

The Sales and Use Tax Knowledge Gap: What Companies are *Really* Doing About Sales Tax Compliance

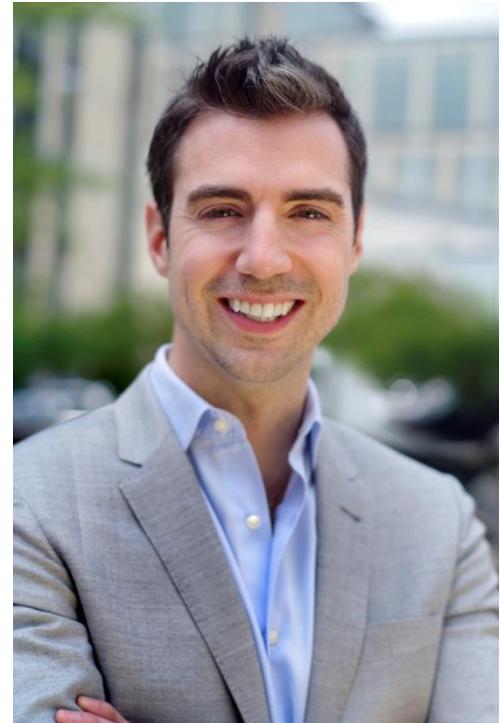


WAKEFIELD

Nathan Richter

Nathan Richter is a partner at Wakefield Research, an independent global research consultancy that works with some of the world's most iconic B2B and consumer brands.

Nathan is a thought leader on research-based enterprise technology and serves as a resource for media. His work appears regularly in top media and journals, including, The New York Times, Wall Street Journal, The Harvard Business Review, Forbes, and NPR.



Methodology

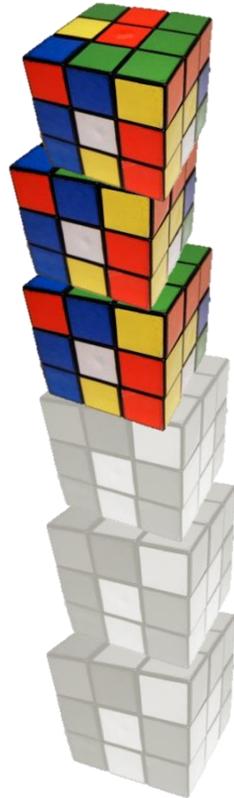
In November 2014, Wakefield Research conducted a survey among 400 accounting professionals using an email invitation and an online survey.

These accounting professionals were at companies with \$1 million or more in total revenue.



Mastering Sales and Use Tax Laws

48%
Rubik's cube

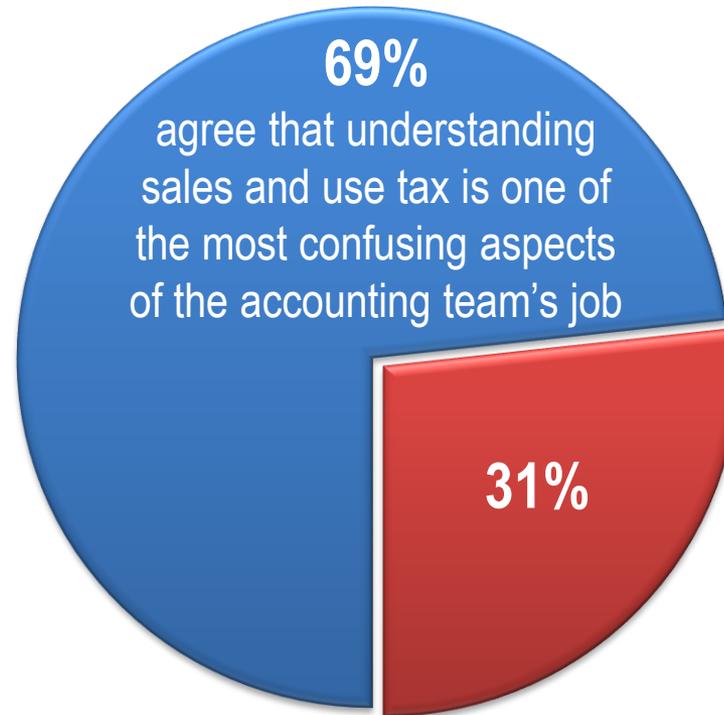


52%
Sales and use
tax laws

Nearly half of accounting professionals (48%) think it would be **easier** to master a Rubik's Cube than sales and use tax laws.

