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Dec. 05, 2014

Note: Published October 28, 2014.

Source: State Business Tax Climate Index.

■ 10 Best Business Tax Climates

■ 10 Worst Business Tax Climates

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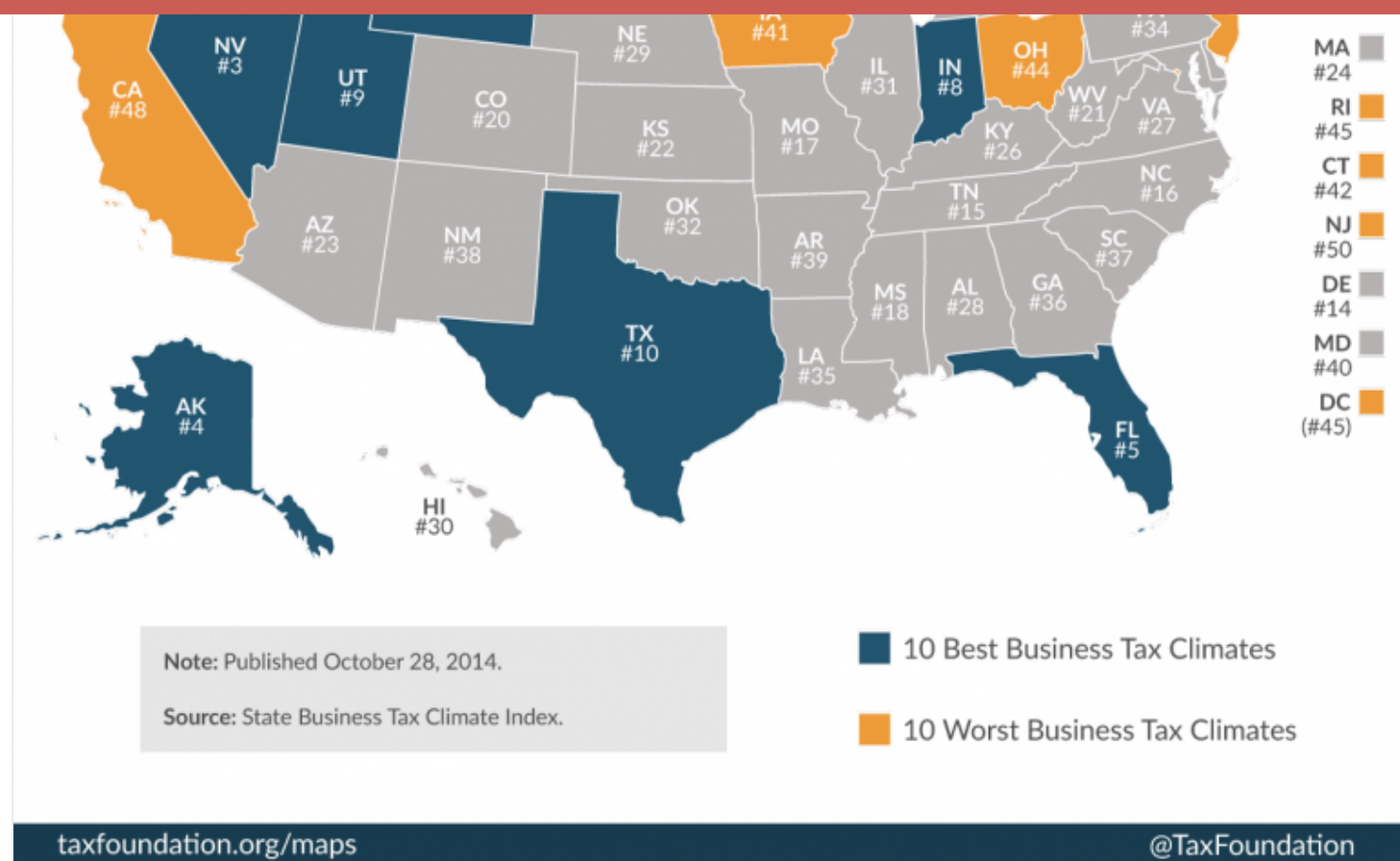
Getting the right tools for the job: The inevitable confusion regarding tax-free sales isn't for the faint of heart. It takes a sales tax survivor to get it right. With the right game pieces, players, and equipment in place, however, even the most challenged can succeed.

