A Tale of Two Accounting Departments:
An Automation Story

It was the most relaxed of times, it was the busiest of times. Sales and use tax compliance looks very different depending on whether your accounting and finance team is grinding away at handling tax compliance the old way or is armed with the best software to handle the task. The lead-up to deadlines can mean a jumble of extra work hours and rushed calculations at some companies, while others handle deadlines smoothly and with no extra rush. Audits strike fear into the hearts of some finance and accounting teams, but some view auditors as a natural consequence of doing business and are confident their numbers will add up.

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What makes the difference between scrambling to update an expired exemption certificate and learning about the expiration before it happens? What makes one company worry about outdated rates, while another trusts their rate calculation completely?

In this whitepaper, we'll take a look at two very different accounting departments at Company A and Company B. At every point in the tax cycle, these two departments have drastically different experiences, all stemming from one major decision: Company B has decided to use an end-to-end sales and use tax automation solution, while Company A uses a range of more traditional tools and methods. Let's examine how this choice affects them during different compliance challenges.

Scenario 1: Changing tax rates

Tax rates and rules change frequently. How frequently? According to data from the Avalara content team, the first half of 2016 saw an average of 119 US sales tax rate and rule changes every day.

Company A: "Automation" with rate tables and downloads

Company A is glad the internet has made their job easier – they think they're automating this process to a high degree. Once a month, an employee is tasked with going to state Department of Revenue websites for each state where the company is required to pay sales tax, locate the most recent sales tax rate changes, download rate tables, and import these rate tables into their accounting software, shopping cart, or ERP.

Once in a while, Company A gets it wrong. Someone forgets to update a rate table, or a rate table based on zip codes uses the wrong rate for a buyer's address. A product becomes taxable, or a new exemption is made, but nobody hears about it, so the taxability of the product doesn't get updated. The tax department at Company A knows that this could cause problems at audit time, but they don't think it's an efficient use of limited resources to have more frequent, detailed updates for their tax content.

Company B: Real-time, cloud-based automation with Avalara AvaTax

Tax department personnel at Company B, on the other hand, haven't thought about rate or product taxability changes for over a year. When they integrated AvaTax with their existing accounting software, they clicked a single dropdown menu to use Avalara's tax content, starting right away. Since then, updates to rates and taxability rules are handled in the cloud.

There are no update schedules to follow, no risk of an outdated rate being used for a customer's purchase. In fact, part of why Company B purchased AvaTax is its industry-first Rate Accuracy Guarantee. With less sales tax compliance legwork to complete and total assurance that rates will be accurate, the tax department at Company B sleeps a little easier.

Scenario 2: Filing and maintaining exemption certificates

Sellers must obtain exemption certificates for every tax-exempt purchase made. In some states, exemptions apply almost exclusively to resellers, as sales tax represents a cost to the end user only. However, other states allow exemptions to certain types of buyers (like registered non-profit organizations) or transactions (like purchases of equipment for use in manufacturing).

Company A: Manual filing and maintenance

Company A has had the same system for exemption certificates for over two decades. Copies of exemption certificates are made, then filed away alphabetically. Periodically, an employee sorts through the physical files and looks for expired certificates, which are then filed separately in case of audit.

Occasionally, Company A will find out that an exemption certificate used on a purchase was not a valid certificate – it was out of date, or the taxpayer ID number was invalid. When a certificate is invalid, Company A needs to send out a letter to the company, requesting documentation or payment of the missing sales tax. The process can take a significant amount of time, and not every company responds to verification request letters.

Company B: Automated filing with Avalara CertCapture

Company B automates using Avalara's exemption certificate management solution, CertCapture. CertCapture Mobile Scan allows certificates to be photographed with a tablet or smartphone, then immediately uploads them to the cloud, validates the certificates, and stores them for later use. Expired certificates are immediately flagged, and invalid certificates can be addressed right away.

There's no more exemption certificate filing cabinet at Company B. Whenever an exemption certificate needs to be looked up, cloud technology lets employees see an exemption certificate uploaded from any location.

Scenario 3: Filing sales tax returns and remitting payment

Of course, it's not enough to just collect taxes. Eventually, returns must be filed and sales tax money remitted to the individual states and municipalities where it is due. This time-consuming chore is error-prone, and every time a company gets nexus in a new state, the returns scenario gets more complex.

Company A: ERP report generation and manual remittance

If there's one part of the sales tax cycle that Company A worries about, it's filing sales tax returns. Different states have different filing deadlines and schedules, prepayment requirements, and tax return forms.

When getting a return prepared – any return, for any state – the process involves a number of steps at Company A. First, Company A runs reports from their tax engine, then runs reports from the ERP system. They must calculate self-assessed tax, get store or location data, reconcile that data to the general ledger, and consolidate this information to a filing spreadsheet.

Then, Company A must obtain prepayment information and bad debt information, enter information on prepayments and bad debt, and calculate any discounts due. Once all the data is entered, the tax return forms must be printed and check requests are made. Vouchers must be entered into the accounts payable system and approved, then check requests must be printed and ACH payments generated.

Checks must be matched to returns to avoid errors, and ACH payments are sent. Returns forms are mailed or efiled – hopefully on time, because when payments are late, penalties start to accrue. Every time a deadline approaches, employees find themselves working late nights, feeling the pressure.

Company B: Automated filing and remittance with Avalara Returns

Walking around Company B's accounting department, you'd never know a filing deadline is just around the corner. No frantic flurries of activity here, just the normal hum of business as usual. That's because with Avalara Returns, filing and remitting sales tax requires just a few steps.