Q: Which of the following would be easier to master?

Sales and Use Tax is Confusing for Accounting Professionals



Q: How strongly do you agree or disagree with the following statement – understanding sales and use tax is one of the most confusing aspects of the accounting team's job.

Paperwork is the Greatest Burden for Accounting Professionals

24% say the biggest burden for their company is dealing with paperwork.

24%

Amount of paperwork



21%
Administration of returns



21%
Lack of consistency in regulations



20%
Concern over getting audited



10%
Financial cost

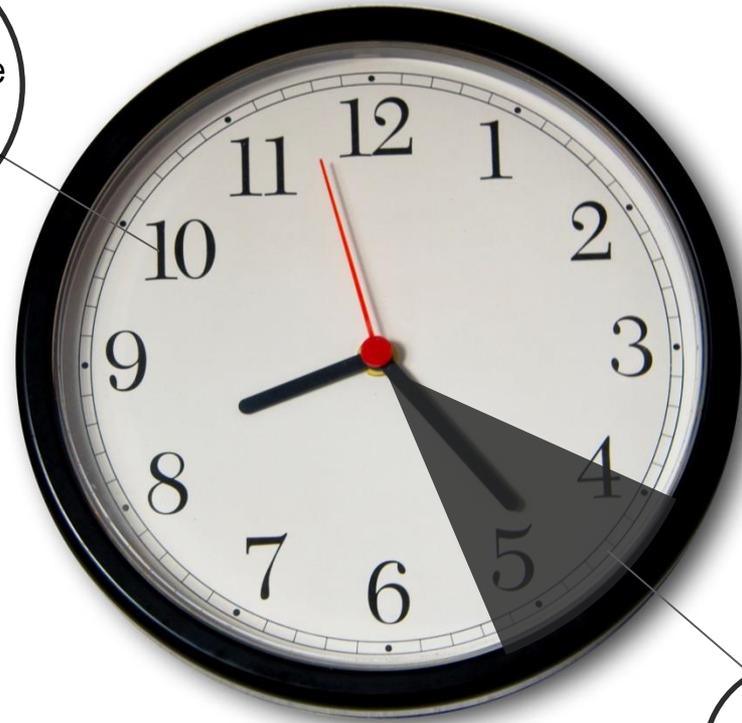


Q: Which of the following areas of sales tax compliance present the greatest burden to your company?

Time Spent Managing Sales and Use Tax Compliance

87%
Spend the same
amount of time
or more

The majority of accounting professionals spend the **same amount of time or more** managing sales and use tax compliance, compared to 5 years ago.



13%
Spend
less time

Q: Compared to five years ago, does your company spend more or less time managing sales and use tax compliance?

Too Much Time is Spent on Sales and Use Tax Compliance



On average, accounting teams spend **9 hours a week** filing sales tax returns and remitting payments.

Q: During a typical month, approximately how many hours per week does your accounting team spend filing sales tax returns and remitting payments?

Is Overconfidence Putting Companies at Risk?



96%
of accounting professionals are **confident** their company has the correct tax strategies in place.

Q. How confident or not confident are you that your company has the correct tax strategies, policies, and processes in place?

2 in 5 Companies Rely on “Existing Knowledge”

2 out of 5 (40%) companies rely on existing knowledge to determine sales tax rates and taxability rules.

- 45% look up the rate on the state’s website
- **40% rely on existing knowledge**
- 33% use an outsourced automated tax program integrated to their accounting/e-commerce system(s)
- 31% look up the rate using the 5-digit zip code
- 26% rely on outside tax professionals or consultants
- 17% treat all jurisdictions identically for taxability purposes
- 2% Other

Q: Which of the following methods, if any, does your company use to determine sales tax rates and taxability rules?

Nearly 1 in 3 Companies Don't Track Their Exemption Certificates, Putting Them at Risk for an Audit

73% have a system for tracking exemption certificates.



28% have **no system** for tracking exemption certificates.

