



Avalara with Wakefield Research

*NEW RESEARCH: What Companies
are Really Doing About Sales Tax
Compliance*

Matt Grattan, Avalara

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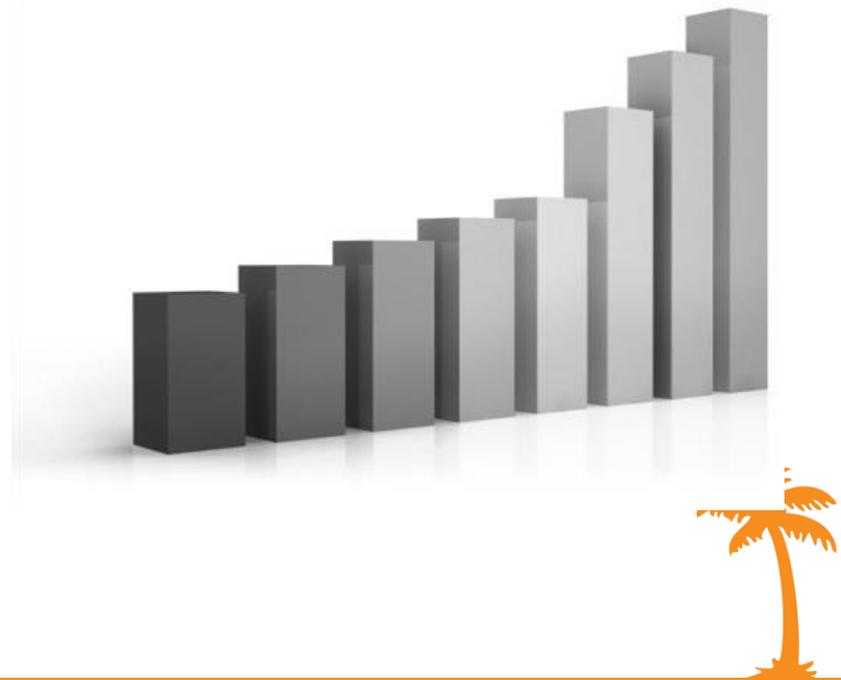
Matthew Grattan, Sr. National Sales Director, has worked in the technology industry for over 17 years with experience in business process analysis; ERP platforms; SQL databases; application development and modernization tools; and cloud computing solutions. Matthew received his BA degree in Finance from Bryant University.



Methodology

In July 2013, Wakefield Research conducted a survey among 400 accounting professionals using an email invitation and an online survey. .

These accounting professionals were at companies with \$1 million or more in total revenue.



Finishing a Marathon is Easier Than Learning Sales Tax Compliance

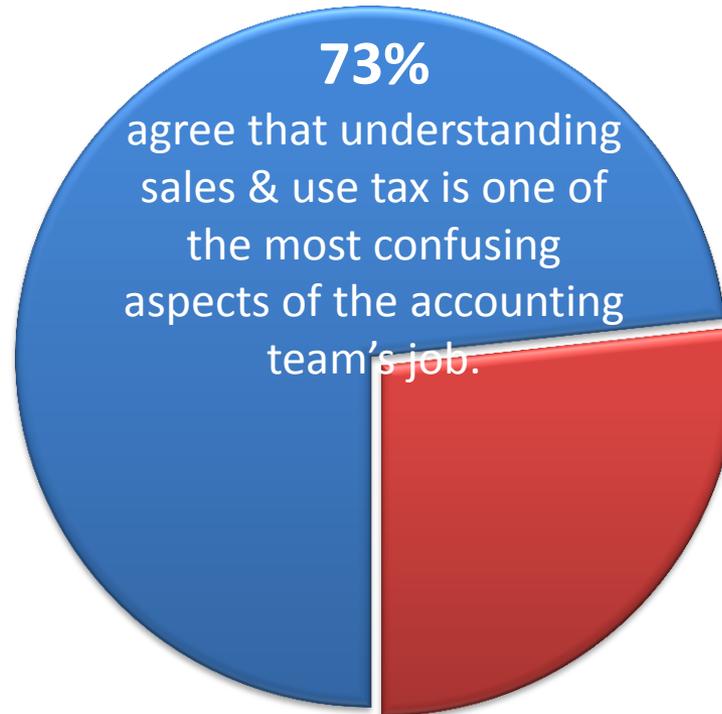
52% of accounting professionals agree:
completing a marathon would be easier to
accomplish than understanding sales tax
compliance laws.



