



WAKEFIELD RESEARCH REPORT

Understanding the Sales Tax Management Knowledge Gap



Wakefield Research Report: Understanding the Sales Tax Management Knowledge Gap conveys why it's time accounting and finance executives should take a closer look at how sales tax is managed within their organizations. This report highlights what those in the trenches know (and don't know) about managing sales tax, and more importantly, why risk of non-compliance is more important in this legislative climate.

This report draws upon a recent study by Wakefield Research, which investigates what leading and emerging companies in the U.S. know about sales tax compliance – and, more importantly – what accounting and finance professionals are doing to streamline their operations, and safeguard their organizations from potential audits and accounting pitfalls.

ABOUT THE SURVEY

The survey, conducted in July 2013, included online responses from over 400 U.S. finance and accounting professionals across several industries, including ecommerce, retail, manufacturing, and others. The survey covered a wide range of topics, from the Marketplace Fairness Act (or “Internet Tax”) to nexus, sales and use tax audits, the cost of compliance and more. Companies surveyed have annual revenues of \$1 million or more.

WHY SALES TAX COMPLIANCE MATTERS MORE TODAY THAN EVER

Companies face increasingly stringent accounting standards. Sales tax compliance, until recently, was not a major focus with company leadership. But what's emerged in the past few years is a very difficult landscape, where new legislation and the increasingly complex rules that determine sales tax liabilities (otherwise known as nexus) is making compliance very difficult. Adding to that complexity are growing state deficits, which are fueling more demand for sale tax audits as a means for recovery.

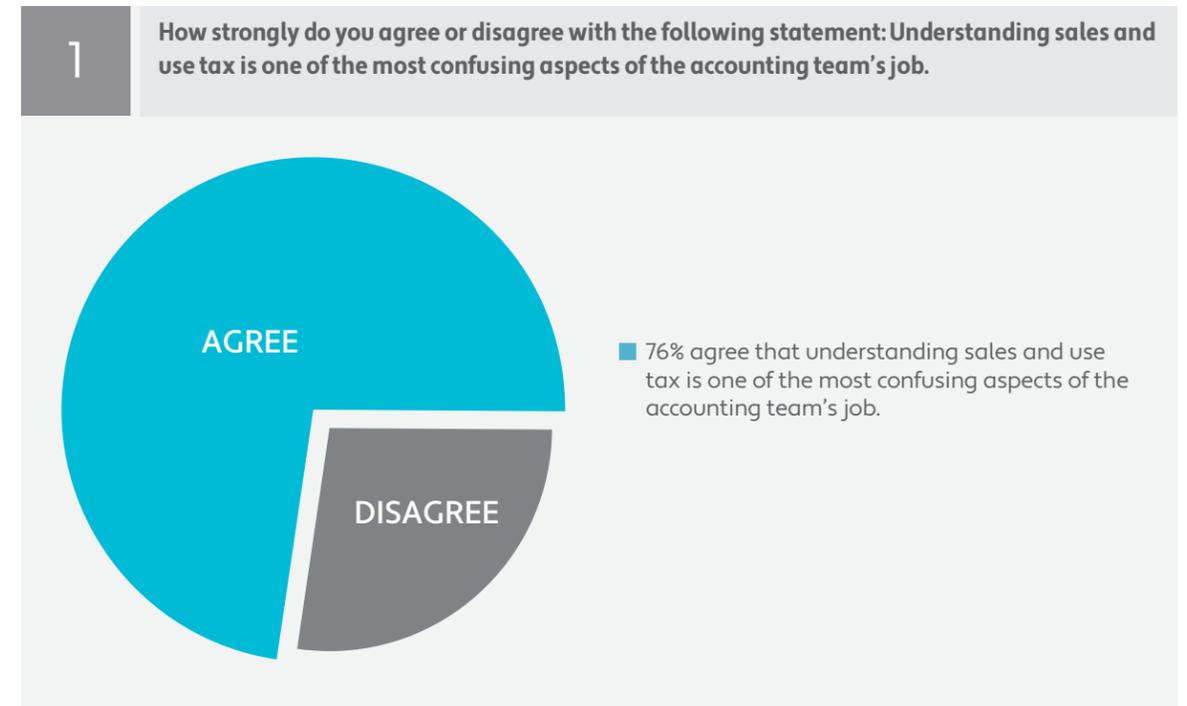
SEPARATING THE MYTHS VS. FACTS IN SALES AND USE TAX COMPLIANCE

It's not surprising that more than half of the survey respondents feel that completing a marathon would be easier than understanding sales and use tax rules. But why is that? A quick glance at the survey findings indicates that many companies simply aren't adapting to changing regulations and lack the processes and expertise necessary to be compliant in this legislative climate.