Q. Does your company currently have a system in place to keep track of exemption certificates for customers or clients who aren't required to pay sales tax?

Accounting Teams' Time Could Be Better Spent

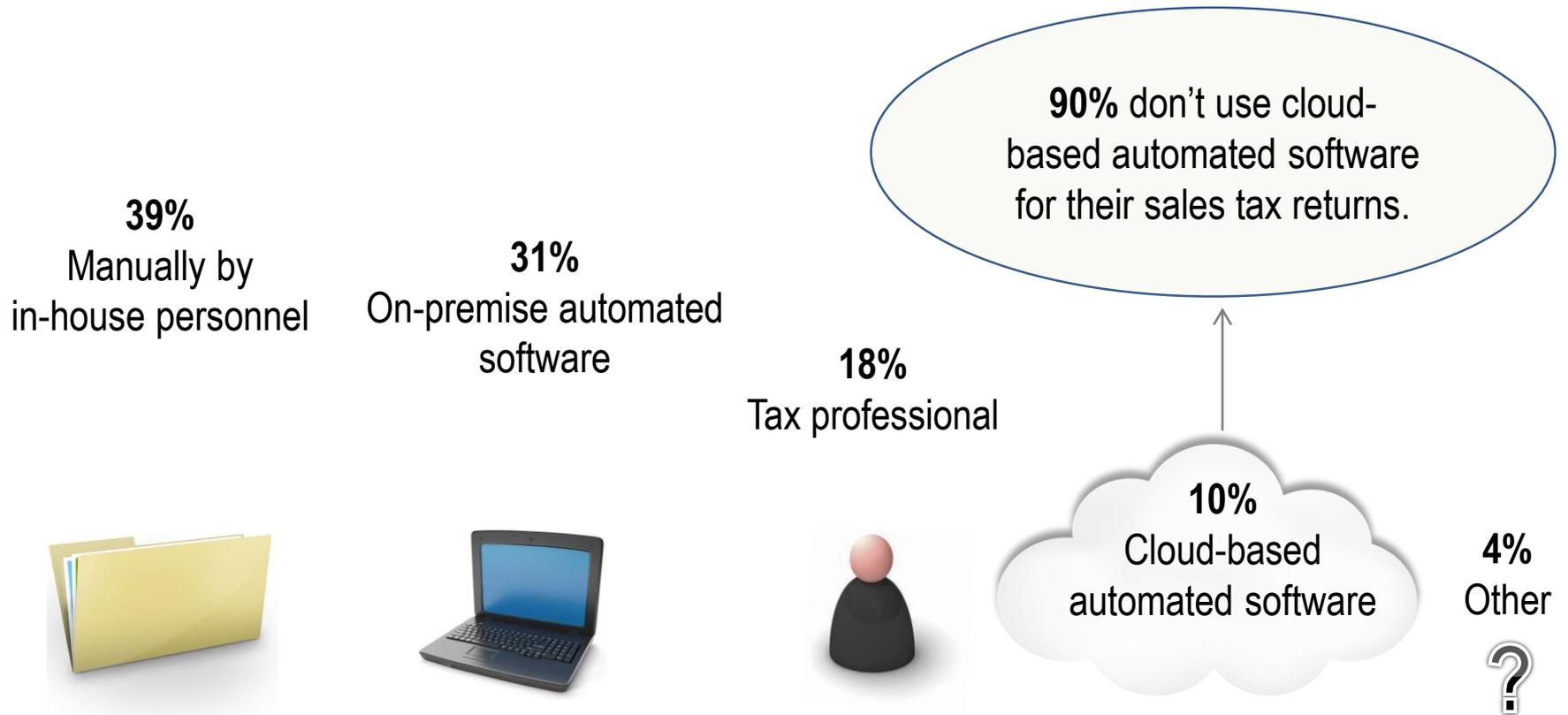
Accounting teams spend an average of **5 hours** per week requesting, validating and storing exemption certificates.

That's 260 hours per year.



Q: Among those who have an exemption certificate process in place: During a typical month, how many hours per week does your accounting team spend requesting, validating and storing exemption certificates?

90% of Accounting Professionals Don't Use Cloud-Based Software



Q: Which of the following best describes how your company's sales and use tax returns are prepared?