Q: In your opinion, which of the following would be easier to accomplish?



Sales & Use Tax is Confusing for Accounting Professionals



Q: How strongly do you agree or disagree with the following statement: Understanding sales and use tax is one of the most confusing aspects of the accounting team's job.



Paperwork is the Greatest Burden for Accounting Professionals

27% say the biggest burden for their company is dealing with paperwork.

27%

Amount of paperwork



21%

Administration of returns



18%

Financial cost



18%

Lack of consistency in regulations



14%

Concern of getting audited



Q: Which of the following areas of sales tax compliance present the greatest burden to your company?



Too Much Time is Spent on Sales & Use Tax Compliance



On average, accounting professionals spend **11 hours a week** filing sales tax returns and remitting payments.

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



Is overconfidence in current compliance strategies putting companies at risk?

96%

of accounting professionals are **confident** their company has the correct tax strategies in place.



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



1 in 3 Companies Rely on “Existing Knowledge”

1 out of every 3 (32%) rely on “existing knowledge” to determine sales tax rates and taxability rules.

- 40% look up the rate on the state’s website
- 34% use an outsourced automated tax program integrated to your accounting/e-commerce system(s)
- 32% rely on “existing knowledge”
- 32% look up the rate using the 5-digit zip code
- 27% rely on outside tax professionals or consultants
- 17% treat all jurisdictions identically for taxability purposes
- 8% Other/use none of these

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



1 in 4 Companies Don't Track Their Exemption Certificates, Putting Them at Risk for an Audit *

76% have a system for tracking exemption certificates.



24% have **no system** for tracking exemption certificates.

Q. Does your company currently have a system in place to keep track of exemption certificates for customers or clients who aren't required to pay sales tax?



38% of Accounting Professionals Can't Remember the Last Time They Updated Their Sales Tax Processes

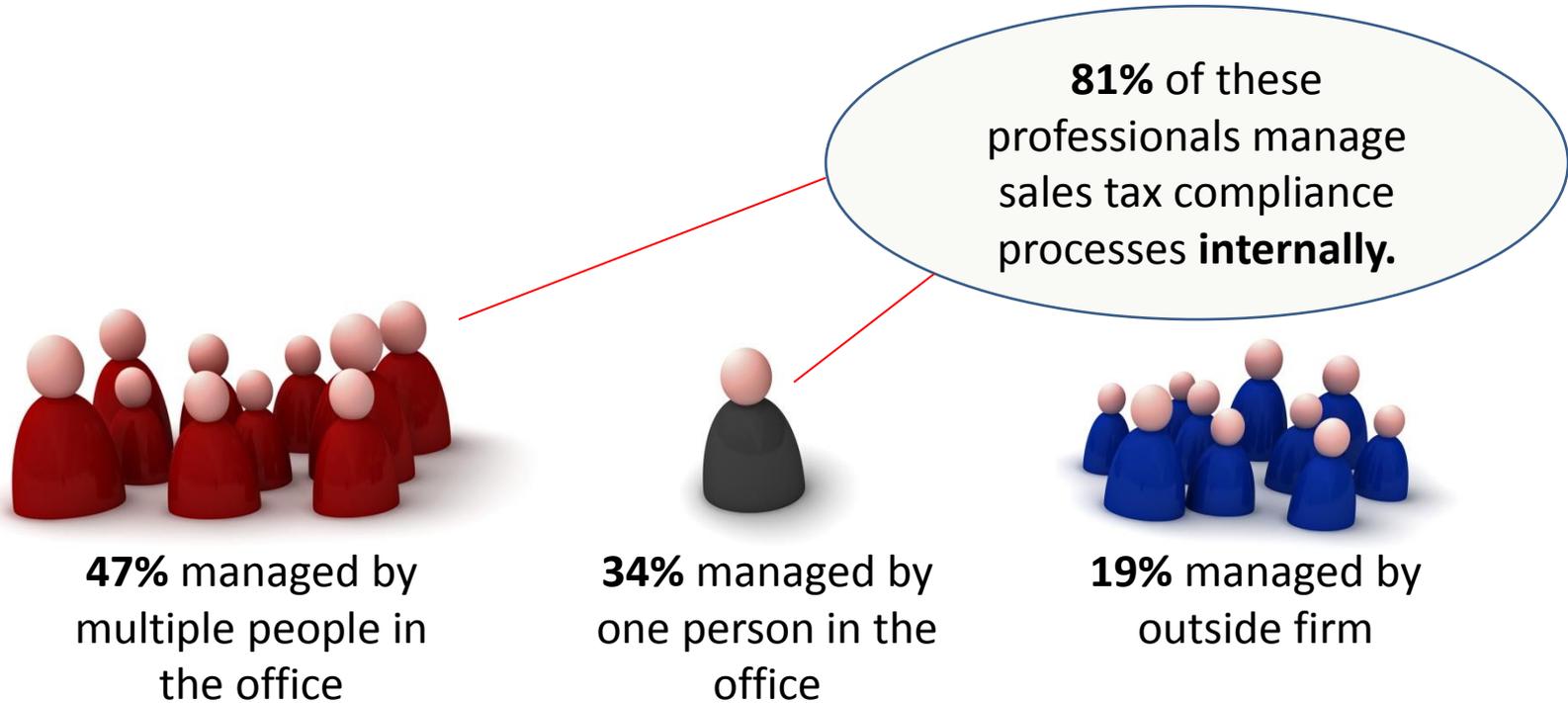
Despite rapidly changing rules, 38% don't remember the last time their company updated their sales tax compliance