First, Avalara's reports are reconciled to the general ledger. Then, Company B inputs prepayment information. From there, Avalara Returns does the work, generating a single report to review and approve, with a single final payment amount that covers all jurisdictions. Once the voucher is approved, payment can be remitted immediately and is disbursed by Avalara to each state and municipality to which tax is owed.

Scenario 4: International shipping

Exporting products to other countries presents a unique set of challenges relating to transactional tax. In addition to import duties, value added tax (VAT) and importer fees can add to the final cost of an overseas transaction.

Company A: Shifts compliance burden to customer

At Company A, exports are handled by choosing shipping scenarios that require the least responsibility from the shipper and the most from the buyer. While this method limits the buyers who can feasibly make a purchase from Company A to those experienced with importation, it also means that Company A won't be liable for unexpected charges.

However, the system is far from perfect. Because the true total cost of the shipment cannot be calculated on Company A's website at any time during the purchasing process, surprise costs may accrue to the buyer. If the customer feels sticker shock after seeing a new total with customs fees and import duties, they may simply decline the shipment, creating huge hassles and a negative experience for both parties.

Company B: Automated calculation with Avalara LandedCost

By integrating the Avalara LandedCost API with their existing shopping cart system, Company B gave itself choices. At first, they continued to use shipping scenarios similar to those of Company A – leaving all the costs of shipping to be borne by the customer. However, Company B didn't have the same problem with returned shipments, because estimated total landed cost was presented to the customer as a courtesy prior to purchase. Customers appreciated the additional information and could make an informed purchasing decision.

After relying on LandedCost for a few months, Company B changed how it handles shipping internationally. Using new shipping scenarios, Company B now calculates landed cost at the time of purchase, charges all costs to the customer at that time, then remits

payments to customs officials and shippers. This allows Company B to do business with more customers overseas than ever before, all without worrying about returned shipments or unexpected costs.

Scenario 5: Sales tax audit

No one likes being audited, but most businesses are on a sales tax audit cycle that brings in an auditor once every 3-5 years. More auditors than ever are being hired to assess whether businesses are paying the full amount they owe in taxes. Even being located out-of-state is no protection: states have increased their budgets to allow for more audits of businesses that have nexus in a state, even when those businesses lack an in-state physical location.

Company A: Manual records retrieval

When Company A is contacted by a state sales tax auditor, the record-seeking frenzy begins. Data on tax payments needs to be gathered from all available sources, exemption certificates must be found, and tax return forms should be made available.

Once the auditor comes in, the process can take weeks – or even months. It takes time to match up every exemption certificate with its appropriate transaction, verify accurate rates and product taxability, and ensure that all discounts and prepayments have been correctly assessed. In the meantime, the flow of business and normal schedule for the accounting department is significantly disrupted.

After the auditors are done, mistakes are tallied up. Interest, fees, and penalties can apply, and the audit itself is a resource-intensive, costly procedure: in fact, an average audit for a small to mid-size business costs well over $100,000.

Company B: Automated retrieval with AvaTax

Audits don't have to be a months-long headache. When Company B receives a letter notifying them that the state would soon be sending an auditor, its tax department simply waits for the audit to take place.

Auditors can quickly examine reports using AvaTax, Avalara Returns, and CertCapture to ensure that rates and taxability are correct, exemption certificates are filed and validated for each transaction, and returns have been properly filed. Disruption to the business is

minimal while auditors work, because every form, every signature, is accessible through Avalara's reporting tools. With automation, audit costs shrink, and auditors leave after hours or days, not weeks or months. And since the risk of making errors has been minimized, Company B passes its audit with flying colors – no costly mistakes or embarrassing fines.

Why automate? The answer is clear

If you asked the tax department at Company A why they're not automating sales tax functions, they'd probably have a lot of different answers:

"We're already automating – our rate table downloads are imported directly into our ERP."
"We're doing what we've always done, and it works fine."
"We don't have time or money to make the switch."

Company A doesn't realize that with the money they're already spending on manual compliance in the form of time and resources, they could have robust, cloud-based automation with guaranteed accurate rates, a simplified returns process, and exemption certificate management.

Company B feels good about automating sales tax compliance – and they're not alone. Over 95 percent of Avalara customers keep using Avalara products, year after year, because they see the benefits of automation every day.

If you'd like to learn more about why Avalara is an industry leader in automation, or why your business should make the switch, check out our website today.
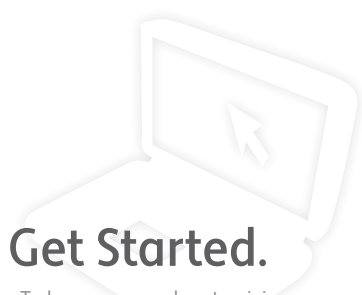
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About Avalara
Avalara makes sales tax compliance simple and automatic for thousands of customers every day. Its SaaS-based, sales tax and compliance automation software solutions span the compliance spectrum; each year these solutions deliver billions of tax decisions, manage millions of exemption certificates, file hundreds of thousands of sales tax returns, and remit billions of tax dollars to states nationwide.

Recognized as one of America's fastest growing technology companies, Avalara is integrated with leading ERP and ecommerce software systems that serve millions of small to medium sized businesses. Founded in 2004 and privately-held, Avalara's venture capital investors include Battery Ventures, Sageview Capital and other institutional and individual investors. Avalara employs more than 500 people at its headquarters on Bainbridge Island, WA and in offices across the U.S. and in London, England and Pune, India. More information at: www.avalara.com