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keeping up with constantly-changing rates, to the perils of audits and penalties.

**Isaac M. O'Bannon** • Jun. 18, 2012



I recently had the opportunity to visit staff from [Avalara](#) at accounting-focused technology trade shows in New Jersey, Los Angeles and Las Vegas, as well as at their offices in Seattle and nearby Bainbridge Island, Washington. With a view of the Seattle Space Needle (coincidentally painted Avalara Orange), I was able to learn

about what the company is doing, what they're working on for small businesses, and

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pretty minor inconvenience, but for retailers that are growing either in locations or through web-based sales into an increasing number of jurisdictions, the pain can build into a significant challenge that can be expensive in terms of staffing and potential penalties.

The largest companies have managed these processes for years, either with proprietary technology or with large internal departments focused solely on reporting to the nearly 11,000 sales taxing jurisdictions in the United States. Small and mid-sized businesses simply don't have those resources.

If it were just the 50 states and assorted territories, the task would be much, much simpler. It's not that easy, though. Not only does each state have the ability to tax sales, services, rentals and even labor, at their discretion, many also delegate that power to their counties, cities and other districts, such as transit and port authorities. To make it more complex, these rates can change frequently, and each state and jurisdiction has different reporting requirements and deadlines, making it nearly impossible for smaller businesses to keep up.

The headache becomes a migraine when taxability issues are considered, because taxable items vary widely in each state and jurisdiction. A pack of gum may be considered untaxable in one, while taxable in another; Fruit in California is taxable if it's from a vending machine, but not from a grocer; [New York City businesses have to collect sales taxes on bagels](#), but only if you eat it in the restaurant – take it to-go and it's exempt; and in Wisconsin, plain yogurt and raisins are individually exempt from sales taxes, while raisin-flavored yogurt is not. These are just a small sample of the peculiar and volatile laws across the country, and then there are other issues, such as sales tax holidays when some states or localities exempt certain items, types of items or purchase amounts from sales tax.

The final piece of the sales tax puzzle comes down to nexus, of course. Before the

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technology has caught up to the need, and it is finally affordable. The [AvaTax](#) system from Avalara integrates with small businesses' accounting and sales systems to automatically look up the rate for a sale or estimate in any location in the U.S., then determines special taxability rules, posts tax line items to transactions and the GL, and offers drill-down capability to subsidiary jurisdictions like counties and cities.

AvaTax also offers automated filing of returns, with the system preparing and offering review of forms for all taxing entities, then handling the e-filing or mailing of hard copies, as well as the remittance of funds, all by the deadlines required for each jurisdiction. The system also includes tools for managing exemption certificates, helping reduce audit risk.

The backbone of the system is an extensive online database of rates and taxability rules, which is continually updated by Avalara's staff at their offices in Seattle and nearby Bainbridge Island, Washington. The rates and rules are based on much more than just ZIP Code, but also using technologies such as their Geolocation Engine, which is similar to GPS, and can identify specifically where a sale occurs. This is important for mobile sales, such as window replacement services, locksmiths and caterers, and also valuable for those selling products to contractors, where a physical street address may not yet have been assigned.

Avalara even offers free sales tax rate lookups on their website ([www.avataxrates.com](http://www.avataxrates.com)), but the true value in AvaTax isn't just the rates, but also having the system automatically perform rate and taxability lookups, and then freeing the business from all of the compliance functions. This can save hundreds of hours or more, allowing businesses to concentrate more on their specialty, instead of managing sales tax.

**Integration: The Key to Avalara's Growth**

Since it was started by the trio of Rory Rawlings, Scott McFarlane and Jared Vogt in

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Avalara's executive vice president Pascal Van Dooren noted that to serve the needs of this broad client base, which includes businesses in 45 countries, Avalara added support for VAT, and expects to grow their international presence to 61 countries by the end of the year.

"Our key focus is on continuing to serve the U.S. market, while also pursuing growth in Europe, perhaps with the addition of a European office by next year," Van Dooren said. As of 2012, AvaTax performs more than 1.7 million tax calculations per day for over 10,000 businesses, and will file more than 500,000 returns this year.

### **Innovation: The Key to Avalara's Future**

In addition to pursuing new markets, entering into partnership agreements, and the 2008 acquisition of TrustFile, a sales tax compliance system that it continues to offer for businesses with less complex comprehensive needs, Avalara is developing new technologies for small businesses and accounting firms.

One of the most dynamic areas of sales and use tax is the rapid growth in mobile payment technologies, such as Intuit GoPayment, which allows retailers to easily accept and process credit and debit card transactions on their smart phones or tablet devices. Avalara worked with Intuit to integrate the Geolocation Engine into GoPayment, helping these on-the-go retailers keep in compliance with sales tax rules.

The company also recently partnered with MuleSoft to create the iApp4Tax app using the Mule iON platform, which connects with AvaTax and gives users automated processing of online orders and integration into ERP and ecommerce accounting systems, including QuickBooks Online, Oracle and SAP.



“Mule iON provides a great alternative to those customers who previously relied on

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ledger, then automatically prepares all forms. After review by the company or their accounting firm, the system and Avalara's staff then take care of all filings and recipient mailings.

Since the program automates data population directly from the AP and includes a TIN validation feature, it dramatically reduces errors that can lead to increased audit risk. A built-in W-9 function can even automate the collection of data from vendors, with letters requesting correct information. The system supports forms 1099 MISC, INT, DIV, CAP, B, LTC, R, S and T, as well as forms 1042S, 3921 and 3922.

### **Partnering with Accounting Professionals**

Early on, Avalara recognized the importance of the accountant-small business relationship, and has worked with professionals in public practice to give them tools for helping clients manage their sales tax compliance processes. The company actively engages the accounting community through AICPA events and recently partnered with Sage North America to host a CPE-eligible webcast series on various sales tax issues to members of the Sage Accountants Network.

Avalara has also launched the Accounting and Advisory Services Program (AASP), which provides professionals with sales and use tax resources, knowledge and content. The program has three levels: The Resource Center, a Referral Partner Program and the Pro Partner Program, each of which provide tools for accounting firms that aid in sales and use tax compliance.

“Sales tax is on the radar of accounting professionals at firms of all sizes in a way we've not previously seen, because it's impacting their clients' businesses, and CPAs need to figure out how to better serve clients or direct them to trusted sales tax resources,” said Marshal Kushniruk, executive vice president of business development at Avalara. “Avalara's continued partnering efforts with Sage to deliver top-shelf

educational sales tax tools and resources to their SAN members mirror our stated

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