Competitive Advantages of Sales Tax Automation for Manufacturers
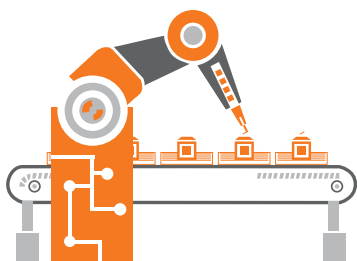
Manufacturing ventures into ecommerce, B2C sales and tax compliance technology

Avalara

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Manufacturers are pioneers of process automation. They were the first industry to use this technology to scale operations and be more efficient. Today, companies of all sizes across many industries rely on automation to improve business performance. But even beyond greater efficiency, experts say automation is a strategic advantage and a driving force for growth in an increasingly competitive global market.[1]

Manufacturers are no longer constrained to their traditional role in the supply chain. Many are expanding their horizons with forays into small-scale local manufacturing, build-to-order delivery models and direct-to-consumer (D2C) sales. As manufacturers work to shrink the distance between themselves and consumers, they need to be cognizant of their growing obligations to collect and remit sales tax and be equally bold in doing away with "old school" approaches to compliance that hold them back from greatness.

Why great manufacturing companies automate sales and use tax

Sales and use tax compliance is not only time-consuming, it's costly and highly prone to error—a terrible trifecta that make CFOs and controllers cringe. The average cost of managing transactional tax compliance is more than $60,000 annually for small businesses and nearly $400,000 for large organizations.[2]

Aberdeen Research found that prioritizing tax compliance is a trait of best-in-class companies. Forward-thinking finance leaders are three times more likely to automate sales tax. The biggest motivator? Reducing the drain on resources that comes from trying to manually manage tax compliance.

"As our business changed direction and grew, it created new issues around tax. We didn't have time for a manual process anymore," says Eric Conley, controller for Tidel Engineering. "There's room for human error when you're doing things manually. The more we can eliminate the chance of error by automating, the better."

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"Using tax automation to ensure compliance is one of the best things you can do for your company, says Lisa Serwin, CFO of VentureBeat. "Being clean, consistent and having an auditable record is of the utmost importance."

[1] *Accenture*
[2] *Aberdeen Research, The Costs of Compliance: Strategies for Automating Tax Management in the Cloud and Avoiding Hidden Costs*

Manufacturers have a world of tax burdens on their shoulders

Tax complexity is nothing new to manufacturers. Navigating the ins and outs of compliance are burdensome given the differences in how states tax or exempt items used in manufacturing processes. For example, sales of raw materials are generally exempt. In some states, the machinery and equipment used in the manufacturing process are also exempt. But that can depend when and where in the production cycle they are used. The services related to installing and fixing commercial equipment may be taxable. And selling versus renting equipment has different tax implications as well.

More manufacturers are also starting to sell direct to distributors and end-users, often through an ecommerce site. This means they have to start collecting and remitting sales tax on those transactions and familiarize themselves with retail tax regulations.

Use tax is especially challenging for manufacturers

Proper identification of use tax liability is especially burdensome for manufacturers. You are responsible for accurately reporting use tax on products and services consumed or purchased for use in your manufacturing process. Use tax rules are highly nuanced and vary by state, which can make compliance a challenge.

Many states allow manufacturers to make tax-free purchases using direct pay permits. However, if those tax-free items are later pulled from inventory and used, this must be tracked and the right sales tax and use tax paid or tax exemption applied and documented on your use tax returns. Each state has its own qualifications for whether or not manufacturers can use direct day permits. You must apply and be approved for these permits and be clear on exactly what you can and can't purchase tax-free.

Use tax can be difficult to track, especially if you do business in multiple states or jurisdictions or through an ecommerce site. Mismanaging use tax ranks in the top five for costliest compliance mistakes made by companies.[3] Failure to pay use tax also accounts for the bulk of audit assessments, according to state auditors.

New sales channels mean new taxability rules

Selling online is unconventional for most manufacturers, but a new generation of buyers is making ecommerce a lucrative channel that can't be ignored. A PricewaterhouseCoopers (PwC) survey found that 70% of U.S. consumers already purchase directly from manufacturers.

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[3] *Peisner Johnson*

This is a new sales channel for many manufacturers, however, and pivoting to incorporate it into their existing business model is no small feat. Selling online carries with it more direct sales to end users, rather than the tax-exempt sellers many manufacturers are accustomed to doing business with exclusively. And as soon as you supply items to the end user, you're on the hook to collect sales and use tax.

Many manufacturers also shy away from direct-to-consumer (D2C) sales, believing it will hurt relationships with retail partners. However, a study by Forrester Research and Digital River found that the opposite is true. More than 80% of manufacturers reported that D2C sales actually improved these relationships and more than half said their retail partners saw an uptick in sales resulting from fulfillment of online orders.