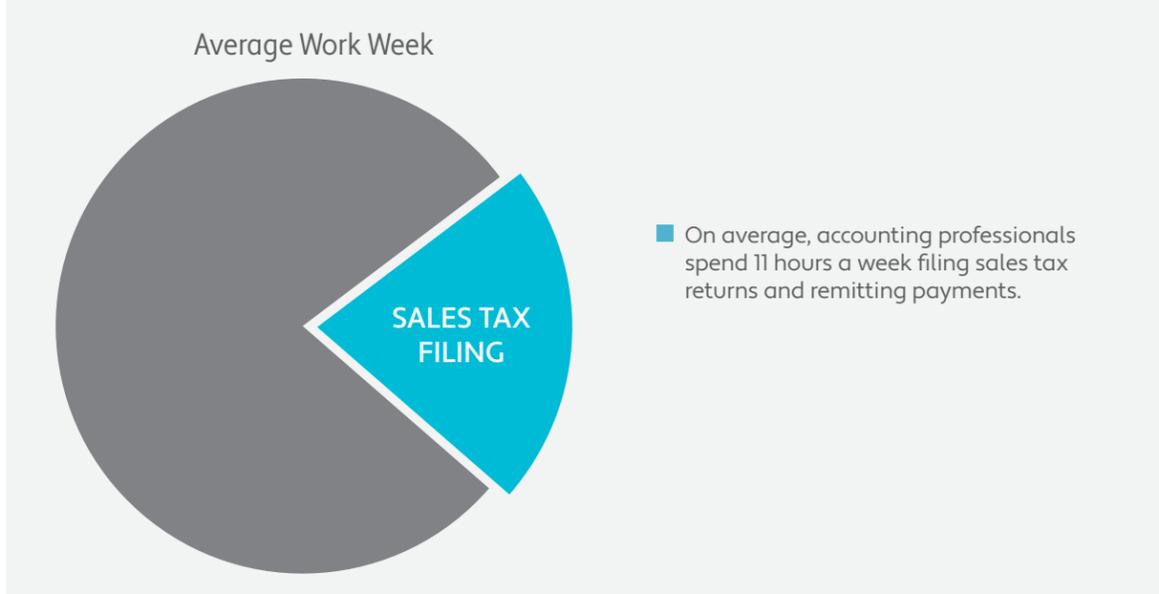
On one level it would appear that most companies feel they have sales tax compliance under control. According to the survey, 96% of accounting professionals are confident their company has the correct strategies in place; yet half of the survey respondents believe that an auditor would find costly errors if they were audited for sales and use tax.

Business-as-usual processes are not good enough. The data suggests that many businesses don't implement internal processes that account for sales tax rules – especially companies that sell online and have tax obligations in multiple states. There will be 10,000 changes to rates and jurisdictions this year in the U.S. alone, yet as many as one third of respondents rely on “existing knowledge” to determine their tax liabilities.

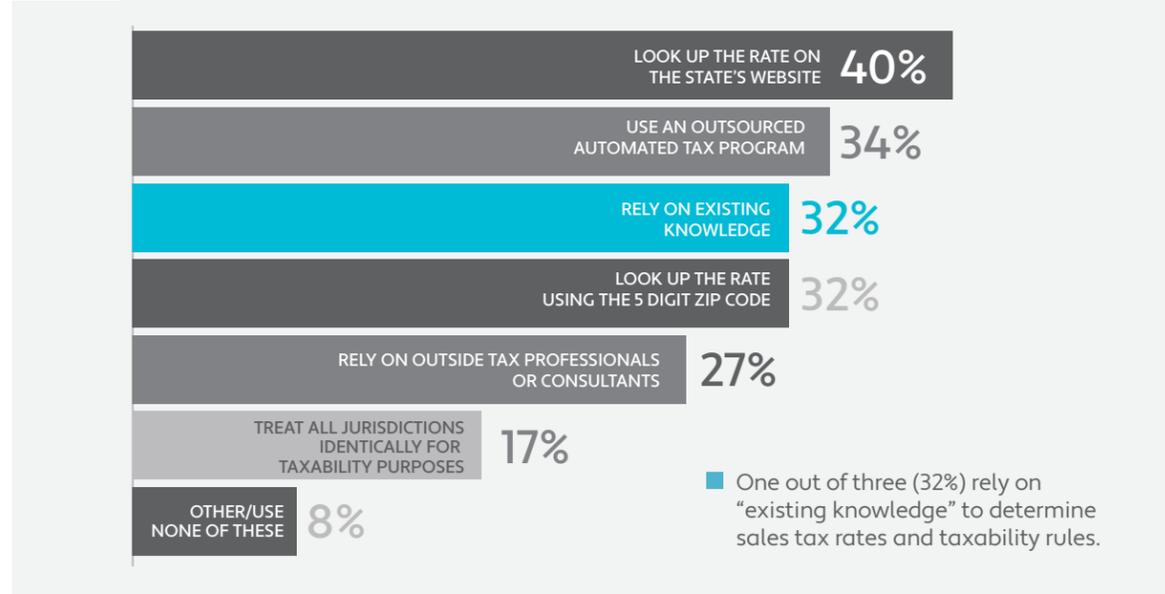
Other notable challenges include tracking exemption certificates (25% don't) and the manual processes often used for managing sales taxes.