44% of Accounting Professionals Can't Remember the Last Time They Updated Their Sales Tax Processes

Despite rapidly changing rules, 44% don't remember the last time their company updated their sales tax compliance processes.

Updated Sales Tax Compliance Processes	%
Less than one month	23%
1-6 months	20%
More than 6 months	14%
Cannot remember the last time	44%
Average	5 months

Q: Approximately how long has it been since your company last updated its sales tax compliance processes?

For Many, Having a Root Canal Preferred to Enduring an Audit

42% of accounting professionals would **rather** endure a root canal than a sales tax audit.

42%
Root canal



59%
Sales tax audit

Q: Which of the following would you rather endure?

Most Accounting Pros Say Their Company Likely to Be Audited



The **majority** of accounting professionals think it is **likely** their company will be audited.

Q: In your opinion, how likely or unlikely is it that your company will ever be audited?

Would Auditors Find a Mistake?



Q: In your opinion, if your company were audited for sales & use tax, how likely or unlikely is it that the auditor would find mistakes?

How Well Do Accounting Pros Know the Facts on Auditing?

83% of accounting professionals got at least **one fact wrong** about audits – and **57%** got at least **two facts wrong**.

% that got the response incorrect

Audit Myths/Facts	% that got the response incorrect
Truth: Once you are audited, your company is at risk to be audited again	55%
Truth: Liabilities uncovered during an audit can affect the valuation of a company	53%
Truth: If you are audited, it does not always mean that an error was made	28%
Myth: Audits only encompass one fiscal year at a time	17%
Myth: Audits are completed remotely by an auditor	16%

Q: Which of the following, if any, are true about audits?

Business as Usual Makes Sales Tax Complicated

85% say their company performs activities that make sales tax calculations complicated.



Top 3 Activities Likely to Lead to Mistakes	%
Having customers who are exempt from sales tax	59%
Attending a trade show in the last 12 months	38%
Delivering products using own company vehicles	32%

Q: Which of the following practices or policies, if any, apply to your company?

The Cost of an Audit

It costs **\$114,147** (on average) to manage an audit.



Q: Among those who have worked at a company that has been audited: approximately how much did it cost, in total, to manage that audit?

Audited Companies Say Process Took More Than a Month



Companies that have been audited say the process took an **average of 37 days.**

Q: Among those who have been audited: When your company was audited, approximately how long did the whole process last?

Lingering Negative Effects of an Audit

42% of accounting professionals say there were **negative, internal effects** as a result of their company being audited.*

Negative Effects of an Audit	%
Managers micro-managed employees	20%
Employee productivity suffered	18%
The work/life balance of employees suffered	17%
Office morale suffered	17%
The level of customer service diminished	11%
The quality of employees' work diminished	10%

17% of accounting professionals say there were **negative, external effects** as a result of their company being audited.*

Q: Among those who have been audited: Which of the following, if any, happened as a result of your company's audit?

*Complete response set not displayed.

What Are the Most Common Issues Identified During an Audit?

92% of accounting professionals who have worked for a company that has been audited say issues were identified during the audit.

35%

Business purchases eligible for use tax did not also include sales tax



34%

Customers invoiced as tax exempt without valid exemption certificates on file



33%

Company documents were missing or inaccurate



30%

Customers invoiced with incorrect sales tax rate applied to calculation



Q: Among those who have been audited: Which of the following issues were identified during your company's audit?

Most Companies Remit or File Sales Tax to Multiple States

53% of accounting professionals say their company remits or files sales tax to **multiple states.**