It's also good for business; 76% of the manufacturers said their direct-to-consumer e-commerce channels met or exceeded revenue targets.[4]

While lucrative in many ways, selling and shipping product directly to jurisdictions all over the country can quickly add up to multi-state nexus (an obligation to register and collect sales tax in states based on qualifying sales activities). And this can add up to a much bigger headache when it comes to compliance.

The chain reaction to going global

Ecommerce opens up more international sales channels as well—and more compliance challenges. The very complexities inherent to diversifying your supply chain can also be the ones to make it difficult to tackle opportunities that present themselves.

Global supply chains have been a reality now for decades, but the idea of having to take on nexus in more jurisdictions or dealing with value-add tax (VAT), use tax or landed costs can still serve as a barrier to entry in some markets. It's not always easy to know what to pay, when to pay it and who is responsible to pay it. But get it wrong and the consequences can be dire. A safer bet is to trust this to the experts.

"The complexities of trying to manage sales tax are pretty daunting," acknowledges Graham Jackson, who oversees ecommerce for Case Logic, a global manufacturer of personal electronics accessories such as iPad and laptop cases, and one of Sweden-based Thule Group's most prominent brands. "When I heard that there were thousands of taxing jurisdictions in the U.S., we quickly realized we needed to automate," adds Jackson. "Avalara AvaTax provided a solution to meet all our challenges."

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Avalara's software handles many different types of transactional taxes including U.S. sales tax, VAT and landed costs so you can be confident that you're compliant when doing business across international borders.

Customer "service" could mean new taxes

Some businesses and consumers are still under the impression that only tangible goods are taxable, but that hasn't been the case for some time. As the economy becomes more service oriented, state departments of revenue have had to readjust their thinking on what's taxable and what's not to avoid budget deficits. Currently, 18 states collect sales tax on at least some services. And that continues to change. In March 2016, North Carolina became the latest state to join the ranks, extending sales and use tax to a number of previously exempt services, most notably installation, maintenance and repair services.

Depending on where you do business or what types of services you offer customers, the physical goods on your invoices may no longer be the only items subject to tax or exemption. The patchwork of rules to navigate around services taxability is constantly shifting and few accounting departments are capable of keeping up.

As manufacturers become more involved in the life of their products, they would be wise to keep a close eye on how services taxability plays out in states where they have a presence or customers and onboard tax automation technology that can handle these ever-shifting tax rules.

A best practice in scale and efficiency

It is easy for manufacturers to feel bogged down or gun shy about seizing new opportunities for risk of tax exposure. Businesses not pursuing their desired goals is exactly what Avalara seeks to help them avoid.

Consider Ganz, a Canadian toy and gifts manufacturer and wholesaler that also sells products and interactive games through its web store. "It's a complex sales tax operation," says ecommerce manager Adam Litvack. "Having Avalara in place allows us the freedom to focus on our business, not on sales tax management or burdensome maintenance."

Ahead of the curve over other industries in business process automation, many manufacturers still rely on manual methods to handle tax compliance, which isn't sustainable as their businesses grows. Software solutions like Avalara AvaTax integrated into ERPs have improved that functionality, making automating sales tax a more viable and affordable option.

"We ran into issues updating our tax tables on our server. That was not a situation we

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wanted to continue," says Keith Hill, controller for Nora Systems, a commercial flooring manufacturer. "With Avalara's cloud-based technology, we have an immediate tax database available to us, up-to-date exemption certificate information, and can file returns cleanly at a minimal cost. We're spending less to get a much improved technology."

TechValidate surveyed companies that use Avalara's sales tax automation software and found that, on average, these companies reduced the time spent managing sales and use tax by 58% on average.

Get on board with better compliance outcomes

The payoff of sales tax automation are compelling. Research shows that Avalara AvaTax customers:

» Cut their monthly returns prep and filing work in half

» Avoid overpayment 90% more often

» Pass audits without penalty 50% more often

So it's not surprising that once businesses decide to automate tax compliance, they never look back.

"It doesn't make sense in this day and age to manage your own tax system," says Kelly O'Hanlon, VP of Finance from global chemical distributor ChemPoint. "We don't have the manpower to calculate sales tax, nor would we want to. You're better off putting your resources in other areas and outsourcing the tax management."

More than 98% of the companies that implement Avalara's software are still customers Avalara customers today. That's more than 20,000 companies, including including 1,900 manufacturing firms. In 2015, Avalara managed tax compliance for 175 million transactions valued at $46 billion for this industry alone.

If you aren't automating sales tax with Avalara like these software and technology leaders, the question now is: what can we do to change that?

Get Started.

To learn more about pricing, view online demonstrations, or chat about AvaTax's capabilities, visit:

www.avalara.com

or call

877.780.4848 today.