

Avalara



Understanding Sales Tax Compliance

1. What problems do you face?
2. Why outsource this How we solve them?
3. Why Avalara and how we solve your problems?

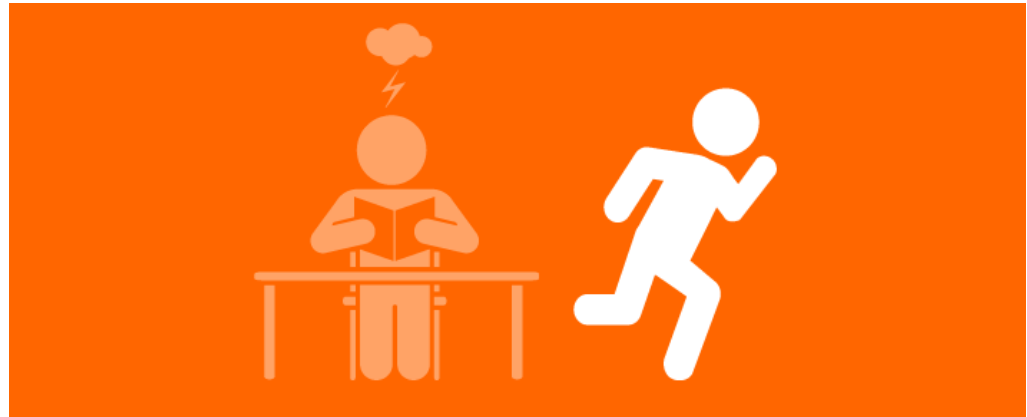


Tax world problems

Sales and use tax compliance

52% of accounting and technical professionals agree:

completing a marathon would be easier to accomplish than understanding sales tax compliance laws.



Source: Wakefield Research 2013

Sales tax compliance challenges

- ✓ Sales Tax is a statutory requirement
 - Companies are always at risk of an audit (*when, not if*)
 - Audits frequently result in back taxes and penalties

- ✓ Manual sales tax management
 - It's labor-intensive
 - Human error leads to inaccurate results
 - Expensive
 - Rules are always in flux: 2014 had close to 14,000 rule changes in U.S.

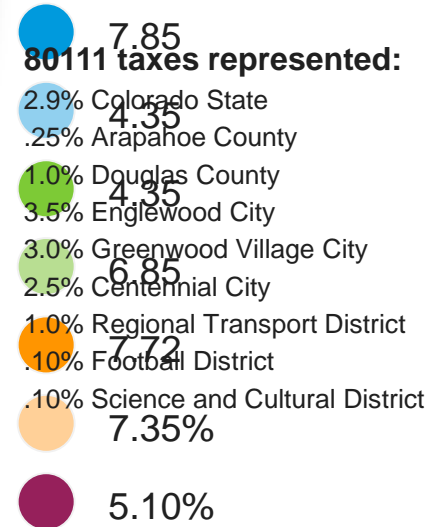
- ✓ 100% non-revenue generating activity
 - It makes sense to automate with a technology solution