Updated Sales Tax Compliance Processes	%
Less than one month	25%
1-6 months	23%
7-12 months	10%
13+ months	4%
Cannot remember the last time	38%
Average	5 months

Q: Approximately how long has it been since your company last updated its sales tax compliance processes?



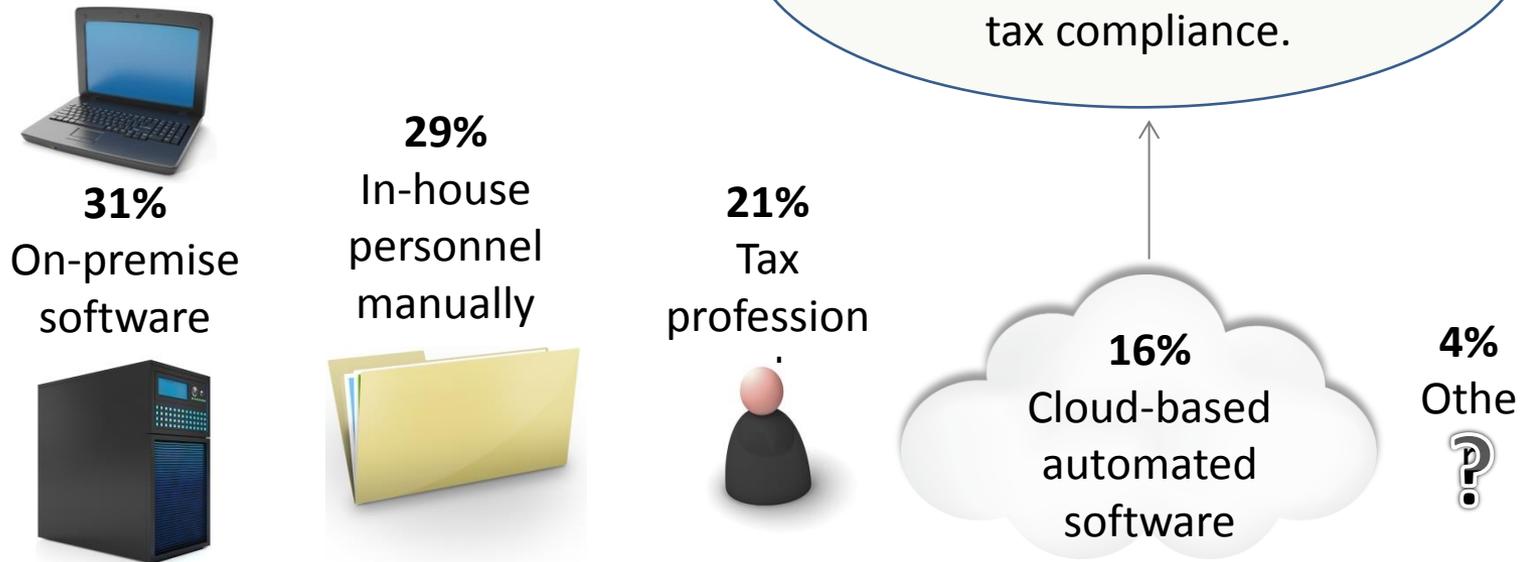
Who manages tax compliance processes?