2 During a typical month, approximately how many hours per week does your accounting team spend filing sales tax returns and remitting payments?



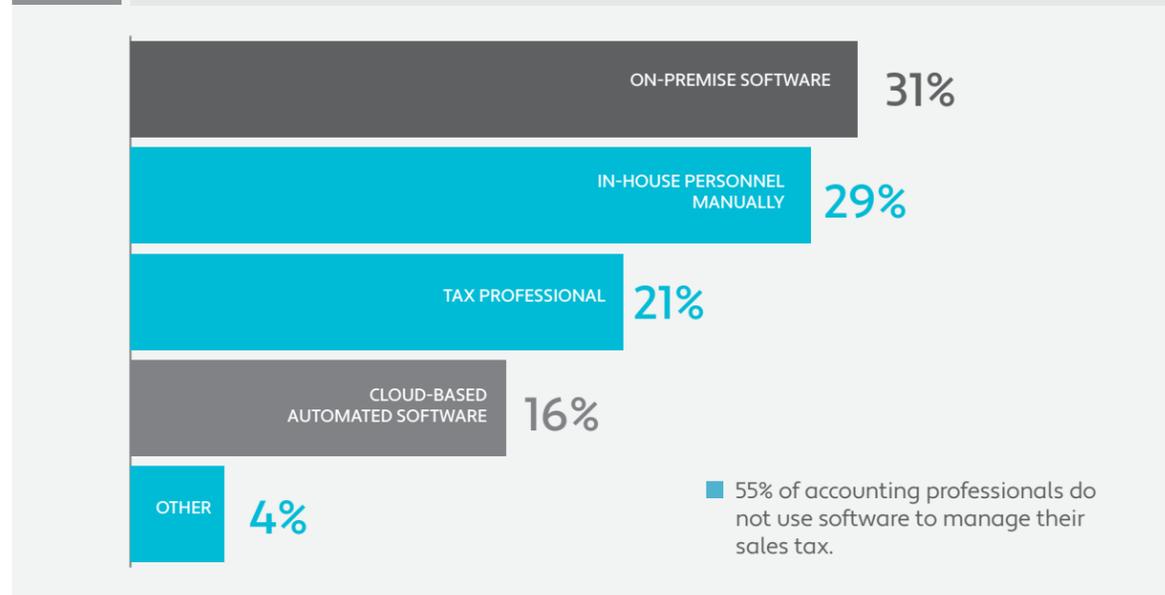
4 Which of the following methods, if any, does your company use to determine sales tax rates and taxability rules?



3 How confident or not confident are you that your company has the correct tax strategies, policies, and processes in place?



