



Making the Best of a Taxing Situation

The keys to accurately and efficiently managing sales tax exemption certificates

Effectively and efficiently managing sales tax compliance can be a major headache for any retailer. For those that sell into multiple jurisdictions with differing—and sometimes contradictory—laws and regulations, the process can become even more complex. Keeping current with all of the tax exemption rules and requirements for every state is not easy.

Yet collecting the sales tax that is owed is not optional. Failure to thoroughly and accurately comply with all applicable laws can lead to substantial fines and penalties—not to mention the time and cost spent straightening out errors after the fact.



When to tax, when not to tax.



Further complicating the collection of sales taxes is the fact that many of your customers are exempt from paying those taxes for a variety of valid reasons. For instance, in virtually all jurisdictions, non-profit organizations are exempt from sales tax. That's one of the easy ones.

Where things begin to get more challenging is when exemptions rest on how the buyer plans to use the goods they're purchasing. For instance, many—but not all—states and municipalities allow tradesmen to purchase the tools they need to do their jobs without paying tax.

Then there are the various laws regulating goods purchased for “resale” and “value-add.” In these cases, buyers use the goods you sell them to create another work-product subject to taxable sale. The sale of some of these goods, in some jurisdictions, is tax exempt.

Even when a buyer does qualify for a sales-tax exemption, however, one thing's for sure; the only way you can legally waive that tax is if you have a valid, up-to-date exemption certificate on file and ready to show to any auditing agency.

How do you keep track of who is exempt from sales taxes?



This is the second area of complexity retailers face on a daily basis. How to obtain and maintain exemption certificates in a way that facilitates their convenient retrieval. This is a big issue, both for your employees who are processing customer transactions and for your customers themselves.

For employees, the first issue is being able to quickly and accurately confirm whether a buyer has a valid certificate already on file. If you don't—and the customer believes that they qualify for an exemption—your employees need to be able to help the customer create an exemption certificate with minimal time and effort spent by everyone involved.

The matter becomes even more problematic if you operate multiple stores. Each store needs to have immediate access to your database of certificates. And you must be certain that they're accessing the certificates that apply to the state and/or municipality where that particular store is located.

A bad user experience can cost you business.



From the customer's perspective, they expect your store to be able to validate their exemption seamlessly, complete the sale and allow them to be on their way as quickly as possible. The inability to do so can represent an enormous competitive disadvantage for your store. If every time a customer comes into your establishment, they have to spend what can add up to significant time determining whether or not they need to pay sales tax, they are likely to just start taking their business elsewhere. And that doesn't even take into account the aggravated customers waiting in line while your employees sort out the situation.

These issues extend beyond the storefront.

Up to this point, we've been looking at the complexity of managing tax exemption certificates for face-to-face transactions in your brick-and-mortar stores. But, for most retailers today, a significant portion of sales take place online.

This means that your process must be able to retrieve and validate exemption certificates for customers ordering through your online portal, as well as those buying on site. And just as with on-site sales made from stores in multiple locations, your online validation method needs to apply the appropriate certificate for the jurisdiction where the sale is being registered.

This can make matters considerably more complex if, for instance, a customer in Nevada is placing an online order that is being processed through your ecommerce operation and being shipped to Colorado. While the buyer may have a valid certificate on file for when he shops in his local store in Reno, you need to know whether or not that certificate is valid for this online purchase being shipped from Colorado.

He may need to file a new certificate for the state of Colorado, as well as any municipal taxing authorities. If that is the case, your web interface needs to be able to smoothly process the application and validation for the new certificate.

Why is this all so important?

Taxing authorities typically conduct frequent, often unannounced, audits. When auditors arrive in your office and ask you to document why you didn't collect sales tax for certain transactions in your records, you need to be able to produce a valid, current exemption certificate quickly. And that means you need a process that generates alerts when certificates have expired—or better yet, shortly before expiration so they can be renewed in time to avoid complications at the time of a sale.

Not only are audits stressful, they can also be a huge drain on resources. And, if employees are forced to search through hundreds or thousands of paper certificates in response to an audit, that's all the more time they could otherwise be devoting to advancing your business interests.

Difficult challenges require innovative solutions.



Managing all the moving parts of your tax exemption certificate process can be mind-bogglingly complicated. The volume of work involved is enormous. And, multiple touch points must be included in the loop.