Q: Among those whose company has assigned sales tax compliance responsibilities: Which of the following best describes how sales tax compliance processes are managed at your company?



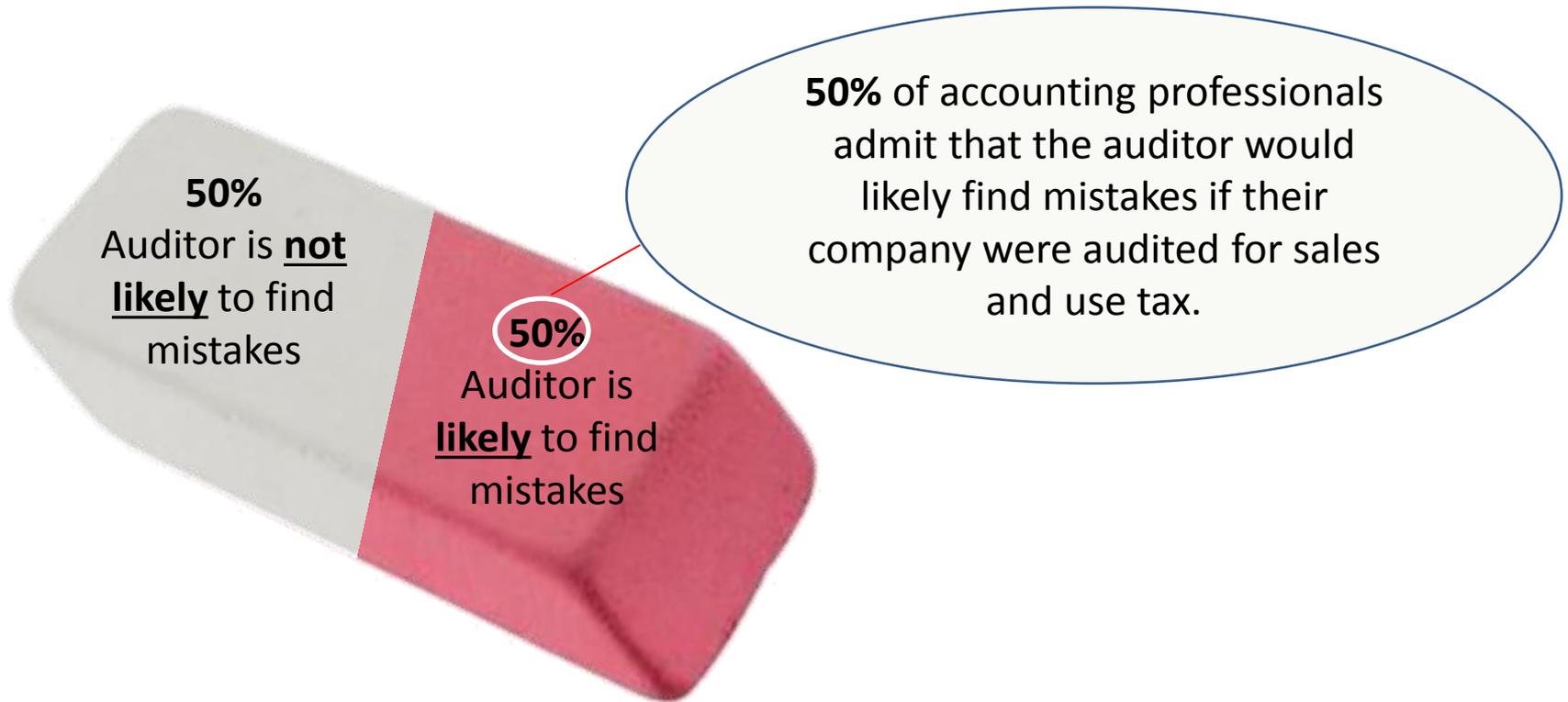
84% of Accounting Professionals Don't Use Cloud-Based Software