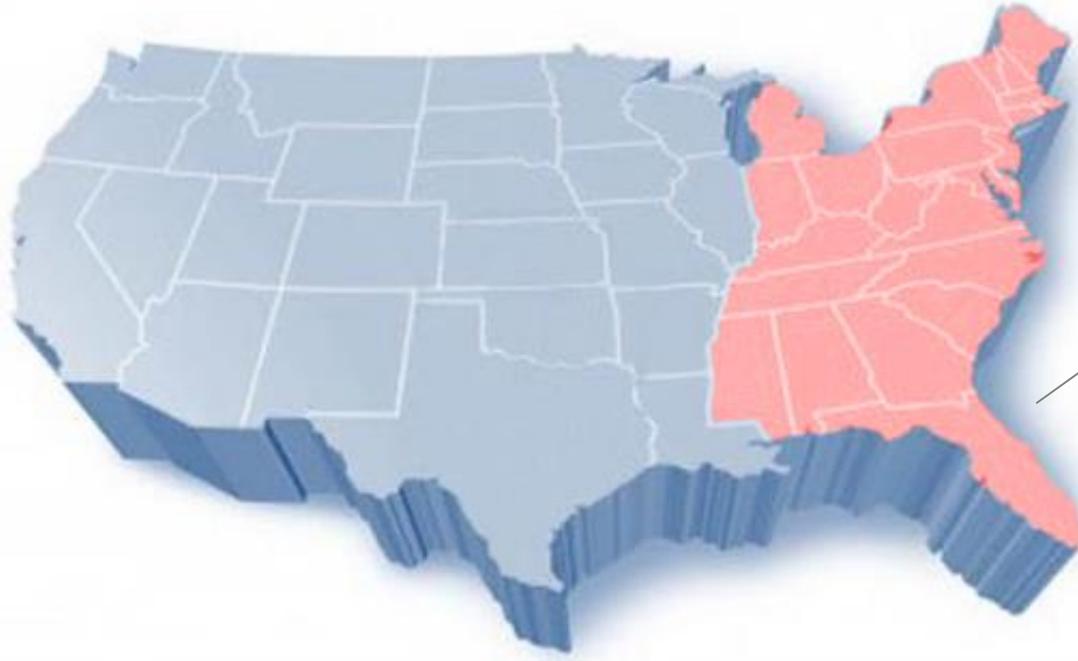


47% of accounting professionals say their company remits or files sales tax to just **one state.**



Q: Which of the following is true of your company's sales tax situation?

Many Don't Know Where Their Business Has Nexus



Nearly **2 out of 5 (39%)** accounting professionals **don't know** all of the states where their business has nexus.

Q: Do you know all of the states where your business has nexus?

Familiar Does Not Mean Knowledgeable

Majority of accounting professionals **say** they are familiar with nexus as it relates to sales and use tax.

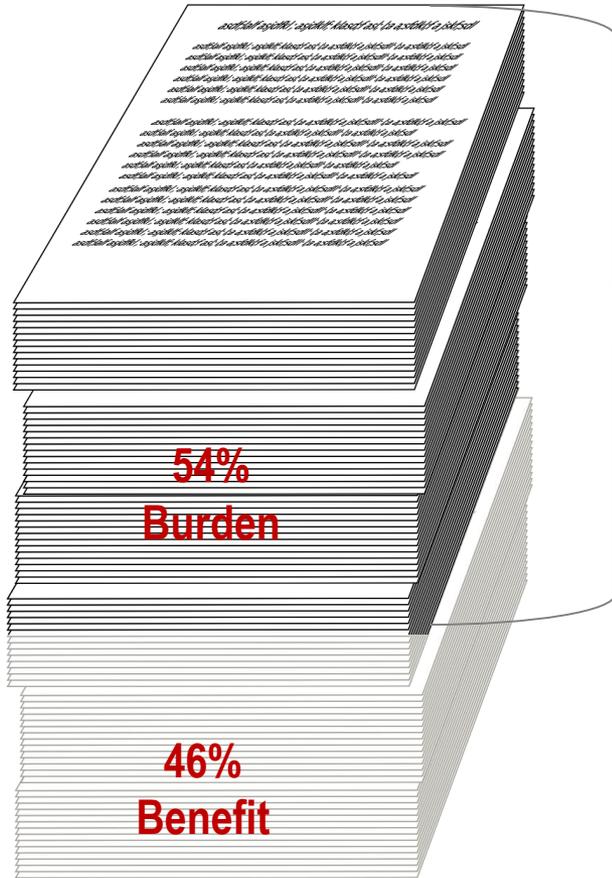
But, 89% got at least one fact wrong about it.

58%
**Familiar with
nexus**



Q: How familiar or unfamiliar are you with nexus as it relates to sales and use tax?
Among those familiar with nexus: Which of the following, if any, do you believe to be true about nexus as it relates to sales and use tax?

