Tax compliance for the holiday season – 2016 Edition

(With Holiday Readiness Checklist)

Avalara

Long before the holiday lights and seasonal music make their appearance in stores, retailers are busy preparing for the most wonderful (and busiest) time of the year. Avalara is tuned in to the special compliance issues sellers face because of holidays – not just during peak retail days like Black Friday and Cyber Monday, but also in the months before, when all the hard work of preparation gets done.

In this whitepaper, we'll look at several compliance challenges that can become particularly complex during busy holiday weeks. In addition to helping you prepare for common holiday problems, Avalara has also compiled a Holiday Readiness Checklist, available at the end of this paper. Check it twice before the holiday season begins, and you'll be on the fast track to the state tax auditor's "nice" list.

Holiday Problem #1: Downtime and outages

The holiday season can put extra stresses on your ecommerce and shopping cart systems. More transactions mean more chances for things to go wrong. Sometimes, changing a single element of an ecommerce system manually can lead to significant downtime – costing a small fortune in missed opportunities and lost customer goodwill.

At some companies, even a simple change of sales tax rates can lead to palm-sweating anxiety when it happens near the holidays. When one wrong upload or manual data entry can ruin the day's sales figures, the pressure can be panic-inducing.

No one wants to spend their holidays worried about downtime. With 99.97% uptime and an average response time of just 60 milliseconds, Avalara AvaTax® gives your customers the right rate fast. Forget uploads and updates: Avalara's cloud-based system is always up-to-date, with guaranteed accurate rates for every transaction.

With hundreds of integrations with the world's most popular ERP, ecommerce, shopping cart, and point of sale systems, AvaTax works with the software you already use every day. If you're using a homegrown solution, the open AvaTax API can still be integrated for a seamless experience.

Holiday Problem #2: New nexus rules

Are you aware of every state in which you're required to collect sales and use tax? It's critical to know whether you have nexus – a connection close enough to the state to legally create tax obligations for the seller.

A few decades ago, sellers only had nexus in states where their business had a physical presence. In an effort to recoup tax dollars lost to online sales, states have expanded the definition of nexus in various ways. If you're sending employees to trade shows (either attending or showing) during the holiday season, or have decided to use a drop shipping program like Fulfillment By Amazon (FBA) to handle the influx of holiday orders, you may have established nexus in one or more new states.

If you suspect that your current or planned activities may establish nexus in new states, there's no time like the present to have a nexus study conducted. Avalara Professional Services can apply new nexus rules and examine your business activities to determine where you should be registering and filing. They'll even provide help getting your business registered, leaving you with one less problem to solve this holiday season.

Holiday Problem #3: Rate and taxability changes

When you're already getting slammed with holiday orders and are scrambling to fulfill them all, changes to tax rates and product taxability can throw a monkey wrench into your plans. Customers often know whether they should be paying taxes on a particular item, as well as the amount they expect to pay. Sales tax holidays, which exempt some items from sales tax altogether, can make it even more complex to keep point of sale systems up to date.

In the first half of 2016, rate and taxability changes occurred at a rate of just over 200 per day. Even if you're not selling to all 50 states, it's easy to miss changes that will matter to your customers. When a customer is charged tax they don't owe, they're unhappy – and when they're not charged taxes they do owe, the state tax auditor is unhappy.

Avalara knows you have enough to worry about this holiday season, even before taking rate and taxability changes into account. With AvaTax, you'll get accurate, fast calculation that keeps up with changing rules and rates in every jurisdiction that charges sales tax.

Holiday Problem #4: Filing returns on time

At the holidays, more than at any other time of year, saving time is saving money. In an age of online selling, many companies find themselves struggling to juggle sales tax returns for dozens of jurisdictions, each with their own complicated forms, prepayment requirements, and filing schedules.
When payments are late, interest adds up. So do penalties and fees. But rushing through returns to get them filed on time can sacrifice accuracy – and that's a recipe for disaster later on, when your records are audited.

If filing returns during peak sales months has led to late night, last-minute scrambling, it's time to do things differently. Avalara Returns integrates with the software you already use, automating the filing and returns process. Instead of efiling on several different state websites, each with its own direct deposit payment, or mailing in checks and paper returns, Avalara Returns gives you one consolidated total. When you make this payment, Avalara divides it appropriately, files your returns, and remits payment to each taxing authority you owe.

End-to-end tax compliance

Consider Avalara your secret weapon in the battle to make it home for the holidays, instead of spending late nights trying to meet deadlines and verify rate changes. Avalara's fully scalable solution can make it faster and easier to comply with sales tax regulations, whether you have two employees or 2,000.

Our 2016 Holiday Readiness Checklist is here to help you prepare for the busiest days of your year. Make your compliance list, check it twice, and make sure you're not on the state's "naughty" list next time the auditor comes knocking.

Holiday Readiness Checklist

Nexus

Have you conducted (or do you plan to conduct this holiday season) any potentially nexus-establishing activities in new states? This could include attending trade shows, using affiliate links, hiring remote contractors, or using drop shipping programs like Fulfilled By Amazon (FBA). If you answered "no," continue to the next section.

- ❏ Verify whether activities are considered to establish nexus in specific state(s) where

activities are taking place.

- ❏ Determine whether you meet the state's minimum sales threshold for sales tax registration.
- ❏ Register to pay sales tax in all states where nexus has been established and thresholds are met.
- ❏ Determine the filing schedule required by the new state and add it to your calendar.

Calculation

Have you already automated sales tax rate calculation using Avalara AvaTax? If you answered "yes," continue to the next section.

- ❏ Download new tax rate tables from state Department of Revenue websites.
- ❏ Import rate tables to accounting/shopping cart software.
- ❏ Check for changes to product taxability rules in each state where you have nexus.
- ❏ Import taxability rule changes to accounting/shopping cart software.
- ❏ Test to verify that changed rates are displayed in shopping cart.
- ❏ Determine whether any sales tax holidays will affect your buyers.

Filing

Have you already automated the filing process using Avalara Returns? If you answered "yes," continue to the next section.

- ❏ Check state Department of Revenue websites to determine whether there are any changes to filing deadlines or requirements.
- ❏ Verify that your filing calendar is accurate and complete, including deadlines for every state you file in.
- ❏ Do a "test run" to determine whether your procedures for exporting ERP or shopping cart data for use in returns is working correctly.
- ❏ Account for all exemptions, breaking out transactions with exemptions and including specific reasons for tax-exempt status.
- ❏ Calculate over/underpayments from previous return filings.
- ❏ Submit estimated prepayments to states that require them.

Exemption certificates

Have you already automated exemption certificate management using Avalara CertCapture? If you answered "yes," continue to the next section.

- ❏ Check for any changes to exemption certificate rules and regulations on state Department of Revenue websites.
- ❏ Check files for any expired or invalid certificates.
- ❏ Send requests to holders of expired or invalid certificates for updated certificate information.
- ❏ Verify that all exempt transactions are associated with a valid certificate.
- ❏ Check files for soon-to-expire certificates.

When your business needs an extra hand with compliance tasks this holiday season, Avalara is always here to help. Our tax experts and software professionals take pride in helping you meet your compliance goals. Visit https://www.avalara.com/products/sales-and-use-tax/ today to learn more about how our end-to-end sales and use tax compliance solution can help to make the holiday season bright.

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.