

What Businesses Need to Know to Maintain Tax Compliance in 2022

Scott Peterson

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Q&A

Asking Questions



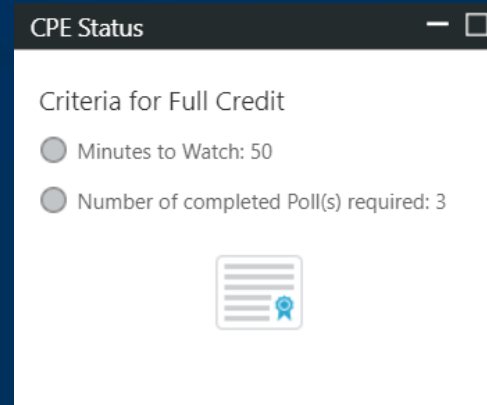
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Featured Presenter

Scott Peterson
VP, Government Relations
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Scott Peterson's Biography

- Scott Peterson was the first executive director of the Streamlined Sales Tax Governing Board. For seven years, he acted as the chief operating officer of an organization devoted to making sales tax simpler and more uniform for the benefit of business. Scott also spent 10 years as the director of the South Dakota Sales Tax Division and 12 years providing research and legal writing for the South Dakota Legislature. He is now the go-to resource at Avalara for all things related to tax policy.

Learning Objectives

1. Recognize the impact of supply chain and labor shortages on tax compliance.
2. Identify new tax obligations resulting from increased e-commerce sales.
3. Summarize the latest on economic nexus and marketplace facilitator laws.
4. Give examples of how tax rules are applied for a remote workforce.
5. Explain increasing digitalization of tax compliance globally.



The State of Commerce: Ecommerce *and* In-store Sales Surge

\$1 in \$6

Spent on retail purchases in Q3 of 2021 came from digital orders.*

22.3%

Surge in sales from physical stores in Q2 of 2021 compared to Q2 of 2020. Highest recorded growth for this channel*

\$1.13T

Sales from Q2 of 2021 through all channels. Highest year-over-year growth ever.*

96%

Of midsize businesses have changed as a result of COVID-19. E.g., shifted vision, new products, automation, etc.**

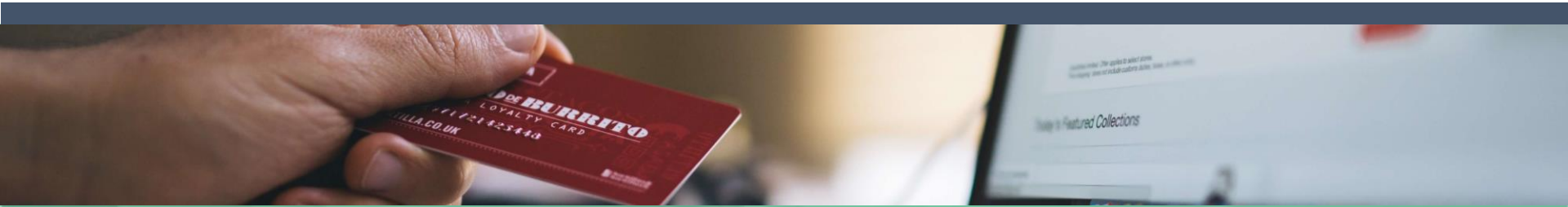
Poll Question 1:

How confident are you that you're registered and collecting sales tax in the correct jurisdictions/states?

- a. Very confident
- b. Not confident at all
- c. I'm not sure, I'd like help

Poll Question 1 Results: (Placeholder)

New Tax Obligations from Increased Ecommerce



Pulse Check On Economic Nexus:

