SALES TAX CHANGES

2021

Presented by Patty Loessberg

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- Patty Loessberg is the Sr. Strategic Alliance Manager responsible for the partnership between Avalara and Microsoft. She has been at Avalara for almost 8 years. Patty is responsible for product training, partner marketing, partner relationships, and sales tax education for Avalara's suite of products to the Microsoft community. Avalara's suite of products automates sales tax compliance and includes sales tax calculation, exemption certificate management and filing and remittance of returns.

Agenda

- The impact of COVID-19
- 6 ways states may increase tax revenue in 2021
- Industry impacts
  - Retail and ecommerce
  - Manufacturing
- Technology and sales tax
- Q&A

The impact of COVID-19

COVID-19 changed everything

EVERYTHING AFFECTED

From supply chains and business operations to buying habits and travel

BUSINESSES CLOSED

Temporary closures of brick-and-mortar businesses, or capacity restrictions

ACCELERATED E-COMMERCE

Accelerated familiar trends for ecommerce and digital goods & services

ENACTED TAX RELIEF

Measures enacted to soften the blow to businesses

2020

Online sales soar as in-person store visits plunge

97,996

BUSINESS CLOSED

As of Aug 2020 *

Open as of March 2020

14%

EXPECTED DECREASE

brick-and-mortar retail **

63%

CONSUMERS

Buying more online ***

10.8B

SALES

Cyber Monday ****

Expected to be the biggest online shopping day in history

*CNBC, September 2020 **eMarketer, June 2020 ***DigitalCommerce360, July 2020 ****Quartz, November 2020

THE IMPACT OF A PANDEMIC

State budget deficits

Business closures and unemployment spikes have led to decreasing revenue and increasing costs.

States grappling with providing relief to taxpayers while finding ways to offset deficits