Follow these 5 survival tactics and you'll increase employee efficiency, reduce wasted administrative time, and lower risk of audit fines and penalties relating to invalid exemption certificates and inadequate management practices.

The Challenge

For companies selling multiple products and services into multiple states, the management and storage of exemption certificates can become an administrative

nightmare. If an exemption certificate is invalid, out of date, or missing, a company

- Includes name or address other than the direct buyer and seller
- Showing State ID applicable to the wrong state

Here are just a few of the requirements of accurate exemption certificate management:

1. Understanding the nature of the exemption.
2. Determine validity of exemption certificates.
3. Know the rules.
4. Determine product and service-related exemptions.
5. Automate.

These five tactics offer a competitive advantage and lower the risk of audit fines and penalties:

Survival Tactic #1 — Understand the nature of the exemption

Sales can be exempt for many reasons including:

1. The nature of the use—how or where the goods will be used by the buyer (i.e., resale).
2. The nature of the goods or services sold—some states do not tax services and labor. Others do.
3. The nature of the buyer—some states exempt nonprofits and government agencies from collecting sales tax. Others do not.

As the number of products sold grows, the likelihood of sales tax exempt sales increases, along with the difficulty of managing them correctly.

TO DO:

- Create systems to track changing rules regarding the tax-exempt nature of each

access to a unified exemption certificate form. In some cases, a company does not have to be registered to use the form, but it depends on the jurisdiction.

Complications arise for businesses selling in one of the twenty-three non-member states. Some non-SST states accept out-of-state forms. Some do not. Tracking individual form requirements in each jurisdiction into which you sell is a critical to exemption certificate compliance.

What needs to be on the form?

- Type of exemption (nature of use of good sold)
- Names and addresses of buyer and seller
- Description of goods purchased
- Tax registration number
- Signature of the purchaser

TO DO:

- Review exemption certificates submitted and ensuring they contain key elements identified above.
- If the state you're dealing with is an SST state, use the recommended forms.

Survival tactic #3—Know the rules

Knowing which form to use is only part of the puzzle. For each state in which your company has nexus (a connection that triggers a sales tax requirement), tracking tax-exempt transactions based on use, tax holidays, and source of the transaction requires super human strength and agility.

Type of use

Based on the nature of the product or service purchased, a transaction may or may

under- or over-collecting sales tax.

Sourcing

Whether a transaction is sales tax exempt also hinges on the location of the buyer and the seller. Most sales within a state are based on the location of the seller, whereas sales made between states are typically based on the consumer's location. Some taxing jurisdictions determine taxability based on the location of the seller. These "sourcing rules" are not consistently applied in each state and can cause an audit risk if incorrectly exercised.

TO DO:

- The Sales Tax Institute publishes a list of sales tax holidays by state.
- Know whether to collect a resale or exemption certificate and whether one form can be used for both.

Survival tactic #4—Determine product and service-related exemptions

Many states are addressing budget gaps by increasing product and service taxability, but many products and services are still sales tax free. As taxing jurisdictions change their rules about taxability of goods and services, your business needs to be aware of the changes and adjust its accounting systems accordingly. The risk of under- or over-charging consumers sales tax can result in a higher risk of audit, as well as customer dissatisfaction.

TO DO:

Review taxability matrices available on many departments of revenue websites here.

Survival tactic #5—Automate

From a sales tax compliance perspective, manually managing tax-exempt sales and

- Automates collection
- Tracks the progress of collecting certificates
- Helps to ensure the completeness of certificates
- Eliminates lost certificates
- Tracks certificate expirations
- Improves the exempt customer experience

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Sales Tax

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