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Complexity

Expanded sales tax liability is a potential minefield for businesses of all sizes, especially those with ecommerce activities, requiring constant tracking and application of changing tax rates across thousands of jurisdictions in the U.S.

Isaac M. O'Bannon • Feb. 27, 2024



Businesses of all sizes have compliance issues that require close attention, from client and staff management, to bookkeeping, inventory, budgeting and taxation. To help manage these processes, they often turn to a certified public accountant, a technology they can use in-house, or both.

However, businesses that are seeking, or already have, funding from sources outside

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Dakota v. Wayfair ruling in 2018, individual states have had much greater authority to levy taxes on transactions thanks to economic nexus legislation. As a result, even small businesses may now have reporting obligations to dozens or more states, and even with cities and counties within them.

This expanded tax liability has been a potential minefield for businesses of all sizes, especially those with ecommerce activities, requiring constant tracking and application of changing tax rates across thousands of jurisdictions in the U.S. Already a tedious task, the sloppy management of these obligations can result in state audits, hefty fines and legal costs, which can obviously be detrimental to the success of a small enterprise.

Faced with the challenges and high risks involved in sales tax compliance, there has been a sharp increase in startups seeking assistance in this space, and professional business advisory firms like [Stage 1 Financial](#) have built sales tax services teams and adopted technologies to help these clients.

With approximately 85 professional staff in the U.S., Stage 1 Financial offers a variety of financial management, reporting, operations and compliance services to its investor-backed startup clients, with core verticals in the health and beauty, fashion, and food & beverage industries. One of its core growth services is sales tax management. According to Adrian Rivers, a tax attorney who leads a team of sales tax experts at Stage 1, clients can range from pre-revenue to those with \$5-100 million in sales. As a result, the levels of complexity vary significantly.

“Our goal is to help clients improve and maintain operational and financial efficiencies, until they have a successful exit from stage one of their business growth,” Rivers said. “This means they are either purchased by a larger entity, or they have grown to the point where they can take charge of their own financial management in-house.”

For the sales and use tax group that Rivers leads, the firm has two ways it helps

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periodic calls to update clients on issues or recommended steps. For this full sales tax service, the firm uses Avalara Managed Returns for Accountants (MRA), which has the same comprehensive automation, filing and preparation functions, but is designed for firms managing these processes for multiple client businesses.

Avalara also integrates with leading business applications and imports tax data directly from client accounting, ecommerce, point of sale and other platforms eliminating the manual labor that is also the most error prone. Rivers and his team also help some clients run the Avalara system in-house, with occasional guidance when needed. However, as the State and Local Tax Senior on the Stage 1 team, Andrea Sallie says that most clients want to hand the process off.

“Most of our clients don’t really want to be involved in the sales tax piece,” Sallie said. “You know they’re busy with the seeding and the funding and all the glamorous parts of the business. Sales tax is not really considered the glamorous piece. So, they prefer the automated Avalara system, whether they are managing it themselves, or handing it off to us.”

Rivers refers to Stage 1 Financial’s “white glove” service, where clients pass along any notices or mail they receive from taxing entities, “and we handle all filings and the Avalara implementation. And those can be done whether we’re doing those filings manually, whether we’re using the Avalara MRA system, or if the client is fully automated with Avalara we’ll manage just the Avalara client portal interactions and act as the liaison for the client when interfacing with Avalara.”

When Rivers joined the firm in 2021, just a few clients were using Avalara, but within a few months he saw the potential that Avalara’s automation could have for almost all of their clients. Avalara soon became the core platform for the sales tax department, and the department became a more integral part of the overall firm’s business service offerings.

Fortunately, since most of the clients that Rivers and his team serve are startups, they

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