Accounting Pros Think MFA Will Be a Burden for Business

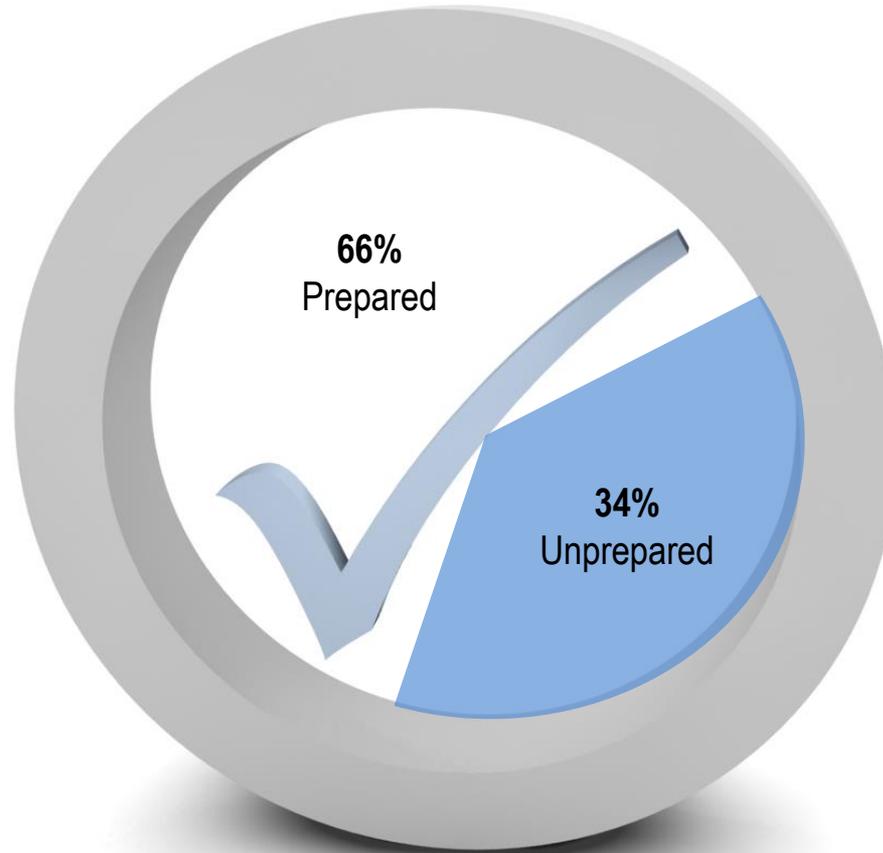


Majority of accounting professionals think that if passed, the Marketplace Fairness Act (MFA) would be a **burden** to their business.

Q: In your opinion, would the passing of the Marketplace Fairness Act be a benefit or a burden to your business?

Accounting Pros Feel Prepared for MFA

66% of accounting pros **say** they would be prepared if the MFA went into effect tomorrow.



Q: How prepared or unprepared would your business be if the Marketplace Fairness Act went into effect tomorrow?

Are Businesses Really Ready for MFA?

When given a list of steps to prepare for the passage of MFA, **40%** of accounting pros said their company **had not taken any of them** – and only 1 in 4 had briefed accounting staff on the MFA's requirements.



75%

Had not briefed
accounting staff on the
act's requirements



73%

Had not researched sales tax
requirements for my company
by category



70%

Had not researched sales
tax requirements for my
company by state

Q: Which of the following, if any, has your company done in anticipation of passage of the Marketplace Fairness Act?

The Sales and Use Tax Knowledge Gap: What Companies are *Really* Doing About Sales Tax Compliance



WAKEFIELD

Avalara's capabilities continue to grow



Improving Technology

Added support for Lat/Long, new REST API, UPC taxability, and high-availability cloud deployment

Expanding Integration

Hundreds of integrations on all major commerce platforms

Avalara Services

Expanded offering to customers with related applications



About Avalara

Avalara provides an end to end sales tax compliance model via automation. Instead of researching rates, building tax tables and implementing tax processes, companies simply install a software connector that links their accounting and EPR system to Avalara's web service. As a cloud software, it continuously updates tax rates, rules and boundaries automatically.



Contact Us



www.avalara.com

877-780-4848