Sales tax rates by ZIP Code = **inaccuracy**

Determining sales tax rates by ZIP Codes is **inaccurate and risky**

Adams

Arapahoe



7450 Leyden Street
Total sales tax: **0.0925**

COLORADO: 0.0290
ADAMS: 0.0075
COMMERCE CITY: 0.0450
SCIENTIFIC & CULTURAL: 0.0010
DENVER AREA TR: 0.0100

7495 Locust Street
Total sales tax: **0.0475**

COLORADO: 0.0290
ADAMS: 0.0075
SCIENTIFIC & CULTURAL: 0.0010
DENVER AREA TR: 0.0100

Product Taxability is (always) changing



Taxable

Candy with or without flour can determine if it is taxable



Exempt



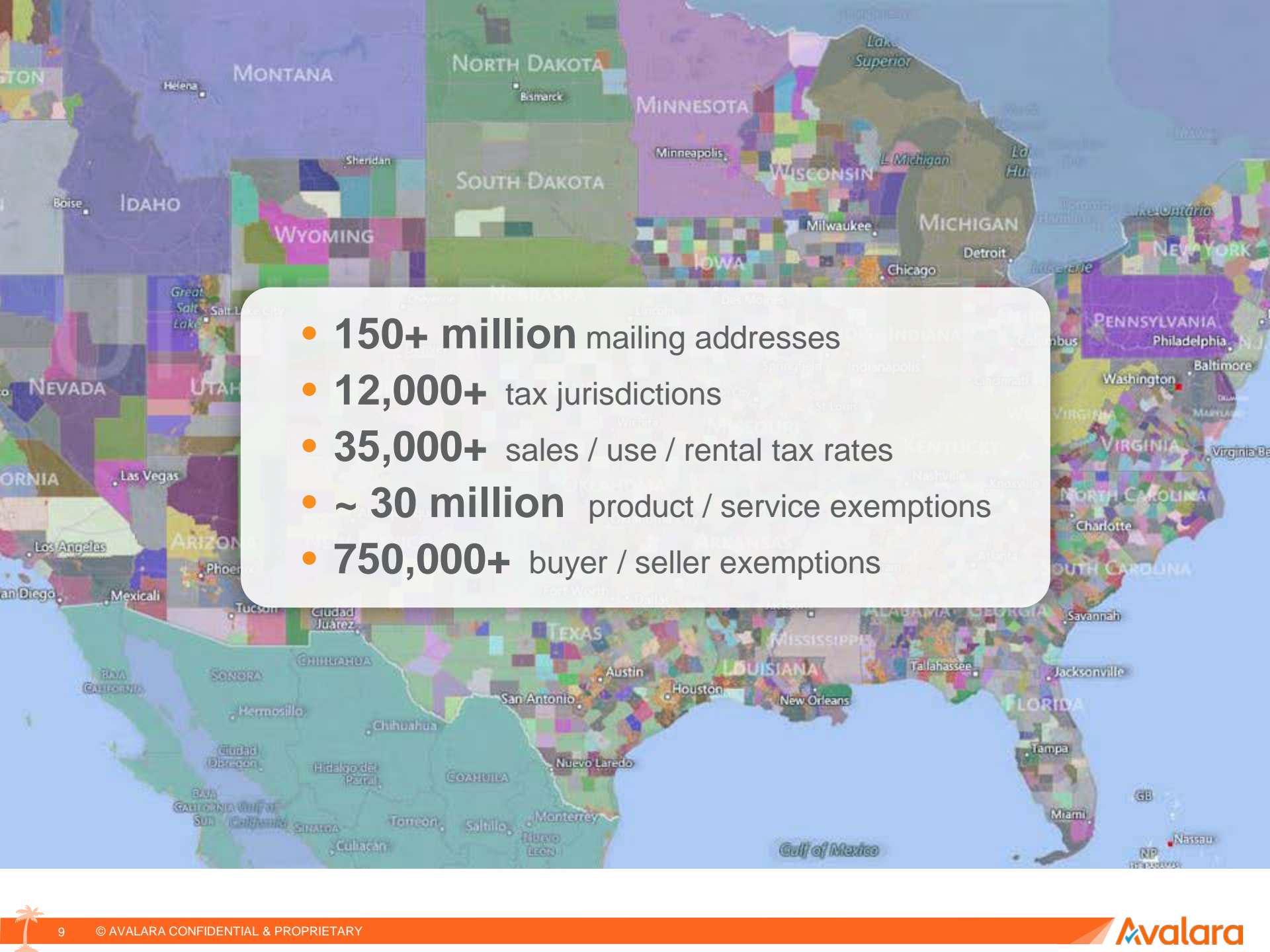
Taxable

Non-carbonated with supplement label is taxable



Exempt

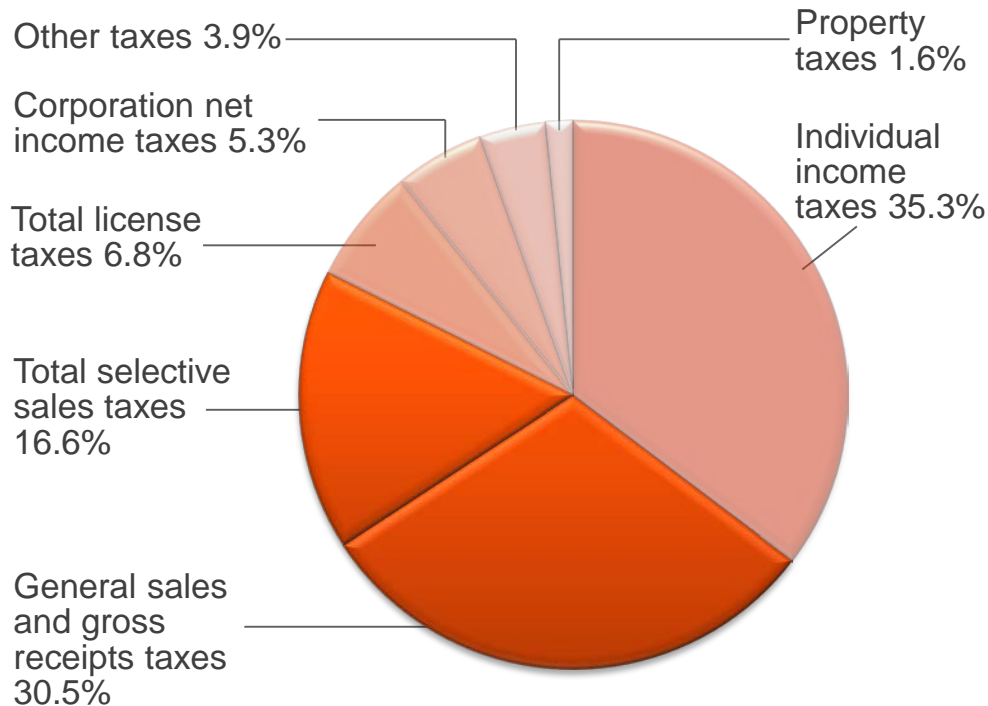
Non-carbonated with nutritional label is exempt

