THE 5 STEPS TO MANAGING SALES TAX COMPLIANCE FOR EXEMPT SELLERS

Stay compliant when tax gets complicated







GUIDE

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DISCLAIMER

While we hope you find this information valuable, this is not a substitute for tax advice from a certified tax professional. If you're unsure of your tax liabilities, please contact a tax expert.

Introduction

It's not easy to manage and properly document exempt sales, including sales for resale. But getting it right is crucial.

You need a comprehensive plan for compliance challenges and tax liability because an audit could result in costly fines – unless you have the right documentation for your exempt sales.
And as your company grows and evolves, so do your compliance obligations.

If this sounds daunting, you're in the right place. We've distilled tax compliance for exempt sellers into five clear steps and added links to resources where you can learn more.

The best part? You don't have to tackle this alone.

Avalara Exemption Certificate Management (ECM) was designed to automate exemption certificate compliance – and it's embedded in the Acumatica ERP platform.
That means it works seamlessly with the tools you already use.
(But we'll talk more about that later.)

THE FIVE STEPS TO MANAGING SALES TAX:

Step 1. Understand your tax obligations and register your business

Step 2. Determine which sales and which customers qualify as exempt

Step 3. Collect exemption certificates

Step 4. Validate exemption certificates

Step 5. Store, track, and manage documents and records

Step 1: Know where you're required to collect and remit sales tax and register your business

OVERVIEW

You might not need to register for, collect, and remit sales tax everywhere, so determining where your business has economic nexus is key. Nexus is the connection that establishes a business's tax responsibilities in a given jurisdiction – and it can be triggered by having a physical location, remote employees, affiliate relationships, or economic activity. (And remember, there can be filing and return requirements even for nontaxable sales.)

WHAT TO DO

Understand which business activities can establish nexus, then determine where you might have tax obligations. This can be tricky – for instance, are your exempt sales included in economic nexus thresholds for sales or transactions? Each state handles it differently.

A free nexus risk assessment can help you figure out where you need to register with the appropriate jurisdictions.

LEARN MORE

- Know Your Nexus ebook
- Avalara nexus resource hub
- Sales tax registration 101
- State-by-state guide to sales tax permits
- Exempt sales and economic nexus

Step 2: Determine which sales and which customers qualify as exempt

OVERVIEW

After you determine where you have nexus (and register your business), assess which sales and/or customers qualify as exempt from sales tax. There are many reasons for exemptions; a common one is when items are intended for resale.

Rules are different in each state, though. As the number and types of products or services you sell grows, so does the likelihood you'll have more tax-exempt sales.

WHAT TO DO

Once you understand the rules around tax exemptions, analyze your sales and decide whether to charge sales tax or accept an exemption certificate. New regulations for remote sellers might mean you need to collect certificates in a jurisdiction where they previously weren't required. If you're audited, valid documentation could help you avoid penalties.

LEARN MORE

- Managing exempt sales in the economic nexus era
- Drop shipping and new tax laws
- Understanding taxability rules
- Tax-exempt products and business use

Step 3: Collect exemption certificates

OVERVIEW

Purchasers who are exempt from sales tax must provide sellers with a valid certificate that proves their exemption. This gives you "permission" to not charge tax. If you sell online, you may want to integrate an automated certificate management solution – because you'll need to have all this documentation handy in the event of an audit. What happens if you don't have it? Your business could be on the hook for paying the taxes (and penalties).

WHAT TO DO

Collecting the right exemption certificates is just the start. You also need to verify the information is accurate and complete (see Step 4), file each certificate and the transaction details so you can track and retrieve them later, and monitor when certificates expire. (This is where automation can be a big help.)

Make sure you understand the certificates and specific forms for different jurisdictions and exemptions and decide whether you'll collect certificates upfront or at the time of sale. You should also determine whether you need to collect any exemption certificates for prior sales.

LEARN MORE

- The basics of exemption certificates
- State-by-state exemption certificate guide

Step 4: Validate exemption certificates

OVERVIEW

When a tax-exempt purchaser presents you with their exemption certificate, you need to verify the information to ensure the exemption is valid. Not validating this documentation can create big problems in the event of an audit – incomplete or invalid certificates put you at risk of incurring fines and penalties. Automated solutions can help with this step, too.

WHAT TO DO

Successfully collecting certificates won't matter if they aren't properly validated – so make sure you have a sound compliance process and resources to verify certificates at the time of sale. It's important to understand the information required for each type of certificate and check that each is complete. A few things to look for:

- A name and address consistent with the company name and address on the invoice
- A comprehensive description of the items purchased
- A signature of the purchaser or agent and date of completion, if required

LEARN MORE

- The exemption certificate life cycle
- Exemption certificate management (video)

Step 5: Store, track, and manage documents and records

OVERVIEW

After you've identified exempt customers and collected certificates, you need to maintain your records. This is not a set-it-and-forget-it process: As new customers come on board, you must check their qualifications and confirm each form is complete. Complicating matters even further are the varying rules in different states, which can make it difficult to keep it all straight.

WHAT TO DO

To successfully handle exempt sales, you need an efficient way to collect, store, manage, and renew exemption certificates at scale. Doing this manually can be risky because it's easy to misplace, misfile, or simply forget about documents – making it harder to prove compliance during an audit.

Moving this process to the cloud and automating it with a solution like Avalara Exemption Certificate Management alleviates many of these worries, keeping you organized, up to date, and on track with tax compliance. Even better, it integrates seamlessly with other powerful solutions, like the Acumatica cloud-based ERP platform.

LEARN MORE

- Automating exemption certificate management

TAKE THE NEXT STEP IN YOUR DIGITAL TRANSFORMATION JOURNEY

Now that you know what to do to manage exempt sales, let's look at how Avalara makes it easier with the power of automation – right in the Acumatica platform you already use.

It's another step in your digital transformation journey and, like Acumatica, it does more than address your challenges today – it's designed to evolve with your business and create opportunities for tomorrow.



Avalara Exemption Certificate Management – integrated with Acumatica

- Apply exemptions and collect certificates at the point of sale
- Identify, auto-validate, and verify the accuracy of exemption certificates
- Easily collect, store, track, and manage certificates and tax documents
- Avoid tax calculation errors that can result in rebilling and delayed orders
- Be audit-ready with on-demand reporting and access to sales data and documents
- Monitor and get alerts about changes to your sales tax obligations
- Manage all your sales transactions (taxable and exempt) in one place
- Add exempt sales management to your existing ERP, CRM, and billing systems
- Identify taxable and nontaxable sales and identify the right certificates

The power of Avalara and Acumatica makes it easier to manage and grow your business – however and wherever you sell. Connect today to learn more about how we can help you thrive.

Avalara
Tax compliance done right

+

Acumatica
The Cloud ERP

Avalara makes tax compliance faster, easier, more accurate, and more reliable for 41,000+ business and government customers in over 75 countries. Tax compliance automation software solutions from Avalara leverage 1,200+ signed partner integrations across leading ecommerce, ERP, and other billing systems to power tax calculations, document management, tax return filing, and tax content access. Visit avalara.com to improve your compliance journey.

Acumatica Cloud ERP is a comprehensive business management solution that was born in the cloud and built for more connected, collaborative ways of working. Designed explicitly to enable small and mid-market companies to thrive in today's digital economy, Acumatica's flexible solution, customer-friendly business practices and industry-specific functionality help growing businesses adapt to fast-moving markets and take control of their future. For more information, visit acumatica.com.

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