed: 5,000+

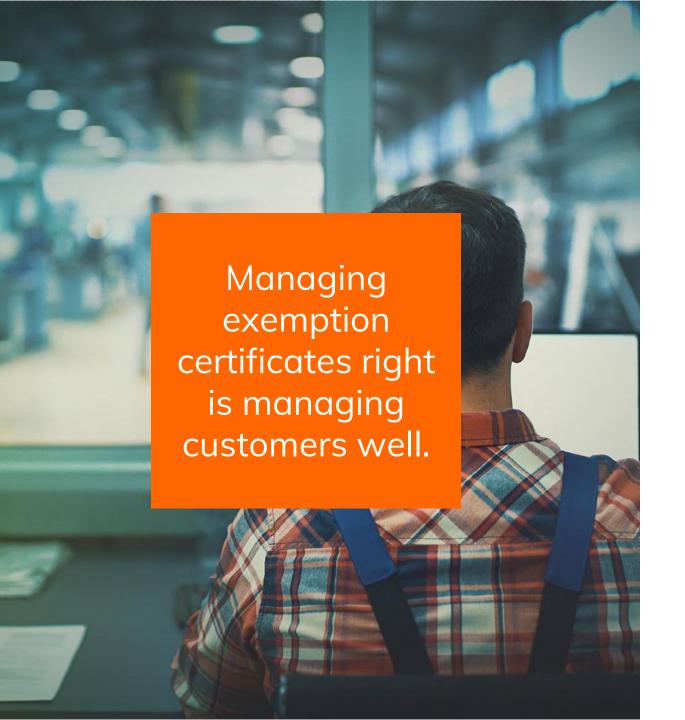
The burden of proof is on you

- > While customers must provide documentation, the burden is on the SELLER during an audit to prove why tax was not charged.
- > Your \$0 sales tax liability is tied to those documents.
- > With fines and penalties, you can owe the state double the tax you failed to collect.







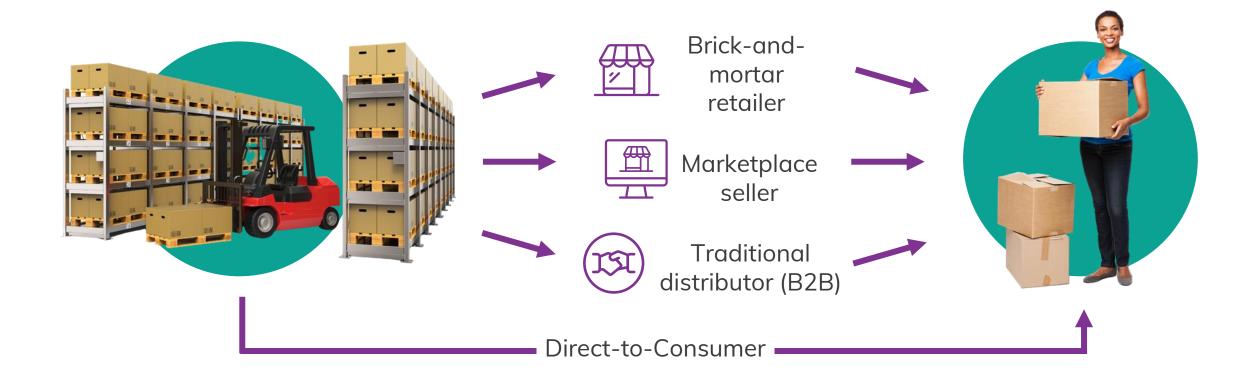


Exempt customer experience is KEY

- > Customers feel burdened by being asked to provide documentation.
- No one likes delays when ready to place an order.
- Poor experiences often present as billing issues; increases the likelihood of credit & re-bills.
- Held invoices can create cash flow issues.