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



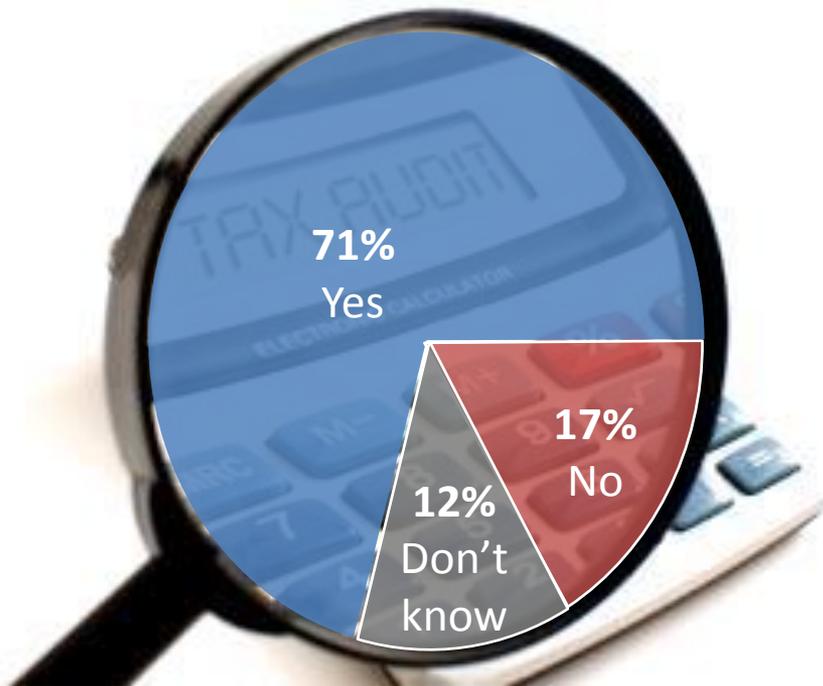
Would Auditors Find a Mistake?



Q: In your opinion, if your company were audited for sales & use tax, how likely or unlikely is it that the auditor would find mistakes?



Internal Audits are Not as Common as You Would Think



Despite best practices, **29%** say their company **doesn't conduct internal audits, or they are unsure if their company conducts internal audits** to ensure that sales and tax policies and processes are being carried out effectively.

Q: Does your company conduct internal audits to ensure that sales tax policies and processes are being carried out effectively?



Business as Usual Makes Sales Tax Complicated

85% say their company perform activities that make sales tax calculations complicated.



Top 3 Activities Likely to Lead to Mistakes	%
Having customers who are exempt from sales tax	51%
Attending a trade show in the last 12 months	43%
Having a remote sales force	34%

Q: Which of the following practices or policies, if any, apply to your company?



Underestimating the Cost of an Audit

It costs **\$130,820** (on average) to manage an audit.

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

Q: Among those who have worked at a company that has been audited: approximately how much did it cost, in total, to manage that audit? Among all: If your company were audited today, approximately how much do you think it would cost, in total, to deal with that audit?



Most Companies Remit or File Sales Tax to Multiple States

54% of accounting professionals say their company remits or files sales tax to **multiple states.**



