5 THE FIVE STEPS FOR MANAGING SALES TAX

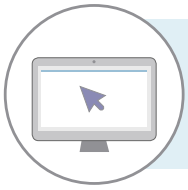
Take these essential steps to achieve end-to-end sales tax compliance

The world of sales tax can be extremely confusing, but getting it right is crucial for success. As your business evolves and changes, your sales tax obligations may also change or expand. And when that happens there are typically five steps you need to take in order to ensure you're compliant at every stage of the sales tax cycle. To help, let's review the five steps to managing sales tax that all businesses should take.



Step 1

Know where your business must collect and remit sales tax



Step 2

Register to collect and remit sales tax



Step 3

Calculate the correct sales tax amount



Step 4

Track and manage exempt sales



Step 5

Remit sales taxes to the tax authority

Get started with Step 1 ▶

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STEP 1:
KNOW WHERE YOUR BUSINESS MUST COLLECT AND REMIT SALES TAX

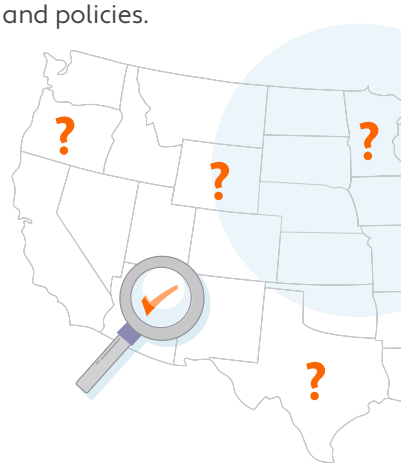
OVERVIEW

You may not need to collect and remit sales tax everywhere, so determining where your business is required to collect and remit is the first step to sales tax compliance. The connection that establishes a business obligation to collect and remit tax is a concept known as nexus. Many business activities can create a tax reporting obligation with a tax jurisdiction, including having physical locations, remote employees, affiliate relationships, or economic activity in that tax jurisdiction.

WHAT TO DO

You first need to understand the business activities that can create a tax reporting obligation, then review your business activities to determine where you may have a requirement. Also, be sure to stay informed of changes in legislation that may affect state and local tax jurisdictions as nexus laws can change frequently. Avalara has many resources to help you understand the concept of nexus and stay up to date with changes in nexus-related rules and policies.

RESOURCES FOR MORE DETAILS



- Know your nexus ebook
  Review the various ways nexus can be established to determine where and when you need to register, collect, and remit sales tax.
- Nexus resource hub
  Learn about all things nexus. The nexus resource hub on avalara.com provides insight into the ins and outs of sales tax nexus.

HOW AVALARA CAN HELP

If you're unsure about your current or expanding tax reporting obligations, the Avalara Professional Services team can help. We offer an in-depth nexus study and ongoing nexus monitoring to help you decipher where you need to collect and remit sales tax and ensure you're ready for **Step 2.**

Continue to Step 2, Register to collect and remit sales tax ▶

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STEP 2:
REGISTER TO COLLECT AND REMIT SALES TAX

OVERVIEW

After you determine where you have nexus, and subsequently where you need to collect and remit sales tax, you likely must register in the appropriate tax jurisdiction. Unfortunately, the process, forms, and requirements to register aren't the same for all state or local tax jurisdictions. In most jurisdictions you must register prior to legally collecting sales tax reimbursement from your customers within each separately-administered tax jurisdiction, so be sure to take care of this step before moving to Step 3.

It's important to note that if you realize in Step 1 that you previously established nexus in a jurisdiction where you're not registered and collecting sales tax, you may have a past tax liability that has gone unaddressed. To rectify this situation, you may need to take additional steps to become compliant with the tax jurisdiction, such as backfiling unpaid taxes or participating in a voluntary disclosure agreement.

WHAT TO DO

Understand where you need to register and what licenses, forms, and registrations need to be completed before you start collecting and remitting. All states and jurisdictions are not created equal when it comes to getting set up, so it's critical that you're aware of the individual specifications.

RESOURCES FOR MORE DETAILS



- Sales tax registration 101
  Read this article to get an initial understanding of what's involved with registering in new jurisdictions to collect and remit sales tax.
- Understanding sales tax v sellers use tax permits
  Discover the difference between a sales tax permit and a sellers use tax permit and how this can impact tax collection.

HOW AVALARA CAN HELP

If you've established nexus and need to register to begin collecting and remitting, our Avalara Licensing service can get it done in a snap. With registrations complete, you'll be ready to tackle **Step 3.**

Continue to Step 3, Calculate the correct sales tax amount

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STEP 3:
CALCULATE THE CORRECT SALES TAX AMOUNT

OVERVIEW

Once you're registered in the tax jurisdictions where you have a nexus obligation, you're ready to start calculating and collecting sales tax. There are more than 12,000 tax jurisdictions in the U.S., and each jurisdiction has different tax rates and product taxability rules, so it can be difficult to know what tax rate to charge. While it can be difficult, it is crucial you get it right so you aren't under collecting for the tax authority, or over collecting causing unhappy customers.

WHAT TO DO

Ensure you understand the variables that make up a tax rate, such as tax jurisdiction rules and product taxability for what you're selling. Have a plan in place to quickly and accurately apply the tax rates on your transactions.