5 Which of the following best describes how your company's sales and use tax returns are prepared?



LACK OF COMPLIANCE IS AUDIT RISK

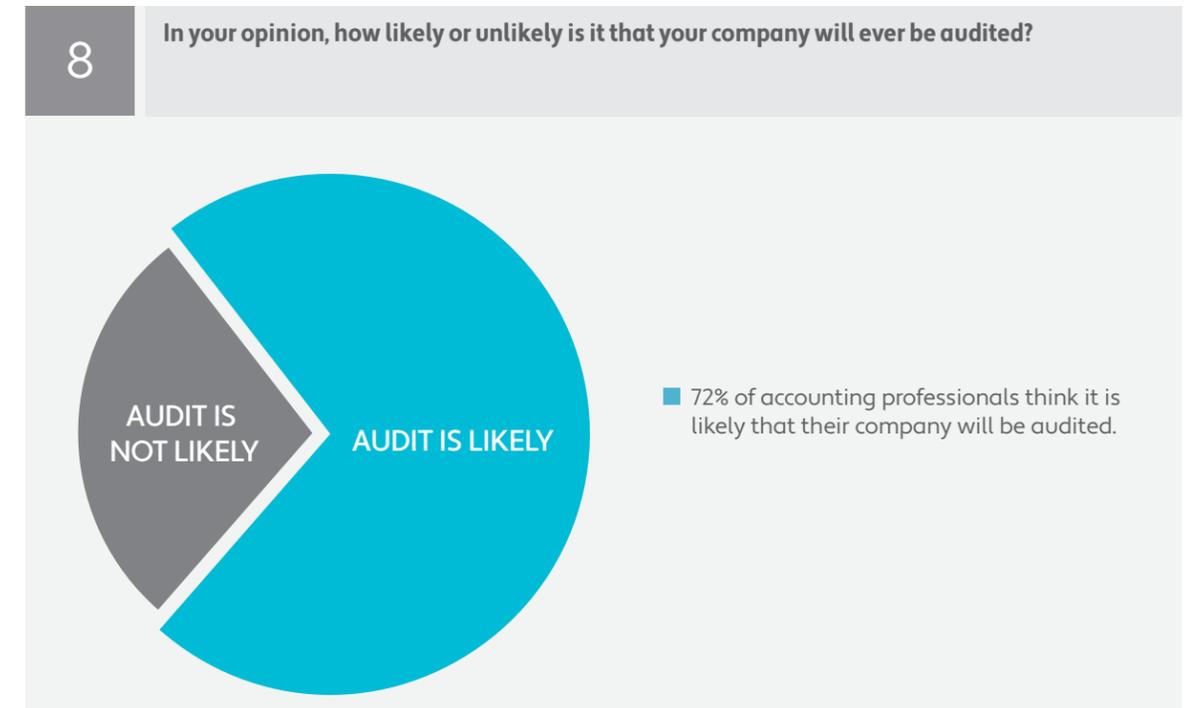
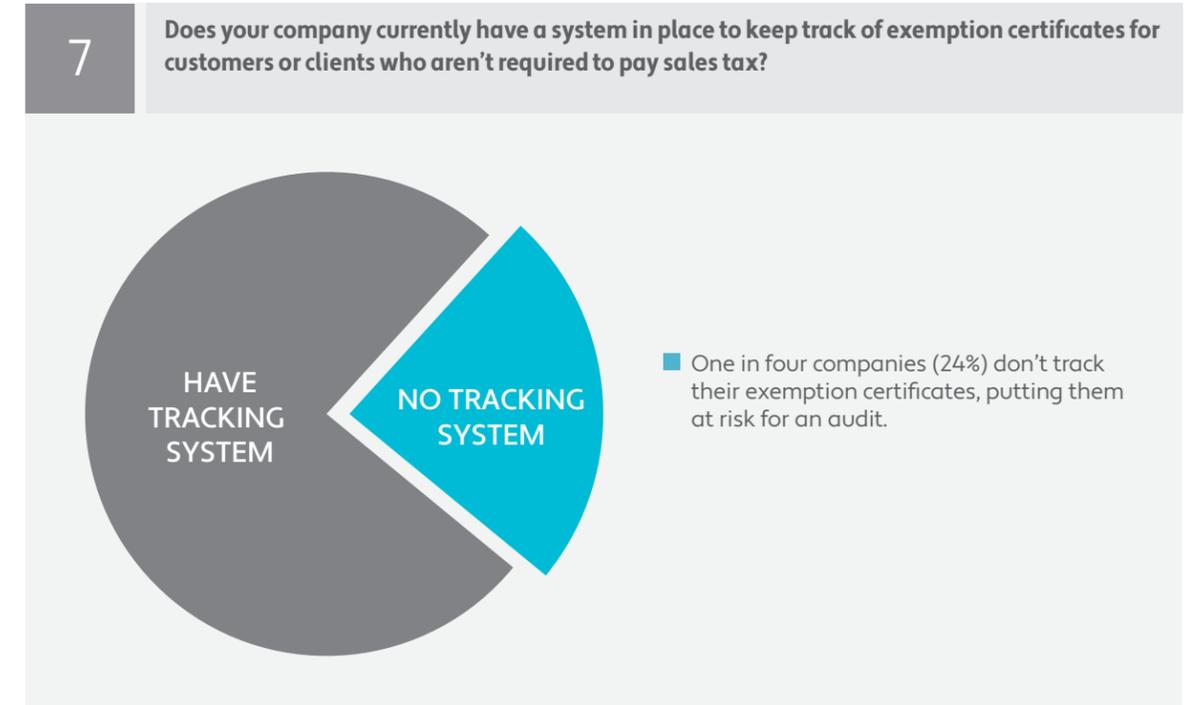
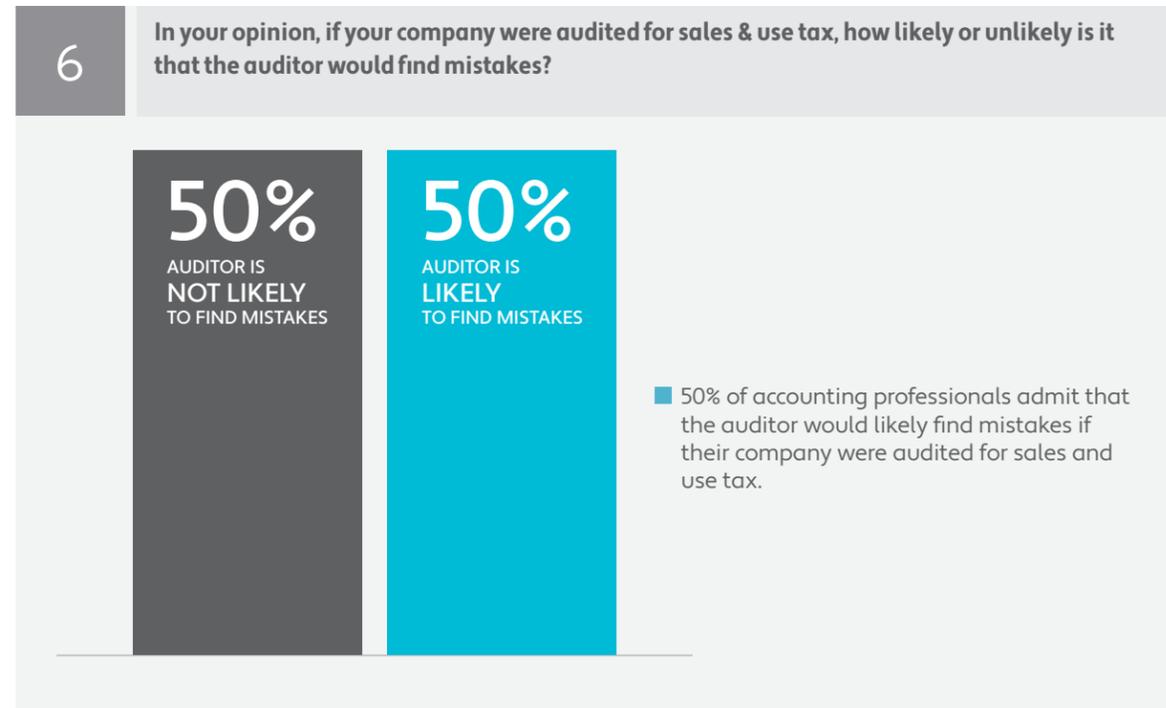
The survey found that there are many misconceptions around sales tax audits. One of the most striking is the belief among accounting professionals that if a company fails an audit, it's only obligated to pay back on the erroneous transactions found by the auditor. But the truth is, penalties and fees could be applied to all transactions over an entire year as an overall percentage. That makes audits a high risk area for any business. Among small to mid-size companies, the average audit costs a company over \$96,000.