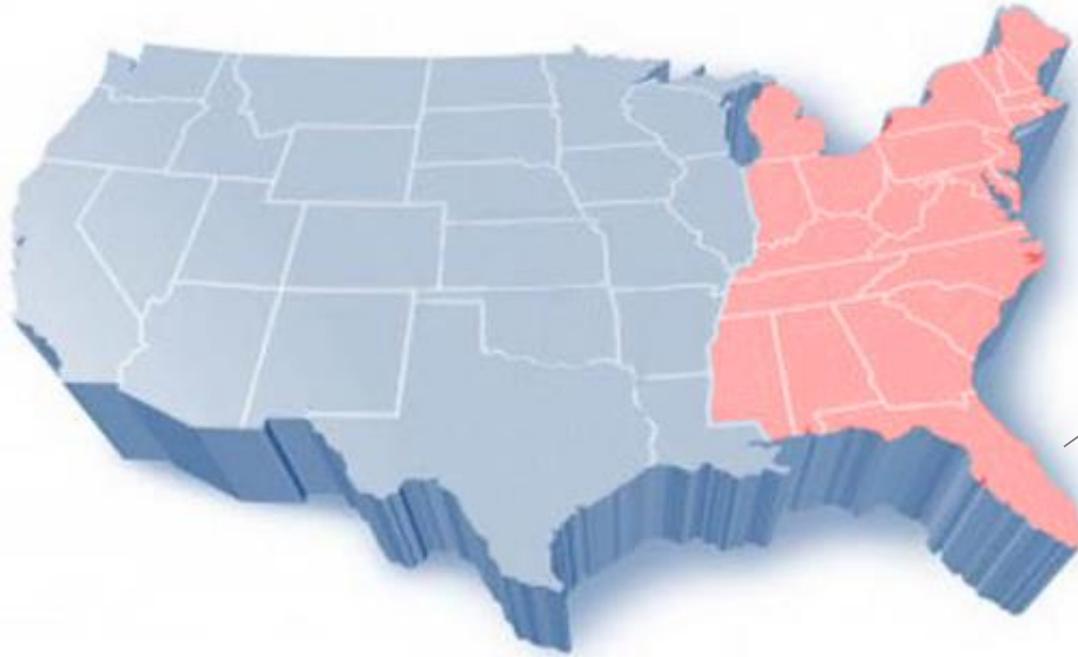
46% of accounting professionals say their company remits or files sales tax to just **one state.**



Q: Which of the following is true of your company's sales tax situation?



Many Don't Know Where Their Business Has Nexus



1 out of 3 (35%) accounting professionals **don't know** all of the states where their business has nexus.

Q: Do you know all of the states where your business has nexus?



A Majority of Companies Conduct Sales Online

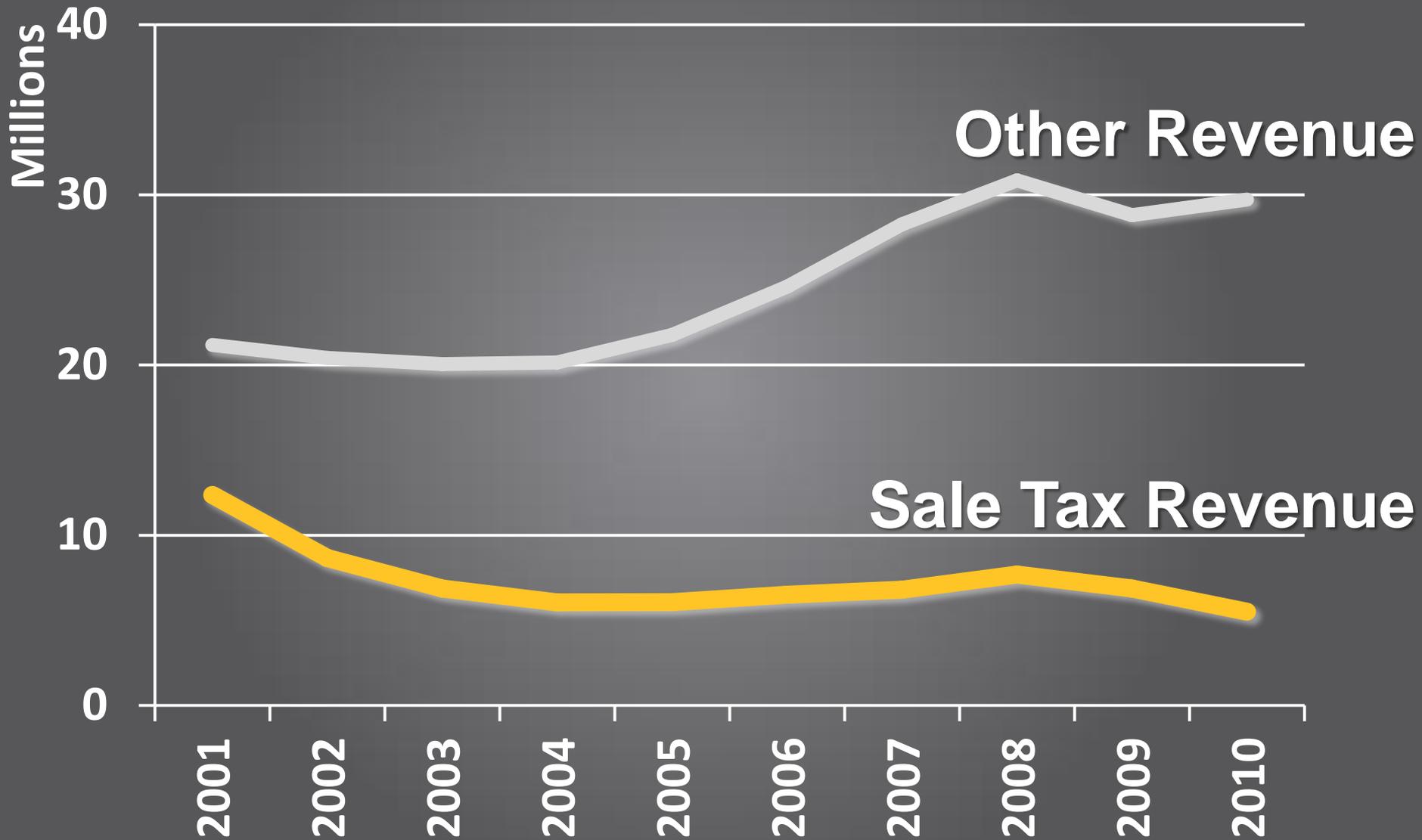
Accounting professionals say **75%** of their companies conduct sales online.