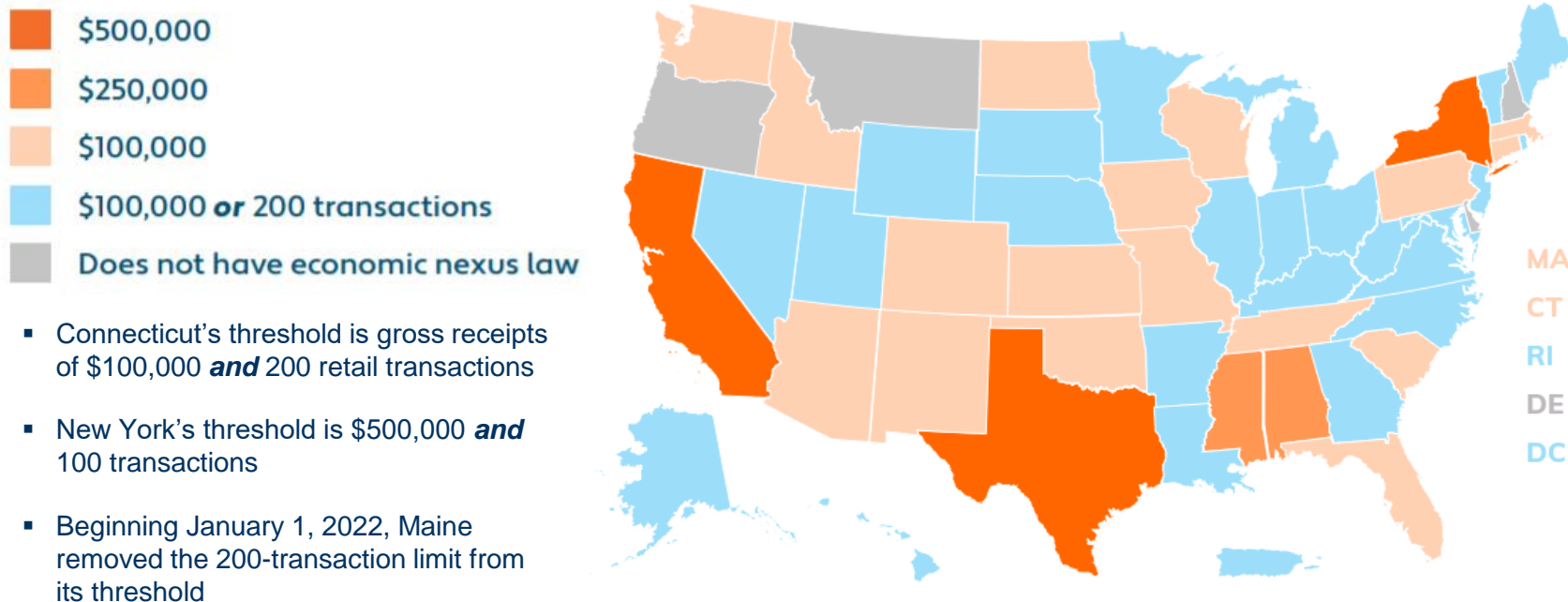
Economic nexus laws allow states to impose sales tax on remote sellers.

All 45 states

with a state sales tax, the District of Columbia, and some local governments in Alaska have adopted economic nexus laws.

States will crack down on
tax registration
due to triggering economic
nexus in 2022 and beyond.

Economic Nexus Thresholds by State



South Dakota v Wayfair, Inc.

Why is it important?

- Physical presence is no longer the only requirement.
- An economic threshold can be as low as \$100,000 in sales/200 transactions.
- This applies not just to online sellers but individuals who sell anything, including digital goods and software.
- Your customers now determine where you must collect.
- Some states tax everything, especially things that are not commonly taxed.



Can you cancel sales tax registration?

- Once economic nexus is triggered, sellers must register and begin collecting, remitting, and filing sales tax in that state.
- If sales drop below the state's thresholds, you may be able to deregister.
- States can require a business to remain registered for a certain period after nexus has ended.
 - Known as “trailing nexus”
 - Can last for weeks, months, or more than a year
- Once you've verified all nexus-creating activity has ceased in a state, you must notify the state in the correct manner (varies by state).

The Impact of Remote Workers on Sales Tax Nexus

- Having remote employees, inventory, or offices in another state establishes physical presence nexus.
- Businesses with remote workers in other states may be required to register and collect sales tax there.
- Some states temporarily exempted remote workers from establishing nexus due to COVID-19. Some states have since allowed those policies to expire, while others have adapted their nexus rules.



Virtual Audits Hasten Need for Digitalization

- COVID has accelerated the adoption of virtual audits by states.
- Less travel time means auditors are able to do more virtual audits.
- Businesses must be prepared to share tax files electronically.