RESOURCES FOR MORE DETAILS

- **Determining the taxability of the products you sell**
  Not all products are taxed the same way across tax jurisdictions, so it's important to understand how the taxability of products can impact various tax rates.
- **Understanding geolocation and its impact on tax calculations**
  ZIP code-based calculations don't go the distance when determining appropriate tax rates across tax jurisdictions. Learn how geolocation technology helps ensure the most accurate rate possible.



HOW AVALARA CAN HELP

If you don't already have Avalara AvaTax working behind the scenes, you're missing out on automated sales tax calculations – in real time. AvaTax provides tax rates delivered at the time of sale, based on geolocation and product taxability, so you don't need to constantly look up tax rules and rates. With automated sales tax calculations taken care of, move on to address exempt sales in **Step 4.**

Continue to Step 4, Track and manage exempt sales ▶

STEP 4:
TRACK AND MANAGE EXEMPT SALES

OVERVIEW

Businesses can be exempt from paying sales tax based on what they sell, and/or where they sell their products. For example, many states don't charge sales tax for nonprofit or government sales. In addition, products or items intended for resale are typically exempt from sales tax. Regardless of the reason for an exemption, the seller must collect and manage an exemption certificate for each tax-exempt purchaser in order to validate and confirm why sales tax wasn't collected. Failure to produce up-to-date documentation during an audit may leave businesses open to penalties and fines.

WHAT TO DO

If your business sells products or services that are exempt from sales tax, make sure you have a process in place to collect, track and validate exemption certificates from your buyers. Neglecting to collect tax coupled with missing or expired exemption certificates is one of the top reasons businesses are assessed penalties during an audit. Ensure your process doesn't leave you open to this risk or cause you headaches by inaccurately charging sales tax when a sale should be exempt.

RESOURCES FOR MORE DETAILS



- Common errors with tax-exempt sales
  Watch this video to learn more about three common ways businesses make errors with tax-exempt sales. Excempt sales can trip up even the savviest business.
- The ultimate guide to exemption certificates for sales tax compliance
  Learn the basics of sales tax exemptions as well as common ways you can open yourself up to compliance risks and potentially costly fines and penalties.

HOW AVALARA CAN HELP

To successfully handle exempt sales, you need a strategy to collect, store, manage, and renew exemption certificates effectively and efficiently. Avalara CertCapture can ease the burden of managing exemption certificates with an automated solution that improves process and delivers a better customer experience. After you get a handle on your exempt sales, it's time to remit sales tax to the appropriate tax authority in **Step 5.**

Continue to Step 5, Remit sales taxes to the tax authority ▶

STEP 5:
REMIT SALES TAXES TO THE TAX AUTHORITY

OVERVIEW

Now that you've collected the appropriate sales tax amounts, it's time to remit those funds to the tax authorities. Each tax authority has unique regulations around sales tax remittance, including when sales tax returns are due, how they should be remitted (either via paper returns or electronic returns), and the frequency returns must be remitted to the taxing jurisdiction.

WHAT TO DO

Ensure you understand the filing requirements for each jurisdiction where you collect tax and have a plan or solution in place to file those returns when they're due. Determining your sales tax liability, what tax forms are required, and how to remit the tax can be incredibly time consuming, so make sure you have dedicated resources for this every filing period.

RESOURCES FOR MORE DETAILS

- Avalara states and dates
  This handy guide lays out important state-specific information including sales tax holidays, early filing discounts, remittance due dates, payment requirements, and forms, so you can ensure you're filing correctly.
- The Tricky 10: Complex states for sales tax filing
  All states are not the same when it comes to sales tax filing. Some have more complex rules and regulations. These tricky 10 states tend to have the most burdensome filings.



HOW AVALARA CAN HELP

Avalara Returns can handle sales tax filing and remittance on your behalf – automated, easy, efficient. Avalara Returns seamlessly uses transaction data to automatically prepare all your filing needs – paper or electronic. It's important that any filing and remittance process scale with your growing business so you file more accurately, on time, and qualify for available early payment discounts.

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IT'S TIME TO GET COMPLIANT WITH AVALARA

As you can see, sales tax compliance can be a tricky subject to master. But with Avalara you can relax knowing we've got you covered when it comes to end-to-end sales tax compliance with an integrated solution. Avalara is here to help you determine your nexus obligations, register in the necessary tax jurisdictions, calculate sales tax, manage exempt sales, and ultimately file and remit your returns.

Step 1	Step 2	Step 3	Step 4	Step 5
				
Know where your business must collect and remit sales tax	Register to collect and remit sales tax	Calculate the correct sales tax amount	Track and manage exempt sales	Remit sales taxes to the tax authority
Avalara Nexus Study	Avalara Licensing	Avalara AvaTax	Avalara CertCapture	Avalara Returns

Your sales tax obligations can continue to evolve as your business changes, so revisit the fives steps for managing sales tax whenever you think you have a new sales tax obligation. To stay current with your obligations and ensure you remain compliant, rely on Avalara as your partner and solution for continuously managing your sales tax picture. While we hope you find this information valuable, this is not a substitute for tax advice from a certified tax professional. If you're unsure of your tax liabilities, please contact a tax expert.

To learn more about any of these Avalara products or services, please contact your Account Manager or call 877-780-4848 to discuss how our team can help.

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, excise, communications, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in the U.K., Belgium, Brazil, and India.

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