- 
- **150+ million** mailing addresses
 - **12,000+** tax jurisdictions
 - **35,000+** sales / use / rental tax rates
 - **~ 30 million** product / service exemptions
 - **750,000+** buyer / seller exemptions

Why?

STATES NEED SALES TAX REVENUE

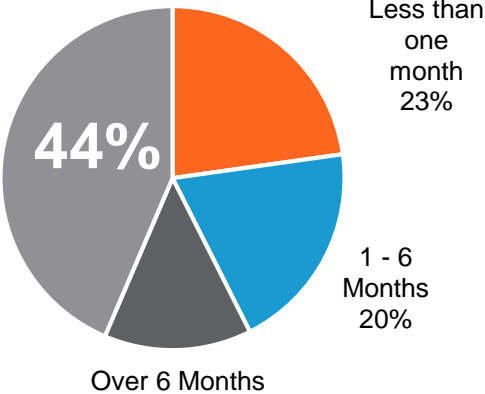
Total State Government Tax Collections by Category



When general sales tax and selective sales tax are combined, sales tax makes up **47% of total state revenue**

Source: US Census Bureau: Finance – Survey of State Government Tax Collections at www.census.gov/govs/statetax

Cost of business as usual (BAU)



44% can't remember the last time they updated their sales tax processes



Percentage of businesses that believe a sales tax auditor would find a mistake



Average total cost for businesses to manage a sales tax audit

Source: Wakefield Research, July 2013



Why Outsource?

Why companies outsource this?

The same reasons they outsource payroll...



Percentage of businesses
that believe a sales tax
auditor would find a mistake

TIME RISK & AGGREGATION

12.7 hours per month calculating sales tax

18.2 hours per month managing certificates

11.0 hours per month filing & remitting sales tax

5.4 **months** - average payback period using Avalara

“Do what you do best and outsource the rest” ~Peter Drucker

Average Cost of an Audit

- Average cost to manage an audit for SMB: **\$114,147**
- An **18% increase** over the 2013 reported average cost of **\$96,552**
- Average length of the audit: **37 days**
- **57%** believe the company only owes the taxes that were not originally collected



WAKEFIELD

Guide to Sales Tax Risk: What Most Companies Overlook



Understanding taxability exceptions

- ✓ Rules and rates vary between states
- ✓ The following industries have varying taxability rules:
 - Software / hardware
 - Digital goods
 - Services
 - Medical device / equipment
 - Food / beverage
 - Clothing / apparel
 - School-related products
 - Dietary supplements
 - And many other industries / products

Nexus-creating activities: a growing list

- ✓ Multi-state locations
- ✓ Maintenance/service/repairs
- ✓ Own/lease real property
- ✓ Hosted data centers
- ✓ Field sales/service staff
- ✓ Charge Licenses/royalty/fees
- ✓ Direct and/or online sales
- ✓ Maintains inventory
- ✓ Affiliates
- ✓ Tradeshows
- ✓ Commissions to resellers (1099s)
- ✓ Investors/board members
- ✓ Marketing/Web advertising
- ✓ Drop shipments



Common Catalysts for Changing Sales Tax Compliance Processes

- Changing or upgrading accounting system
- Implementing or changing eCommerce platform
- Executive management change or other staff change
- Entering a new market (could be a state, vertical or functional area)
- New products
- Going through an audit
- Merger or acquisition
- Regulation changes