Poll Question 2:

What is the most challenging aspect of managing sales tax for your business?

- a. Sales tax calculations
- b. Determining when/where to register to collect and remit sales tax (nexus)
- c. Managing consumer use tax
- d. Keeping up with changing tax laws and guidelines
- e. Filing and remitting returns
- f. Managing exemption certificates
- g. Digitalization of tax compliance
- h. Other challenge

Poll Question 2 Results: (Placeholder)

The Latest in Marketplace Facilitator Laws

Marketplace Facilitator Definitions

- **Marketplace:** A physical or electronic place, including, but not limited to, a store, a booth, an internet website, a catalog or a dedicated sales software application, where tangible personal property, digital codes and digital products, or services are offered for sale.
- **Marketplace Seller:** A seller that makes retail sales through any marketplace operated by a marketplace facilitator, regardless of whether the seller is required to be registered with the state.



Moving on marketplaces and marketplace sellers: Amazon, Etsy, Walmart hit with new sales tax obligations

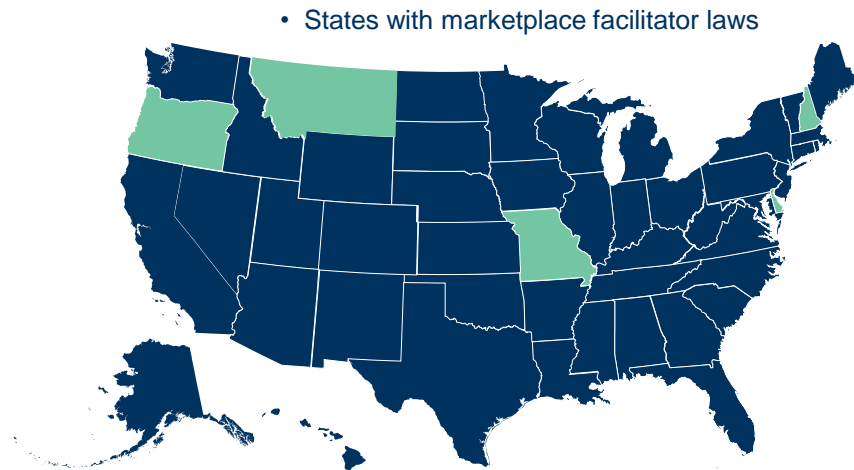
45 states have now adopted marketplace facilitator laws.

- Kansas, Florida, and Missouri recently enacted such laws in 2021.

Marketplace sales open sellers up to more **nexus-triggering activities**:

- Storing inventory in a warehouse
- Economic activity

States are refining marketplace laws to include food delivery and lodging marketplaces.



The Impact of Supply Chain and Labor Shortages on Tax Compliance

Supply chain and labor shortages on tax compliance

- Heightened demand, staffing shortages, factory closures, and clogged ports have left businesses scrambling.
- The impact on tax obligations:
 - New products: Are they taxable or exempt? If taxable, what rate?
 - New suppliers: Are all resale/exemption certificates valid and up to date?
 - More drop shipping: Who's liable for any tax due?
 - More refunds: Do sales and use tax returns need to be amended?

Poll Question 3:

In what area was your company most challenged by the events of 2021?

- a. Managing the productivity of remote staff
- b. Supply chain shortages
- c. Recruiting and retaining top talent
- d. Effectively managing increased risk
- e. Optimizing business process automation
- f. Other impact

Poll Question 3 Results: (Placeholder)

International Tax Compliance

VAT Changes: HMRC and Import VAT

As of January 1, 2021, the UK government changed import VAT obligations for ecommerce sellers and marketplaces.

- Online sellers must charge VAT live, during checkout, on goods not exceeding £135 (roughly \$180 USD).
- Beginning July 1, 2021, online marketplaces (OMP) that facilitate an import sale not exceeding £135 are responsible for charging and reporting VAT.
 - OMP = Marketplaces, platforms, portals, or similar electronic interfaces that facilitate the sale of goods to customers.



