

Consumer use tax: a bane for businesses

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

Avalara

Tax compliance done right

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 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, as a self-regulated tax is easier to overlook. Fewer than 2% of taxpayers report use tax on their tax returns, according to an April 2015 policy brief put together by the Research Department of Minnesota's state House of Representatives. States have generally focused their consumer use tax reporting and auditing efforts on businesses, rather than individuals, because the same 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. This is why mismanagement of consumer use tax is a common compliance error found by state auditors.

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 know this and 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.

Lucas heads up sales for a growing Durham-based business. He hired 10 remote sales associates in the Chicago area and asked IT to set them up with access to Salesforce, Microsoft Office, Zoom, and other essential software applications. The Durham HQ office will be billed for the costs.

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 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:

- Manufacturing
- Retail
- Hospitality
- Distribution
- Service/Repair
- Medical/Dental
- Financial Services



Manual, menial, and messed up

Lacking supporting tools and services, most companies use spreadsheets to track and report consumer use tax. 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 actually 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 Consumer Use

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. **After hearing from customers just how urgently they needed this technology, Avalara built it**.

A leading Seattle-based software company was one of the first customers to use Avalara Consumer Use. "Use tax compliance has been a back burner item for a long time," says the company's senior tax analyst. "It's a complicated process. This gives us the capability to finally get into compliance."

"The flow and functionality are up to par with our high expectations of Avalara's products," she adds. " I would certainly recommend Avalara Consumer Use as a valuable tool to add to your existing compliance suite."

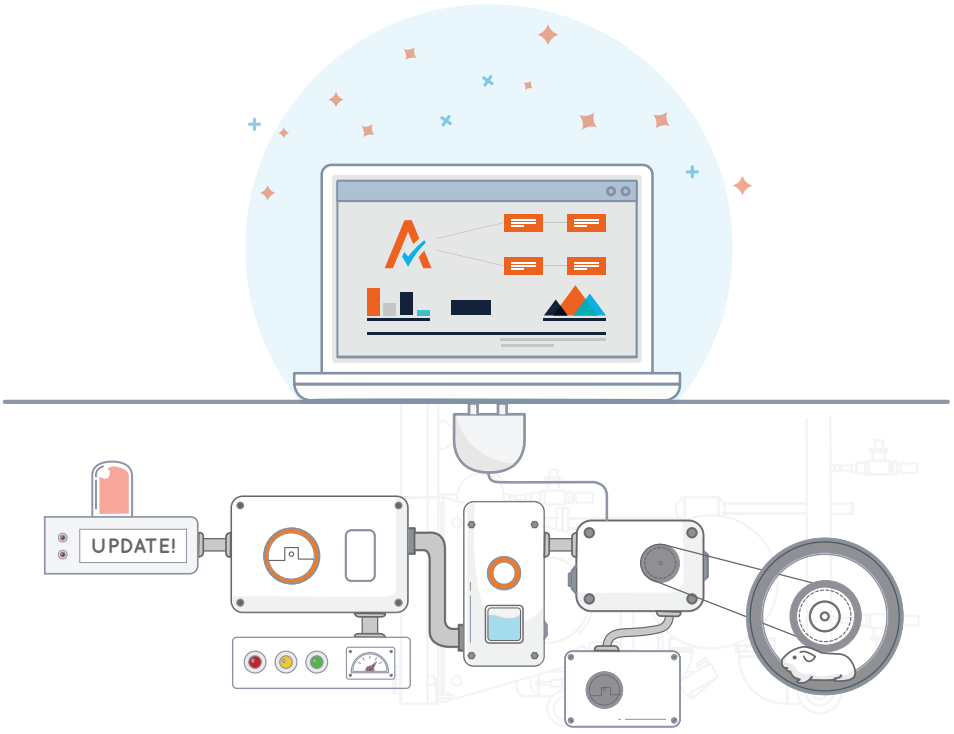
Avalara Consumer Use is a reliable, verifiable, and scalable way to assess and report the consumer use tax you owe. It goes beyond facilitating compliance and provides you with a strategy to manage your consumer use tax state audit. Like other products in Avalara's tax compliance suite, Avalara Consumer Use integrates easily into your existing business systems and uses a simple transaction import process to manage your data.

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>
> – **Senior tax analyst**, software company

With Avalara Consumer Use, you can:

- Quickly and easily identify over- or under-billed sales tax and consumer use tax
- Easily review how and where your purchases are used so you can accurately self-assess use tax to reduce audit liability
- Consolidate all your taxable transaction data across your business, so you're ready to demonstrate a best effort to be compliant
- Reduce costs and time spent managing tax compliance

Avalara Consumer Use works with AvaTax, Avalara's tax calculation engine, keeping all your transaction tax data together and funneling it seamlessly into Avalara Returns for filing. Transaction volume pricing lets you custom-fit Avalara Consumer Use to your business needs and budget. Learn more.





To learn more about Avalara Consumer Use, visit:

avalara.com

or call

877-780-4848

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 Canada, the U.K., Belgium, Brazil, and India.

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