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many tax and finance departments.

**Gail Cole** • Feb. 06, 2024



Collecting, validating, storing, and renewing exemption certificates is a challenge for many tax and finance departments. Yet some tax teams have reduced if not eliminated the burden of exempt transactions. What's their secret? What's the most effective way for tax and finance departments to handle tax-exempt sales?

Avalara and Hanover Research teamed up to find out. In June 2023, Hanover surveyed nearly 400 accounting, tax, and finance professionals from organizations across Europe and the United States. Participants were asked about their [top challenges and priorities](#), whether their companies have [automated tax/finance activities](#), and other compliance questions.

The focus of this article is exemption certificate management. Specifically:

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collect an exemption certificate — or make sure you have a valid certificate on file. For remote sellers, that can amount to a lot of work.

On top of that, you have to update certificates before they expire. [Expiration dates vary by state and type of certificate](#), so if you deal with a large number of these documents, keeping track of them can easily get out of hand. And even if a certificate has no expiration date, it's important to periodically verify that the information on the certificate is up to date.

In the event of an audit, the auditor will probably want to see exemption certificates from the audit period. Properly completed, up-to-date [exemption certificates](#) and [resale certificates](#) prove the customer qualified to purchase the goods tax free. But auditors usually don't try to get eyes on *every* certificate because there are simply too many of them. Instead, they can use sampling.

“Sampling is a process of drawing a conclusion about an entire body of information based on measurements of a representative sample of that information,” explains the [California Department of Tax and Fee Administration](#) (CDTFA). “Sales and use taxes are transaction taxes, meaning that tax is determined on a transaction-by-transaction basis. Therefore, verification must be done at the source document level. Since in many cases it is economically impractical to audit all transactions, the CDTFA encourages the use of sampling whenever feasible.”

For taxpayers, there are pros and cons to the method. If most of your exemption certificates have expired but the sample shows your business to be 95% compliant, lucky you. On the other hand, if your business is 95% compliant but the auditor falls upon the 5% of certificates that are invalid, sampling wouldn't work in your favor.

Simply put, managing exemption certificates is important, and given the volume of these documents, it can be hard. So ...

# How do businesses manage exemption certificates?

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All manual	19%
Mostly manual	35%
Even mix of manual and automatic	34%
Mostly automatic	10%
All automatic	3%

Looking just at the North American numbers:

- 54% of U.S. businesses surveyed manage exemption certificates manually and 36% use an “even mix” of automation and manual solutions
- 51% of the Canadian businesses surveyed manage exemption certificates manually and 40% use an “even mix” of automation and manual solutions
- 10% of both U.S. and Canadian businesses surveyed have automated exemption certificate management

## Are businesses efficient at managing exemption certificates?

Are business leaders satisfied with the way their finance and tax departments handle these documents? Overall, not so much. Fewer than half (49%) of the businesses surveyed described their finance/tax department as either “very” or “extremely” efficient at managing exemption certificates.

How efficient is your finance/tax department in managing exemption certificates?	Very efficient	Extremely efficient
All respondents	34%	15%

Interestingly, European respondents were more likely than North American

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What do all these numbers mean? Organizations tend to be most efficient at the tasks that are automated, according to researchers at Hanover. The study found that about half (53%) of all organizations surveyed manually manage exemption certificates, and about half (49%) rated themselves as efficient in managing exemption certificates.

## How can businesses handle exemption certificates more efficiently?

Automation can help, and indeed, Hanover found that organizations tend to automate tasks they struggle with.

Since fewer North American than European organizations surveyed described themselves as efficient at managing exemption certificates, it stands to reason that more North American than European organizations would be pursuing automated solutions for exemption certificate management. And indeed, the data bears that out.

When the survey was conducted in June 2023, the IT teams of North American survey participants were twice as likely (32%) as their European counterparts (16%) to be initiating automation to manage exemption certificates. Avalara knows companies that have automated the management of exemption certificates are seeing results.

“We had physical records that we’d go and check for expiration dates,” explains Colleen Bremer, who heads customer service and logistics in the United States for the British company [Limbs & Things](#), an Avalara customer. “It was very rudimentary, and we really could not continue to apply this practice as we grew.”

Without an automated system in place to manage exemption certificates, audits were

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