Rise of B2B ecommerce



Expanding the traditional distribution & sales channels

Rise of B2B ecommerce

- > B2B online sales are at an all time high: \$1.63T
- > 55% of B2B buyers make over half of their purchases online
- > 54%-70% of the buying process is completed before the buyer contacts the supplier
- A great digital experience makes buyers 2x more likely to choose that supplier
- B2B companies report that digital interactions are 2 – 3 times more important than traditional sales interactions

OFFLINE B2B WORKFLOWS NEED TO BE REPLICATED ONLINE



Collect across all channels



Ecommerce in-cart and/or My Account page



New customer portal



In-store



Mail, email, phone



In the field

- Allow customers to view & manage their exemption certificates in any sales channel
 - Real-time certificate completion for ecommerce
 - Easy access to certificates for in store, field sales and shared service teams
 - Online web portal for customers

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No sales tax?

- Poor processes for managing exemption certificates create negative customer experiences.
- Customers don't like providing documentation.
- Employees are not tax compliance experts

Customer service still matters





How high is audit risk?

60% of audits target four industries:

- Manufacturing
- Construction
- > Wholesalers and distributors
- > Retail

Most common mistakes found by auditors:

- Nexus oversights
- Exemption management, document errors
- Misreporting use tax

Audit red flag:

Invoices that don't show sales tax

What auditors will do:

Request proof your business paid tax

Average cost of an audit:

\$114,000 including penalties, fees, and professional counsel



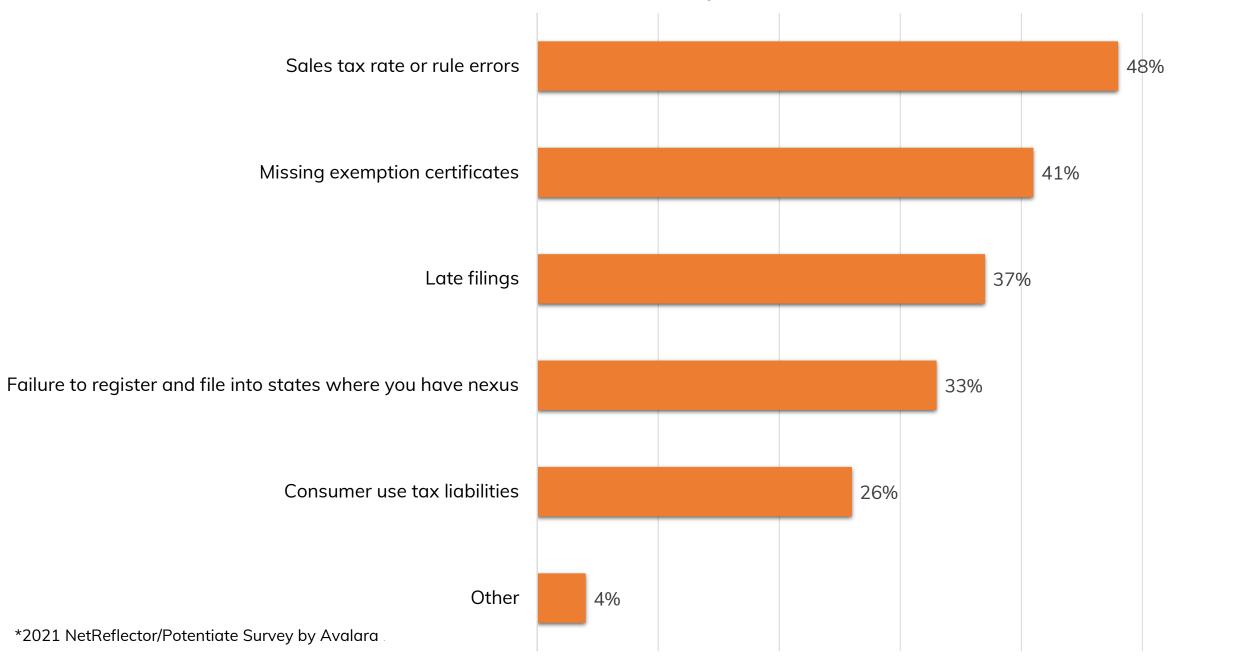


How painful and expensive are audits?