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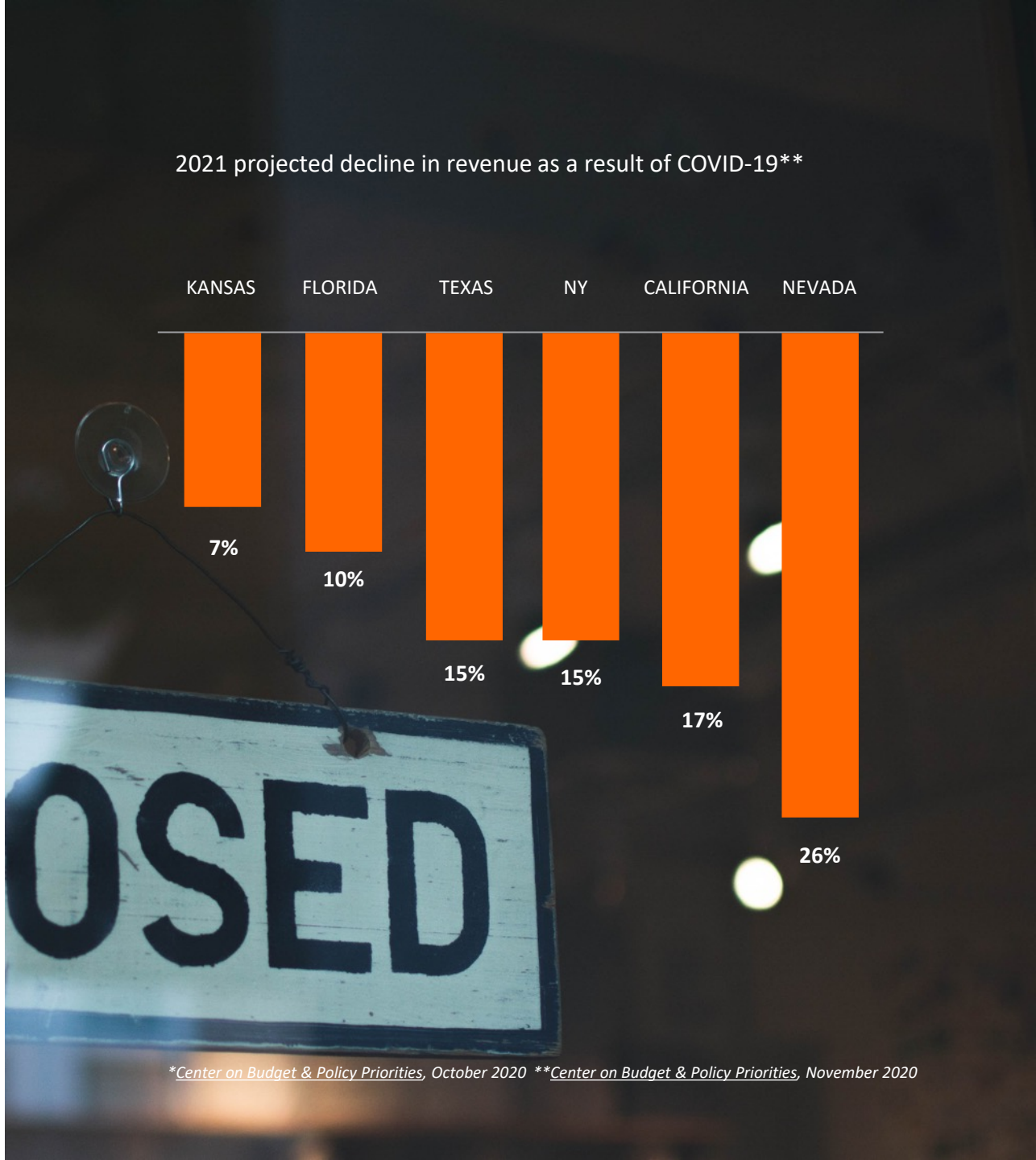
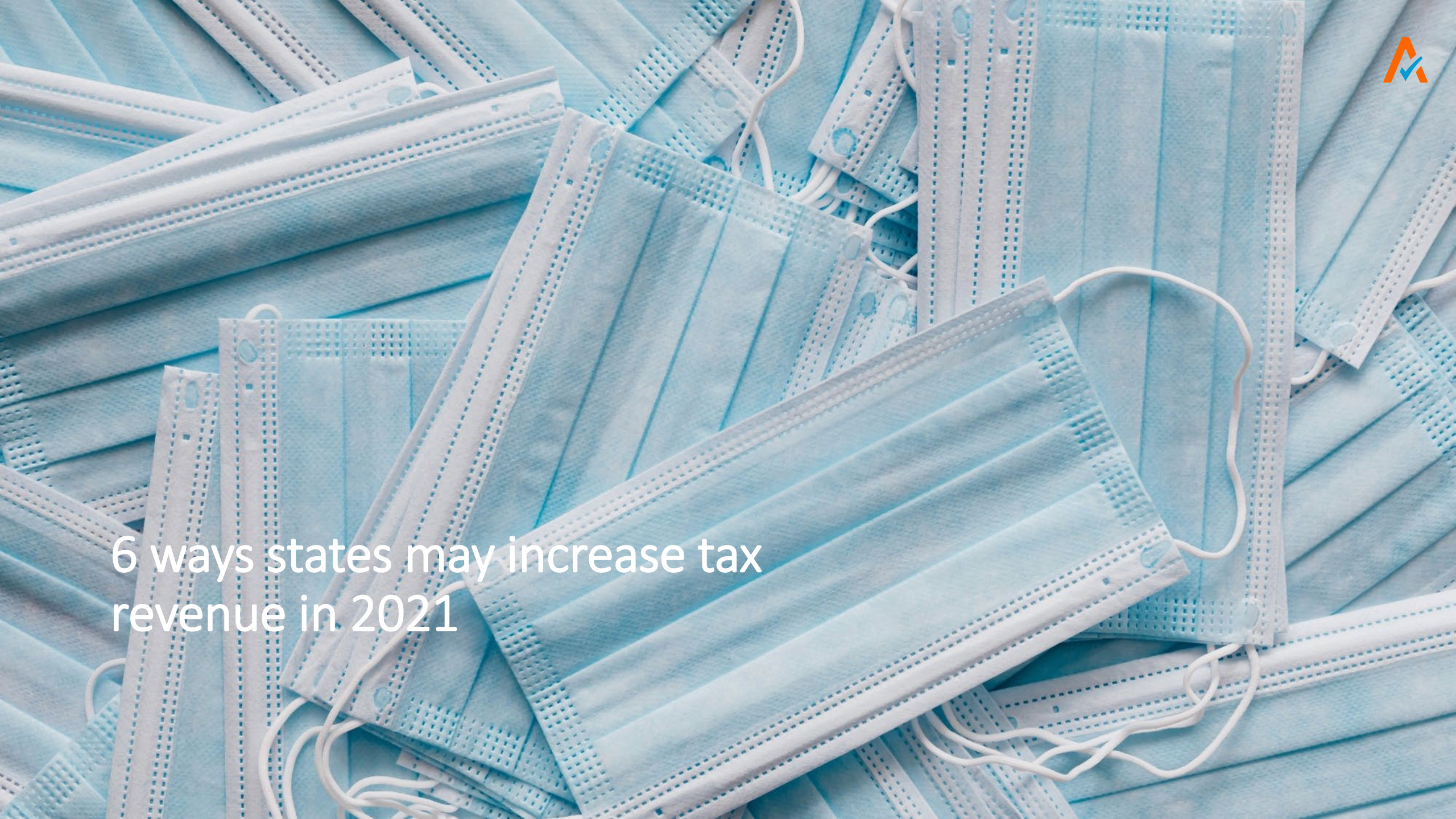
State revenues faired better than expected for FY 2020, but deficits are still likely to exceed $500 billion over next two years.*