Moreover, more than half of survey respondents are unaware that liabilities uncovered during an audit can affect the valuation of a company.

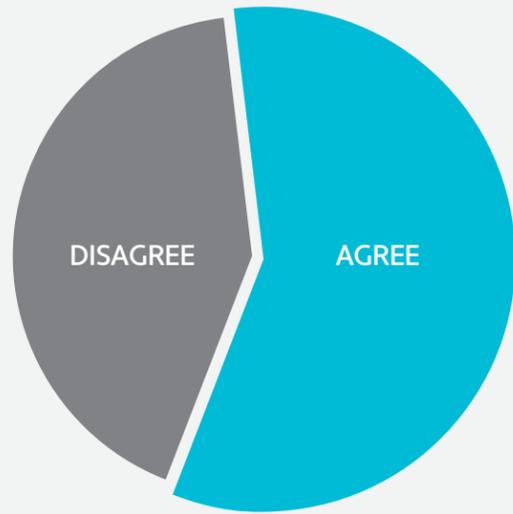
The fact is, costs associated with negative audit findings can wipe out the profits of small- to midsize companies. In spite of that, many companies don't invest in compliance solutions. In fact, 55% of businesses don't use software solutions to manage sales tax.

Other audit mistakes found in the trenches:

- Missing documents, such as exemption certificates
- Applying the wrong sales tax rates to customers
- Producing the wrong documents requested by an auditor



9 How strongly do you agree or disagree with the following statement: After an audit, a company usually only owes the taxes that were not collected originally.



■ 58% of accounting professionals believe that you only owe uncollected taxes after an audit.

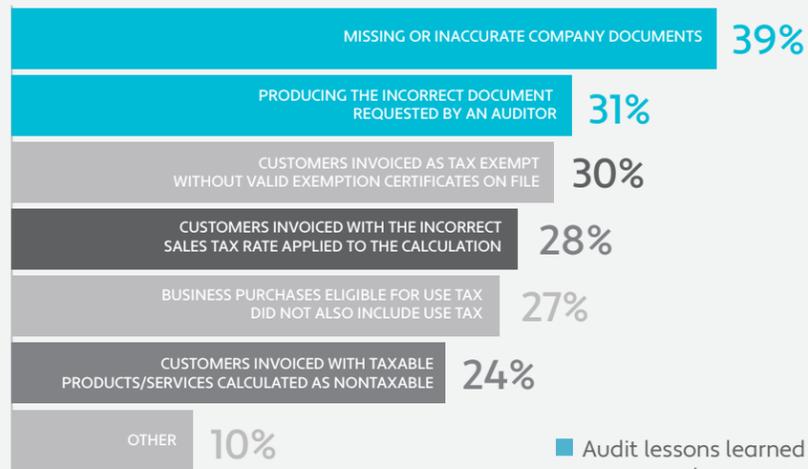
11 Among those who have worked at a company that has been audited: approximately how much did it cost, in total, to manage that audit?



■ It costs **\$96,552** on average to manage an audit.

84% of those who have never worked for a company that has been audited, think it would cost their company \$100,000 or less.

10 Among those who have worked for a company that has been audited: Which of the following issues were identified during your company's audit?