- Most audits (79%) were completed within three weeks.
 - A small percentage dragged on for five months or more.
- It took employees an average of 35 hours to oversee and respond to an audit.
- 93% of companies spent 10 or more hours on an audit.
- Assessments can be applied to transactions dating back years.

Reasons for audit penalties





Rates are just the tip of the iceberg...



Tax calculations

Nexus **Customer satisfaction**

Exemption certificates

Audit readiness

Ecommerce (B2C & B2B)

Accurate filing

Global tax compliance

Use tax

Tax research

28

5 steps to managing sales tax

- 1. Know where your business must collect and remit sales tax
- 2. Register to collect and remit sales tax
- 3. Collect and maintain accurate certificates
- 4. Calculate the correct sales tax amount (when needed)
- 5. Report (and/or remit) to the taxing authority

Exempt sales in economic nexus thresholds





"WHAT SHOULD I DO?"

GET EXPERT COUNSEL TO DETERMINE THE IMPACT

Contact a SALT (State & Local Tax)
 CPA

2. Conduct a Sales
Tax Risk Assessment
or Nexus Study

Don't have one? Avalara has an extensive directory of tax experts and SALT CPAs who can work with you.

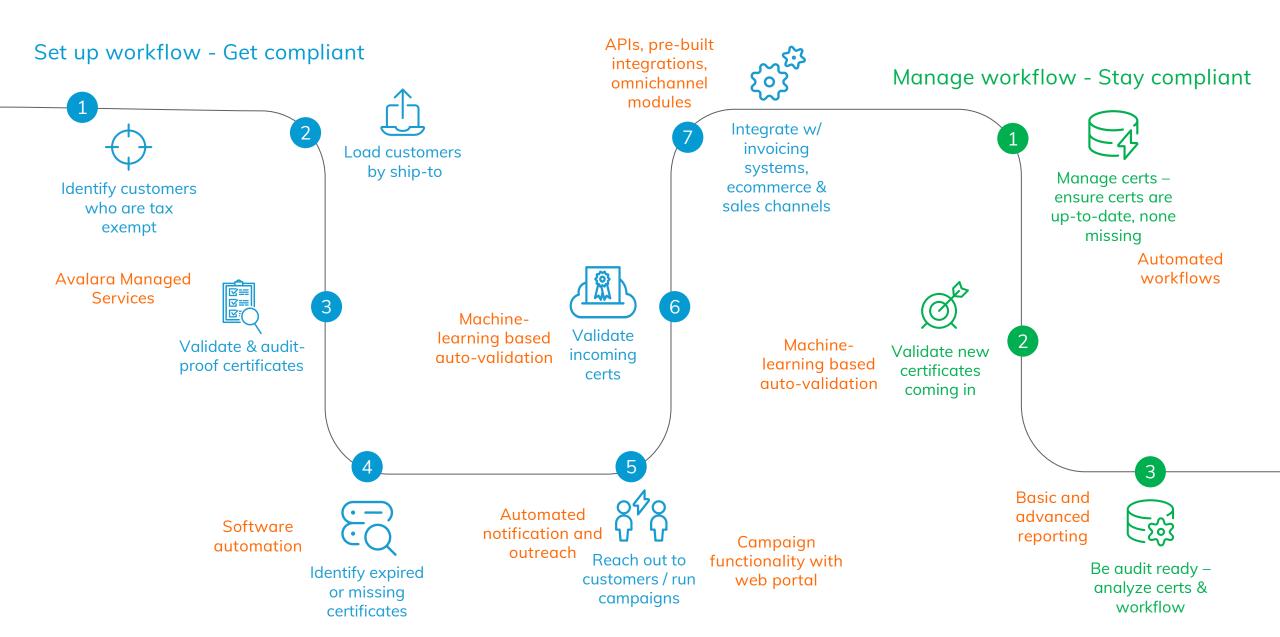
3. Determine where you need to register

4. Consider sales tax compliance automation

Avalara has a Professional Services team who can help if you don't have a SALT CPA or tax advisor.