*Center on Budget & Policy Priorities, October 2020 **Center on Budget & Policy Priorities, November 2020



6 ways states may increase tax revenue in 2021

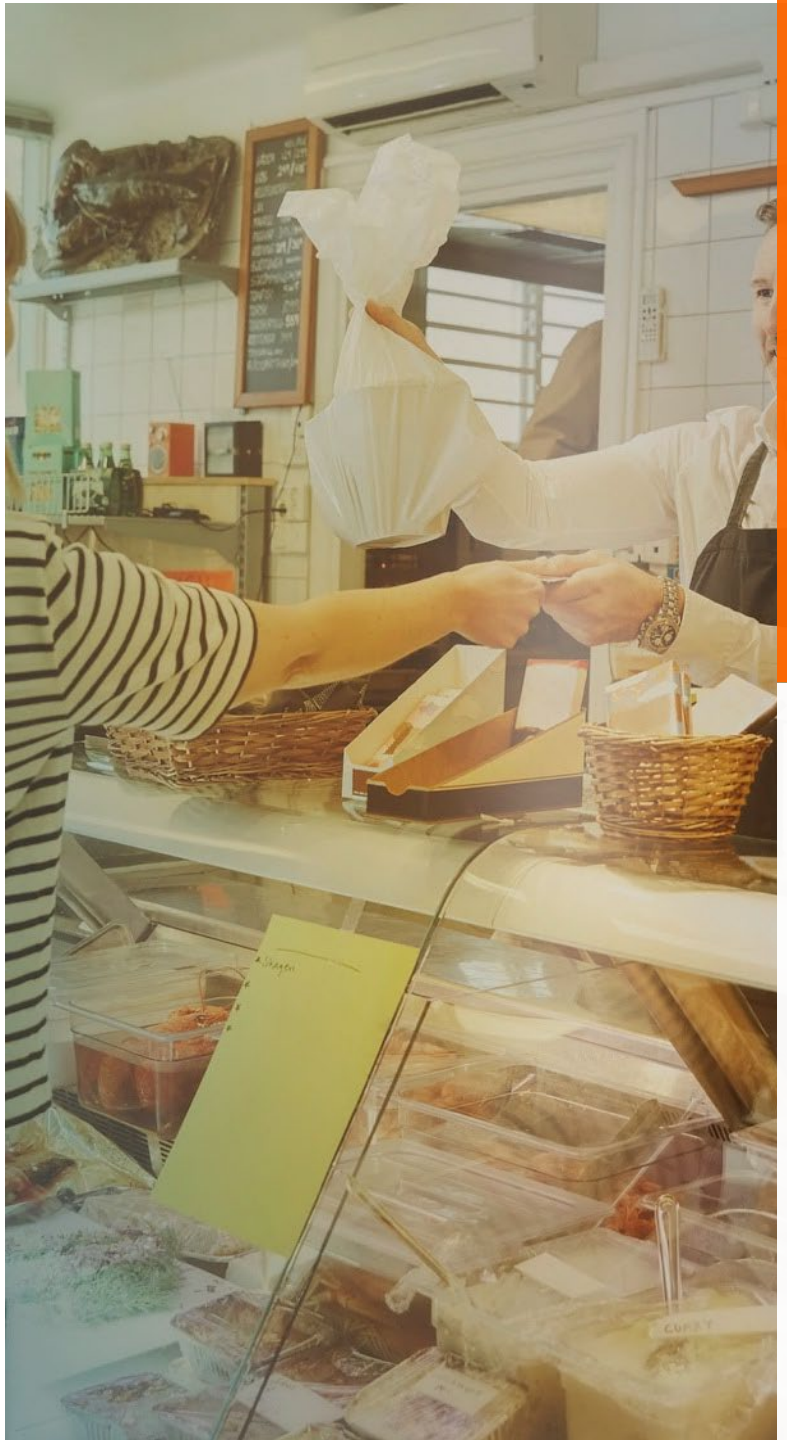
1. BROADENING TAX BASE

To include exempt goods and services

- Groceries
- Digital services

!