Digitalization of Tax Compliance:

E-invoicing and Real-time Reporting Take Root

- 83 countries currently have **e-invoicing** (submitting invoices electronically to customers) or **e-reporting** (reporting sales transactions via e-invoices as they occur or shortly thereafter) legislation.
- These requirements reduce the VAT tax gap and are more efficient and less expensive than managing paper invoices.
 - Hungary and South Korea have some of the strictest requirements, requiring reporting to be done in real-time
 - Italy to institute new accelerated reporting requirements in 2022
 - Saudi Arabia to implement e-invoicing in 2022

Poll Question 4:

Are you selling outside of the United States?

- a. Yes, we sell into other countries and will continue to expand
- b. We plan to start selling into other countries in 2022
- c. No, we have no plans to sell outside of the U.S.

Poll Question 4 Results: (Placeholder)

How Tax Automation Removes the Compliance Burden

Why Automate Sales Tax Management



Accuracy

Real-time tax calculations that get it right every time



Efficiency

Reduce costs and time spent managing tax compliance



Customer satisfaction

Streamline transactions with instant sales tax calculations



Risk management

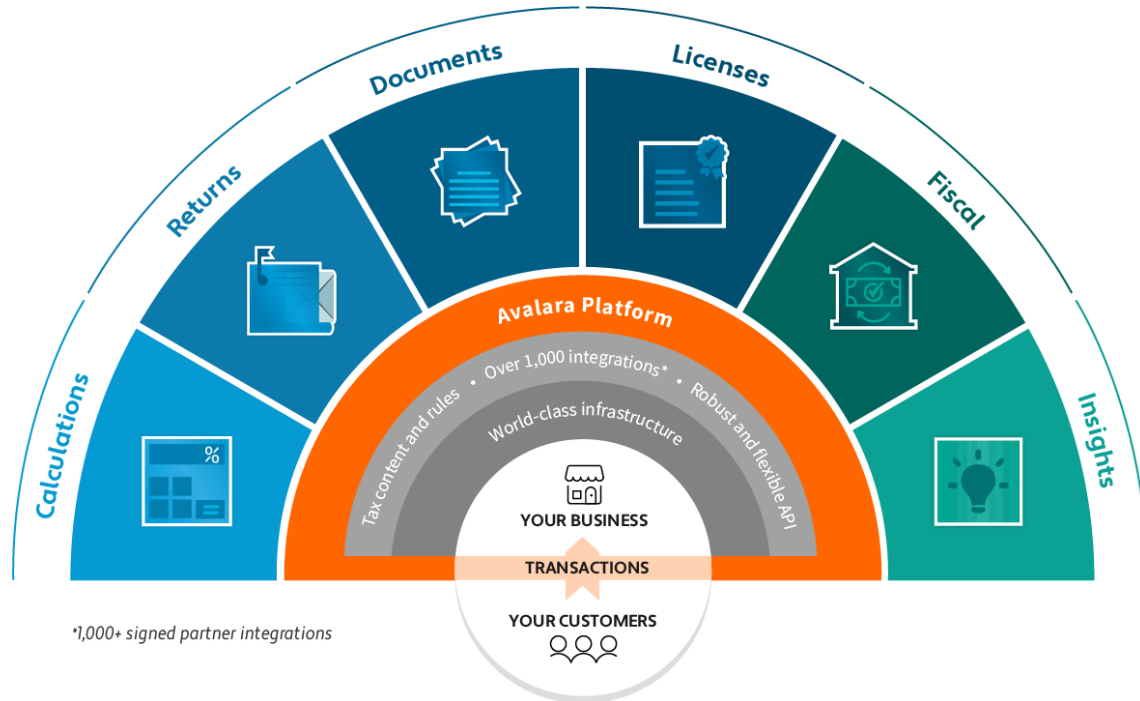
With accurate results, you'll decrease your company's risk



Business growth

Free up resources to focus on high-value projects

End-to-end sales tax compliance: Avalara's Tax Compliance Suite



Questions and Answers



Scott Peterson
VP, Government Relations
Avalara



Sue Khawaja
Business Development Manager
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Thank You to Our Featured Presenter!

Scott Peterson
VP, Government Relations
Avalara



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- Click the link in your post-event e-mail

► Please print a copy of the CPE certificate for your records.

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