Q: Approximately what percentage of your company's sales occur online?



City of Menlo Park Revenue



Sales & Use Tax Transparency

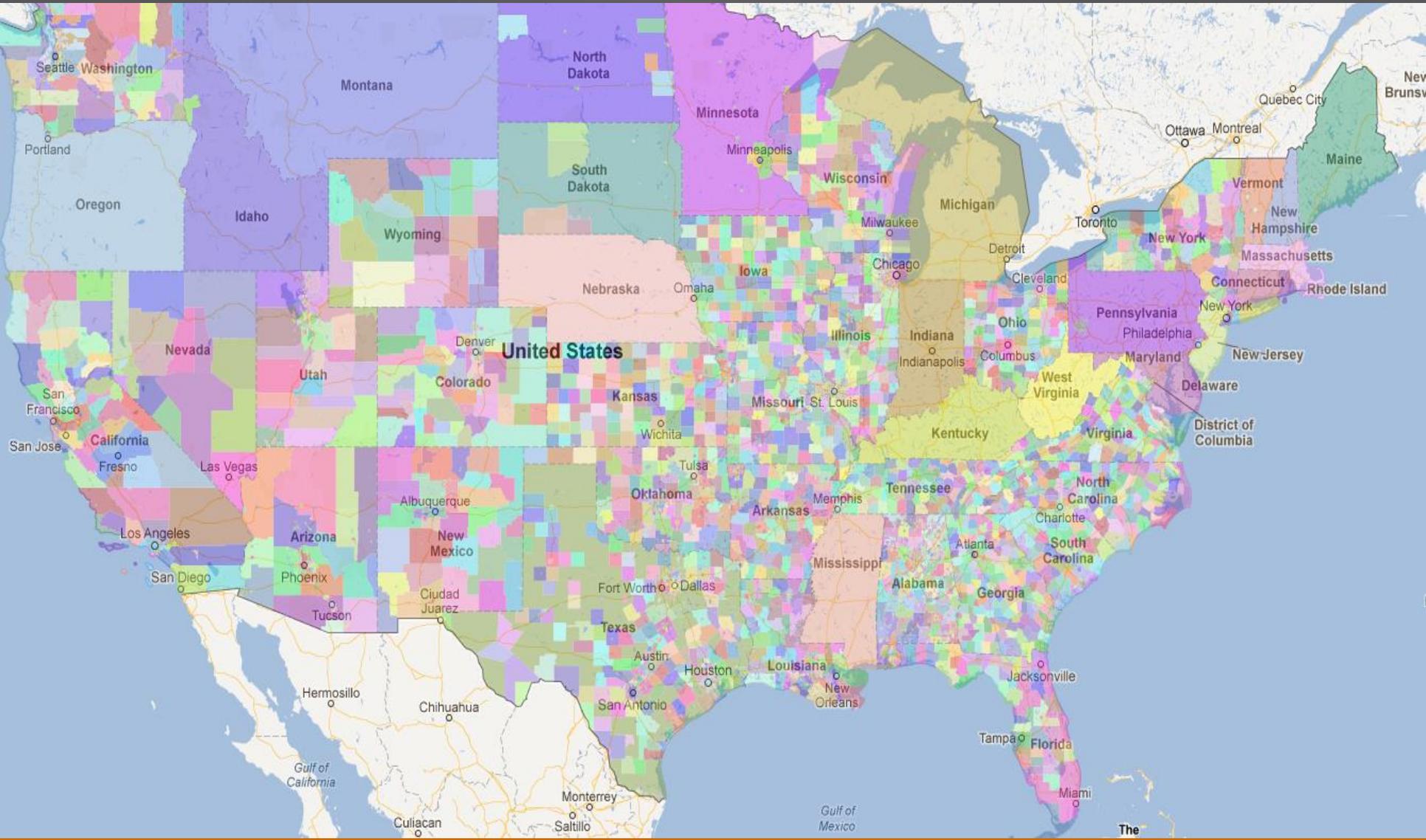


Activities that 'Always' Create Nexus

- ▶ Owned or leased property
- ▶ Property leased to customers
- ▶ FTE Employee home office
- ▶ FTE Employee in-state sales solicitation
- ▶ In-State sales solicitation by a 3rd party rep
- ▶ Performance of any services



What Does It Take To Comply in Over 11,000 Tax Jurisdictions?



Yes, Marathons are Easier!

- ▶ **Jurisdictions**
 - State, City, County & STJs
- ▶ **Product & Service Taxability**
- ▶ **Tax Holidays**
- ▶ **Sourcing**
- ▶ **Exemption Certificates**
- ▶ **Consumers Use Tax**
- ▶ **Filing, ‘the month-end crunch’**

and one constant is **CHANGE...**



Monthly Cost of Compliance with a Government Audit

Function	Hours (based on the weighted average)	Financial Controller (wage / hr)	Finance Manager (wage / hr)	Total Monthly Cost
Calculating Sales Tax	12.7	47.7	48.7	1,224
Exemption Certificate Management	18.2	47.7	48.7	1,754
Filing & Remitting Sales Tax	11.0	47.7	48.7	1,060

Source: Aberdeen Group, June 2011

Annual Cost of Compliance without an audit = \$24,756

Annual Cost of Compliance with an audit = \$48,456



▶ Some things to know about MFA...

- Legislation currently being evaluated by The House
- Federal permission for states to compel collection by remote vendors.
- Does not change or dictate state sales tax rules or regulations.
- Destination-Based Collection for “Remote Sellers”
- Set’s “remote” revenue threshold for requiring collection



So what are my options?



A landscape photograph featuring a bright blue sky with large, fluffy white clouds. In the foreground, there are green, rolling hills and a rocky outcrop on the right side. The overall scene is bright and clear.

A CLOUD SOLUTION
so you don't have to worry about it

A photograph of a Space Shuttle launching from a launch pad. The shuttle is ascending vertically, leaving a massive, billowing plume of white and yellow smoke and fire behind it. The launch pad's service structure is visible to the left. The sky is a clear, pale blue. A semi-transparent dark grey horizontal band is overlaid across the middle of the image, containing the text.

IMPLEMENTATIONS

that do not resemble rocket science

AUTOMATED Compliance

without any monkey biz



Who Is Avalara?

We're a team of developers and accountants and support specialists and marketers and salespeople and researchers and technologists who know we're onto something big. We know that we are part of a team that is revolutionizing what is a huge drain for businesses big and small. Managing the compliance of transactional taxes, from sales and use tax to 1099s and more.





Avalara

Making sales tax less taxing.

Questions?

Please send questions to matt.grattan@avalara.com