■ Audit lessons learned with company documents

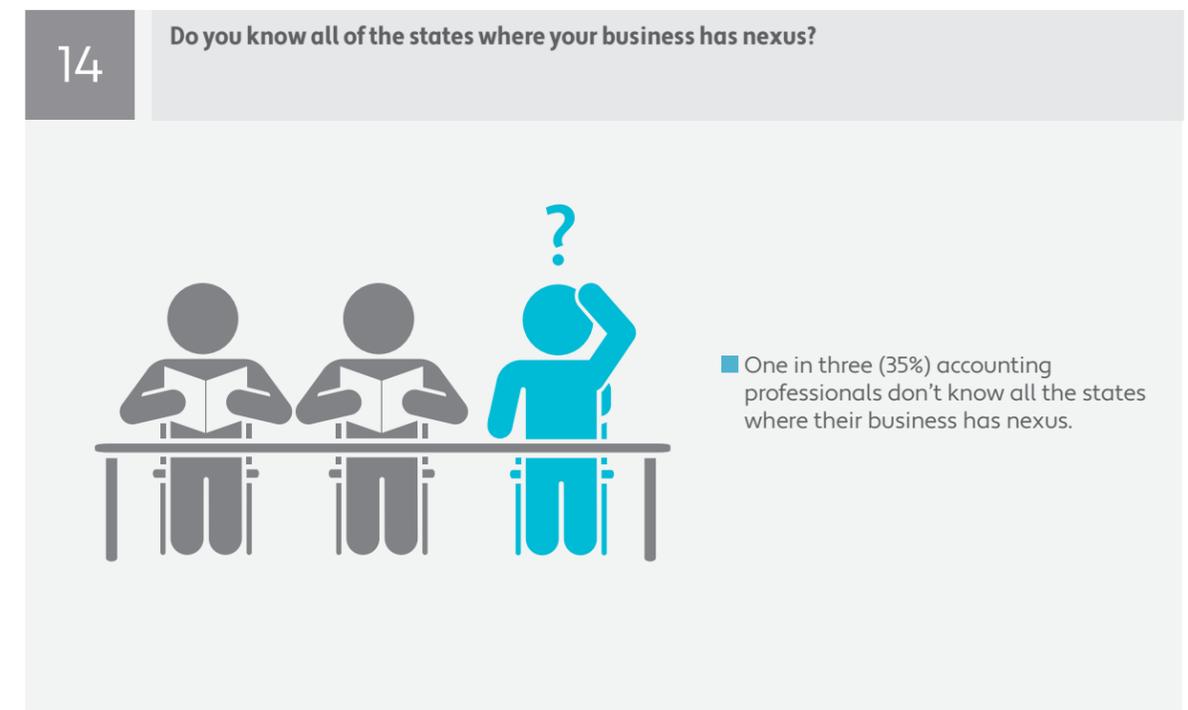
TAKE INTEREST IN OTHER STATES, BECAUSE THEY'RE PROBABLY TAKING INTEREST IN YOU

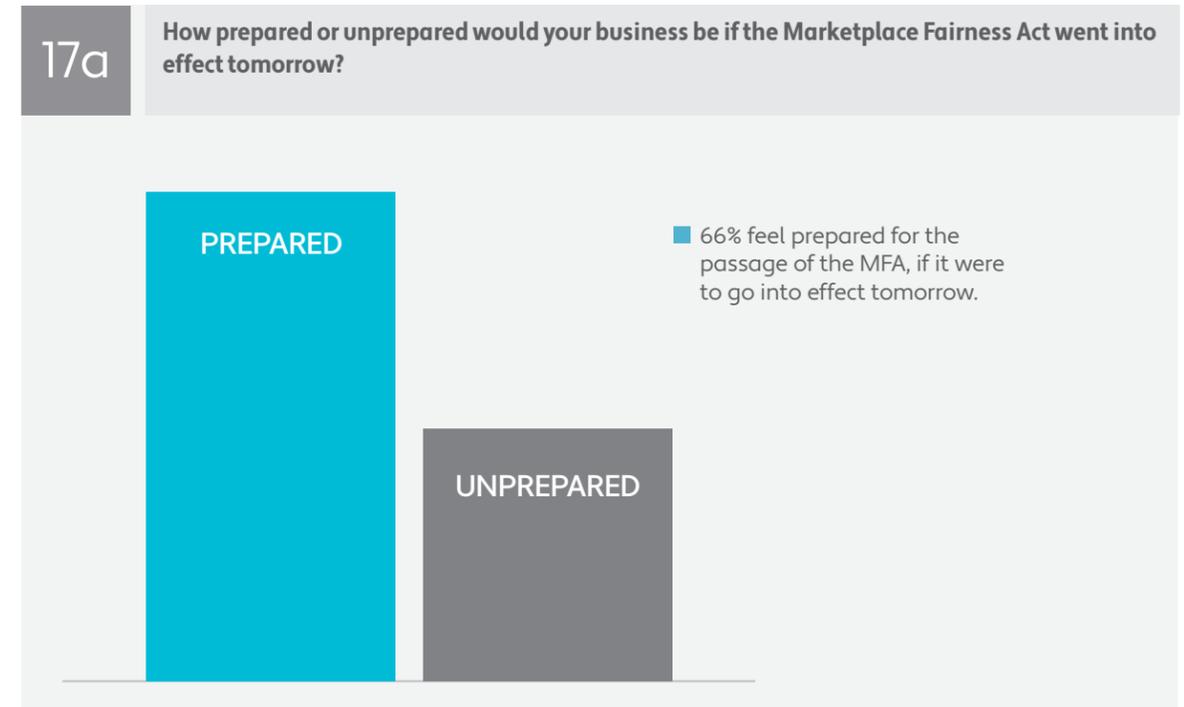
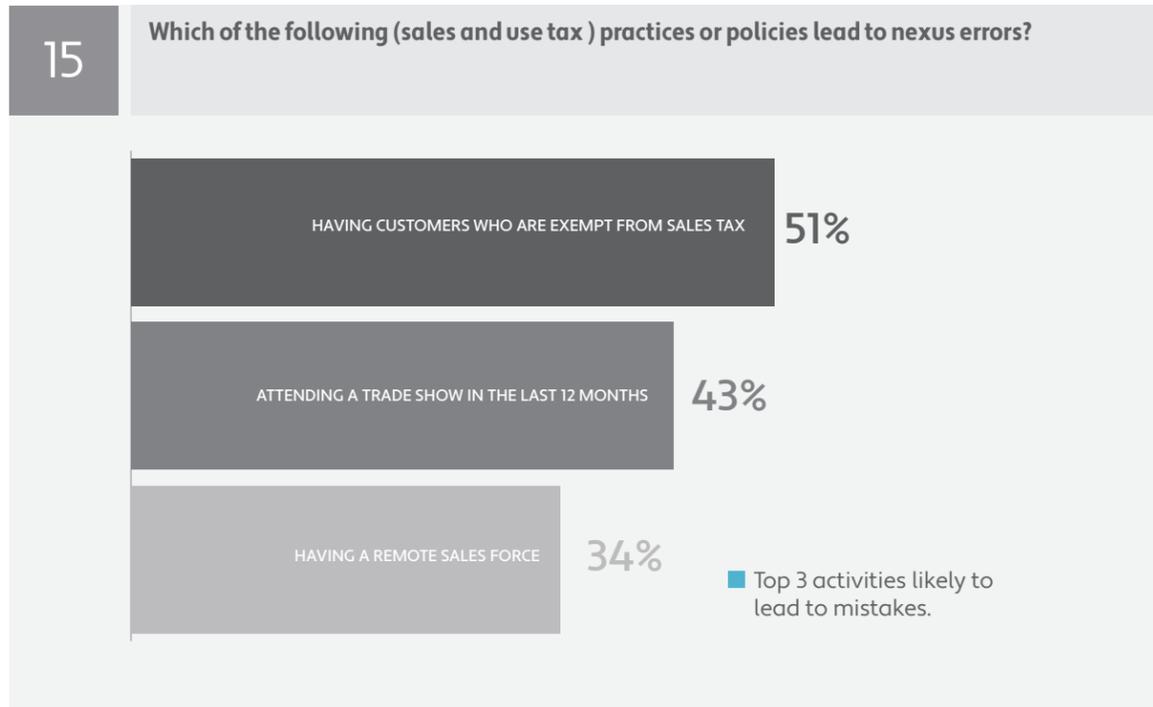
Nexus (the physical and/or remote presence within a state that defines a tax obligation) is one of the most misunderstood, misinterpreted, and underestimated issues, making it a very common cause of tax problems. The reason for this might be because nexus is not static.