Why Avalara

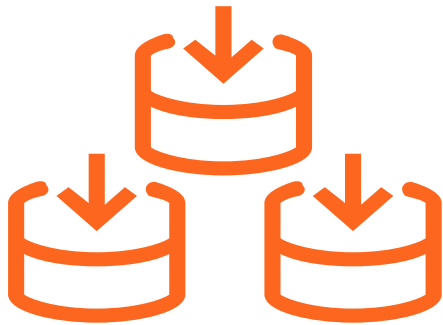


**“Do what you do best,
outsource the rest”**
Jack Welsh

Avalara's full tax compliance solution set

Tax Calculation	Document Management	Returns and Filing	Services
<ul style="list-style-type: none">• Sales Tax• Consumer Use Tax• VAT• Fuel Excise Tax• Communications Tax• Lodging and Occupancy Tax• UPC Codes	<ul style="list-style-type: none">• Exemption Certificates• W-8• W-9• Excise• FATCA• 1099	<ul style="list-style-type: none">• Sales Tax• Consumer Use Tax• VAT• Tobacco Excise Tax• Fuel Excise Tax• Communications• Lodging• 1099s• Government	<ul style="list-style-type: none">• Nexus Studies• Voluntary Disclosures• Audit Defense• Registrations• Exemption Management• Managed Returns• VAT Returns

How does it work?



Avalara
AvaTax



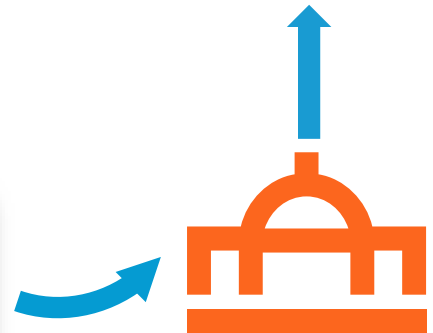
- Tax Rates
- Tax Boundaries
- Taxability Rules



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Returns

Line Code	Customer Code	Batch Code	Doc Type	Doc Date	Doc	Total	Non Taxable	Taxable	Tax Location Code	Exc. Status	Country	State
01	0000000000000000		Sales Invoice	5/15/12	USD	200.00	500.00	50.00	CA		CA	CA
02	0000000000000000		Sales Invoice	5/15/12	USD	200.00	0.00	200.00	CO		CO	CO
03	0000000000000000		Sales Invoice	5/15/12	USD	200.00	200.00	50.00	TX		TX	TX
04	0000000000000000		Sales Invoice	5/15/12	USD	200.00	0.00	200.00	CA		CA	CO
05	0000000000000000		Sales Invoice	5/15/12	USD	200.00	0.00	200.00	CA		CA	CO
06	0000000000000000		Sales Invoice	5/15/12	USD	200.00	500.00	70.00	CA		CA	CA
07	0000000000000000		Sales Invoice	5/15/12	USD	200.00	500.00	10.00	CA		CA	CO
08	0000000000000000		Sales Invoice	5/15/12	USD	20.00	0.00	20.00	TX		TX	TX

Batch	Name	Batch Sales	Non Taxable	Taxable	Exc. Status	Batch Tax	Batch Taxable	Batch Tax Rate	Batch Tax Status
01	01000	500.00	0.00	500.00		50.00	500.00	0.10	Approved
02	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved
03	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved
04	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved
05	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved
06	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved
07	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved
08	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved
09	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved
10	01000	0.00	0.00	0.00		0.00	0.00	0.00	Approved



The Manufacturer's MVP

Avalara CertCapture

Collect & Validate



Renewal Management



Tax Decision Software



Storage & Retrieval

- ✓ Collect & validate certificate at ERP, B2B ecommerce website, or store POS
- ✓ Manage update requests for missing and expired certificates
- ✓ Seamless integration into Sage ERP software applications
- ✓ Quick, anytime access for certificates and meta data



Returns & remittance solution

Avalara Returns

Liability Worksheet



Return Preparation



Filing & Remittance



Notice Management

- ✓ Define what states you have tax collection and remittance requirements
- ✓ Automatically complete forms with data out of Sage ERP
- ✓ File and remit payment on your behalf to the required states, cities, counties, parishes etc
- ✓ Automatically notify you of any notices from state and local entities



Customer success story

Executive Envelope



- Manufacturer & distributor
- 12 employees
- \$15M in revenue
- 4 consecutive audits

“AvaTax saves Executive Envelope 8-10 employee hours a week, which is over \$36,000 in employee resources annually.”

- Claudia Brake, Office Manager



Customer success story #2



- Industrial equipment
- 300 employees
- 8 locations
- 700-900 tax changes annually

"Our sales representatives have gained more selling time now that they no longer have to research tax rates. Plus, we have eliminated errors in those calculations - the software calculates the correct rate automatically."



Customer success story #3



- Manufacturer of pet products
- 13 years
- 40 employees
- CA and FL rules too difficult

"The integration of AvaTax was seamless and incredibly simple, requiring minimal maintenance and downtime."

- Fred Burckbuchler, VP Finance



Contact for Questions

Brent Peterson

Strategic Alliance Manager

Cell: 206.999.9851

Brent.Peterson@avalara.com



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Thank you