Workflow setup and management with Avalara





How software and services help

Intelligent compliance document management



Directs buyer to proper documentation, eliminating need for onsite expertise



Insights and centralized collaboration



Integrates with AvaTax, invoicing platforms, websites and other tax engines for real time verification.



Available ecommerce module, APIs, and professional services



Extensive reference library of exemptions laws.



ECM Managed Services

One-time ECM Managed Services

Step 2 of implementation

Following customer-led software setup and upload of clean customer data, Avalara will help you move from your current manual/paper/PDF processes to digitized compliance workflow. We will collect/validate all required customer exemption certificates for your business.

Recurring ECM Managed Services

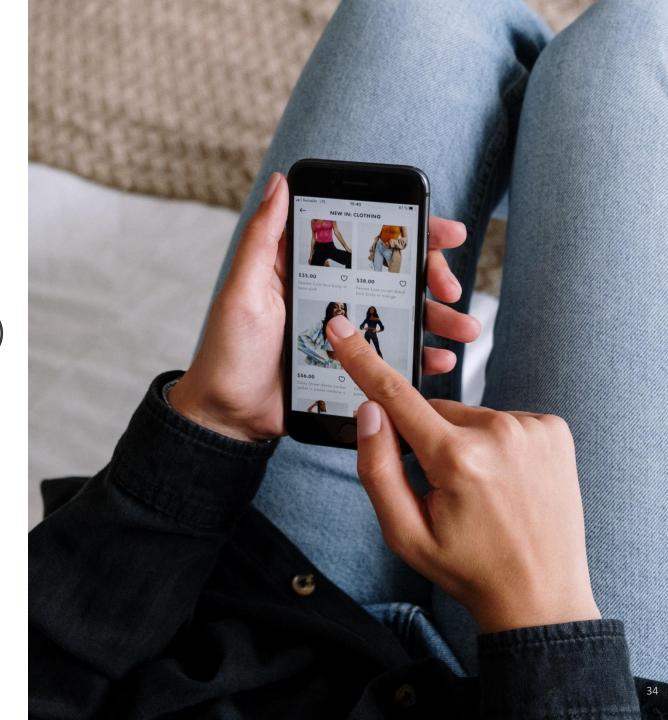
Ongoing maintenance

Avalara will proactively run reports of certificates due to expire, create campaigns, validate newly received certificates, and provide customer support to ensure all certificates remain up to date and your business remains compliant.

Types of ECM integrations

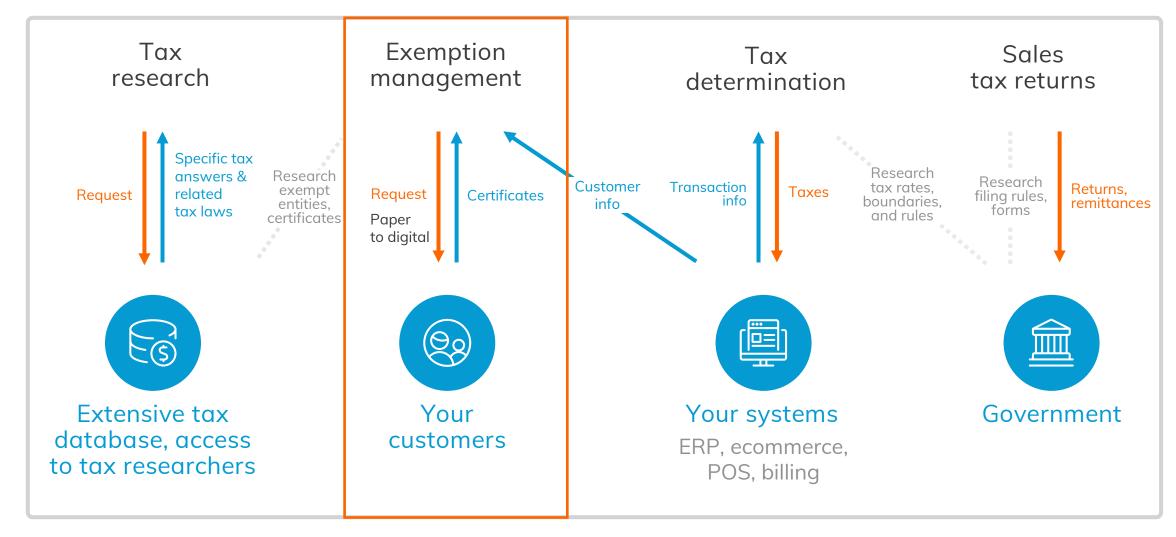
- 1. ERP (through AvaTax)
- 2. Ecommerce sites (through AvaTax)
- 3. Independent (API integrations)