At one time, companies could use a decision by the U.S. Supreme Court in Quill Corporation v. North Dakota (1992) as a guideline. In that case, it was simple: states could not require companies to collect state sales tax unless those companies had significant physical presence, like a warehouse or storefront. But that has all changed.

Now some states have redefined nexus as a result of ecommerce. That creates even more tax planning problems and audit risk for companies.

It's no surprise then that one third of survey respondents don't know which states they're obligated to remit sales tax—despite the fact that most of these companies sell online. And among those who feel confident in their knowledge of nexus, 96% still operate with misconceptions.





16 Among those who are familiar: Which of the following, if any, do you believe to be true about nexus as it relates to sales and use tax?

Nexus True and False	% Believe to be True	% Believe to be False	Answer
Nexus laws will change if the Marketplace Fairness Act is passed.	47%	53%	FALSE
Hiring new employees that work from home could mean you have nexus in that state.	38%	62%	TRUE
Sending a sales representative into a different state could mean you have nexus in that state.	37%	63%	TRUE
It's the state's responsibility to contact a company if nexus is available in that state.	28%	72%	FALSE
What constitutes nexus is the same across all states.	20%	80%	FALSE
None of these are true.	11%	89%	FALSE
		96% have at least one misconception	



THE CASE FOR AUTOMATING SALES TAX MANAGEMENT

There are over 11,000 taxing jurisdictions in the U.S., many of which (e.g., Florida, Texas, California) are now requiring out of state ecommerce companies to collect sales tax for the first time. If federal legislation passes that effectively ends sales tax-free online shopping, the already difficult risk-prone sales tax problem will worsen. The solution? Automating the process with a cloud-based sales tax solution that resides within your business.

There is a reason automated solutions represent a cost efficient and comprehensive solution to the ever-present risk of state audits. They are, in essence, a revolutionary change in a marketplace that has come to recognize a consistent process and predictable workflow for all transactional tax reporting as fundamental to any audit strategy.

Automation is the clearest and best method to graphically display policies and procedures for a competent and, most important, compliant system of sales tax reporting. Organizations can have peace-of-mind knowing that their automated solution meets and exceeds standards that auditors expect from each business. Just as important, automated tax reporting can greatly diminish audit vulnerability. That's a best case scenario for every business.

ABOUT AVALARA

Avalara provides an end to end sales tax compliance model via automation. Instead of researching rates, building tax tables and implementing tax processes, companies simply install a software connector that links their accounting and ERP system to Avalara's web service. As a cloud software, it continuously updates tax rates, rules and boundaries automatically. At the end of the month, businesses no longer run reports or fill out forms and cut checks and mail them out to taxing authorities.

Avalara is the industry's most trusted provider of tax compliance solutions, serving more than 40,000 registered users located throughout the U.S., Canada and abroad, delivering more than 350 million sales tax transactions, and filing and remitting more than \$10 billion in tax collections per year.

Avalara

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