Obviously, this effectively precludes the old fashioned method of manually accessing certificates stored in a filing cabinet, as well as using a spreadsheet or network drive to store documents. The time involved makes these method inefficient and costly for your organization, and annoying for your customers.

Automation software exists, but many of the solutions on the market only do part of what you need done. Others simply don't do it all well. And, you really don't want to discover your software has let you down when you're in a middle of an audit.

The five pillars of effective digital exemption certificate management



- 1 **Collection and validation** – Whether at the point of sale or online, it's essential that you have the capability to quickly access your database and confirm that your customer has a currently valid exemption certificate on file. Likewise, customers without a valid certificate should just as easily be able to file for a new certificate. This functionality should be easily accessible through your online interface and, for onsite customers, configured into your POS devices or available at stand-alone, dedicated kiosks to avoid inconveniencing other customers.
- 2 **Renewal management** – If a customer's certificate has expired or is nearing expiration, there needs to be a quick, frictionless process for updating it. Ideally, there will be an alert function that electronically notifies both you and your customer that their certificate is nearing expiration and needs to be renewed—and links the customer to an online portal where they can quickly bring their compliance up to date.
- 3 **ERP and tax decision software integration** – Effective integration of your tax exemption database with your financial management software can greatly streamline your organization's filing of sales tax payments and income taxes. Integrating these systems so they can “talk” to one another can save you time and help prevent errors and discrepancies that can lead to further audits, penalties and additional taxes.
- 4 **Storage and retrieval** – For mid-size to large businesses, the number of exemption certificates that need to be managed can quickly grow from hundreds, to thousands, to hundreds of thousands. Even smaller businesses are likely to find that storing and locating the right certificate when it is needed is inordinately time consuming and costly. The convenience of having certificates stored electronically and readily accessible from virtually anywhere is an enormous advantage. This is particularly true in the case of audits, when you need to be able to access accurate, timely records immediately.

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Anywhere access — Making the exemption process seamless for online purchases is essential. But to stay competitive, you also need to provide customers with an app that allows them to access the system during purchases made on mobile devices. Today, more than ever, your company will have a need to access and manage information closer to the transaction, and your customers are placing orders on demand using the most convenient and secure device available. In such situations, a solution that supports the latest mobile and tablet devices becomes an immediate competitive advantage.

So what's the solution?

What if you had an end-to-end system that instantaneously managed the retrieval and validation of certificates at the point-of-sale—for all store locations and online transactions? And, what if that system could facilitate the quick collection of data necessary to issue a new certificate, as well as alerting you and the certificate-holder in advance of a certificate nearing expiration? And finally, what if that solution integrated seamlessly with all your other software—including your point-of-sale terminals and ERP and tax solutions?

CertCapture Retail from Avalara is a true enterprise-class tax exemption management system that offers you all that and more. CertCapture works by managing the creation, collection and validation of certificates and certificate information. The system has powerful reporting and renewal management capabilities that can automate the request of new certificate information via multiple channels including email, print and fax.

Exemption information is made available to tax calculation software to determine full or partial exemption for buyers with valid and current exemption status. And the cloud-based system, designed for security and scalability, makes viewing and analyzing information quick and easy. Plus, as a SaaS solution provider with large teams of tax experts, Avalara stays thoroughly up-to-date on all changes to forms and regulations in virtually every jurisdiction.

To learn more about how Avalara CertCapture Retail can help you accurately and efficiently manage your sales tax exemption certificates, visit certcapture.com/retail.

About Avalara

Avalara helps businesses of all sizes achieve compliance with sales tax, VAT, GST, excise tax, and other transactional tax requirements by delivering comprehensive, automated, cloud-based solutions that are fast, accurate, and easy to use. Avalara's end-to-end suite of solutions are designed to effectively manage complicated and burdensome tax compliance obligations imposed by state, local, and other taxing authorities in the United States and internationally.

Avalara offers hundreds of pre-built connectors into leading accounting, ERP, ecommerce and other business applications. The company processes millions of tax transactions for customers and free users every day, files hundreds of thousands of transactional tax returns per year, and manages millions of exemption certificates and other compliance related documents. A privately held company, Avalara's venture capital investors include Sageview Capital, Battery Ventures, Warburg Pincus, Arthur Ventures, and other institutional and individual investors. Avalara employs more than 750 people at its headquarters on Bainbridge Island, WA and in offices across the U.S. and in London, England and Pune, India. More information at: www.avalara.com