A tax compliance suite





Purchasing/procurement – Vendor Exemption Management



Adds control to procurement process



Minimizes time and need for tax expertise



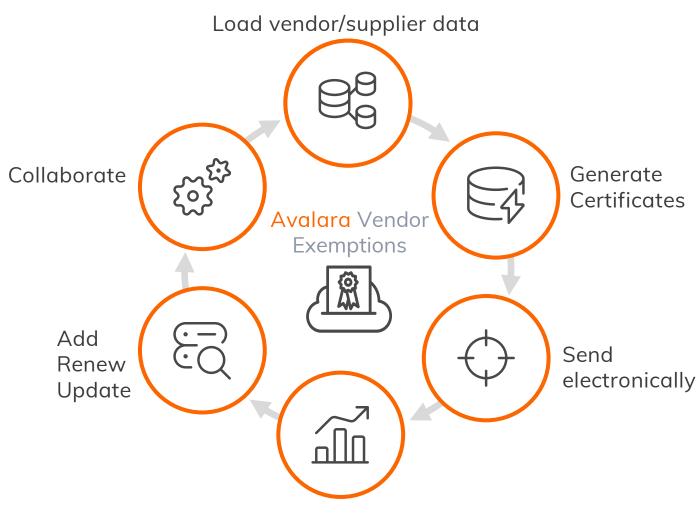
Allows web-based automation and process centralization



Creates pre-populated certificates (signature)



Improves vendor/supplier relationship, creates more efficient buying process



Digitize exemption certificates

Automate across platforms and channels to be fully compliant with new laws.



Collect across all channels

Collect, validate, and update sales tax exemption certificates BEFORE you invoice, regardless of where that invoice is created: ERP, online, over the counter, and in the field.



Turn paper to pixels

Collect digitally, and digitize existing certificates including validation, mapping, and certificate intake process. Digital information enables robust tracking and reporting.

Enable campaigns for new states and renewals/updates.



Remove the guesswork

Buyers know what to provide, sellers know what to collect. Digital forms eliminate errors, speed up processes, even auto-validate. Be proactive instead of reactive.



Why automate sales tax compliance?



Accuracy

Real-time tax calculations that get it right every time



Efficiency

Reduce costs and time spent managing tax compliance



Customer satisfaction

Streamline transactions with instant sales tax calculations



Risk management

With accurate results, you'll decrease your company's risk



Business growth

Free up resources to focus on high-value projects

IMPORTANT QUESTIONS

What to ask yourself

- > How many states are you / do you need to register in for sales tax compliance?
- > What % of your customers / businesses are exempt?
- > How do you plan to collect / update documentation?
- > What does that customer experience look like?
- Is your current process scalable?
- Do you have or are you planning to create or improve your online B2B experience?
- > What is the quality of the documents you have now?
- Can you afford to delay orders or lose business?
- Do you have the tax compliance expertise to ensure what is collected is accurate and valid?