Taxing more items increases collection but is a hard sell



Wyoming's proposed tax on groceries in 2020 was **voted down upon introduction**.

Maryland, Nebraska, New York, and Washington, D.C., proposed new taxes on digital advertising services in 2020, **though none passed**.

43 states…

Plus the District of Columbia, and some local governments in Alaska tax remote sales via economic nexus.

As the pandemic allows, more

aggressive audits

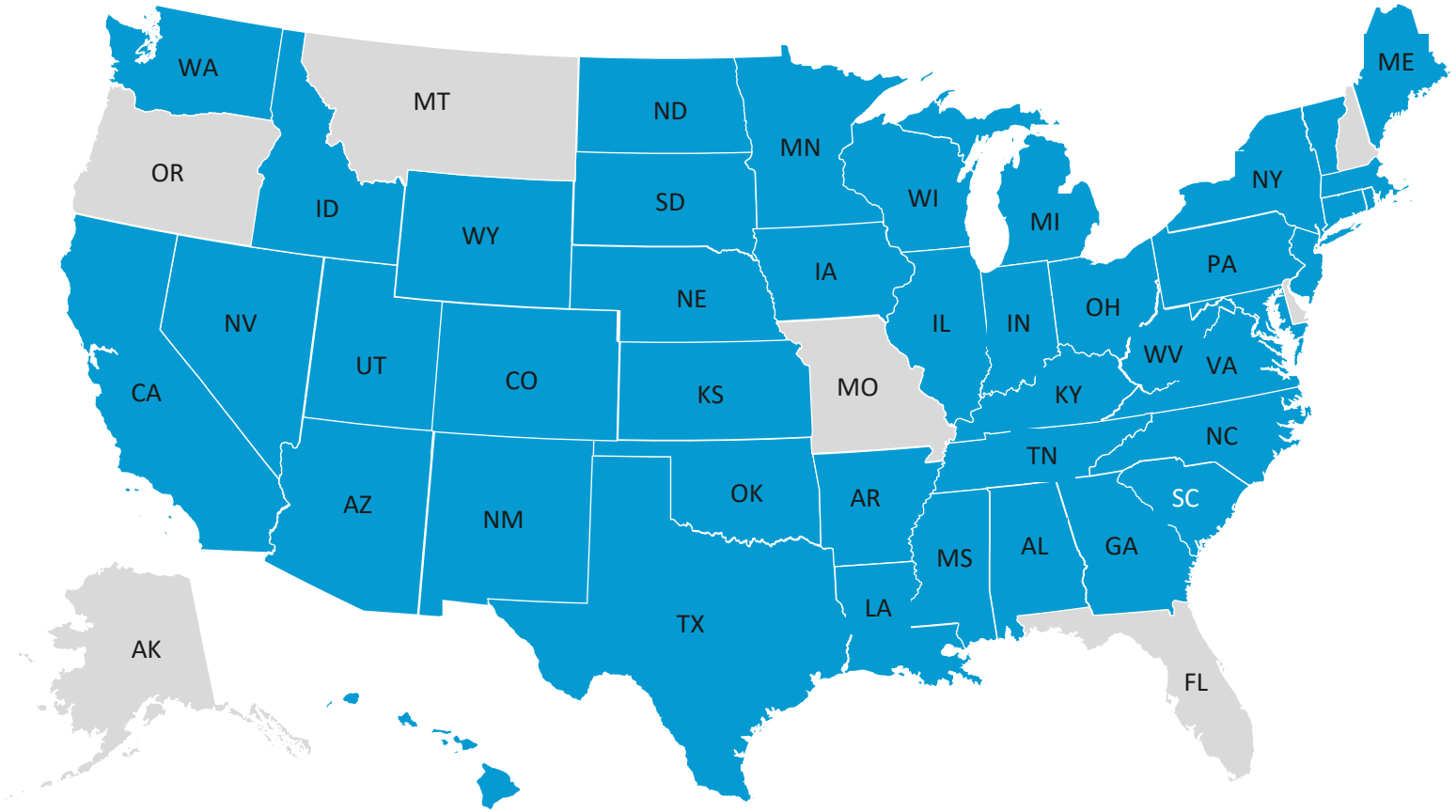
may commence. Negative audit findings may result in penalties and interest for back taxes due.

Nexus laws allows states to impose sales tax on remote sellers

Economic nexus thresholds by state

Use our free **sales tax risk assessment** to determine where you have nexus.

States with economic nexus laws



North Dakota
$100,000 in taxable sales

Kansas
All remote sales

California and Texas
$500,000 in sales (exempt sales included)

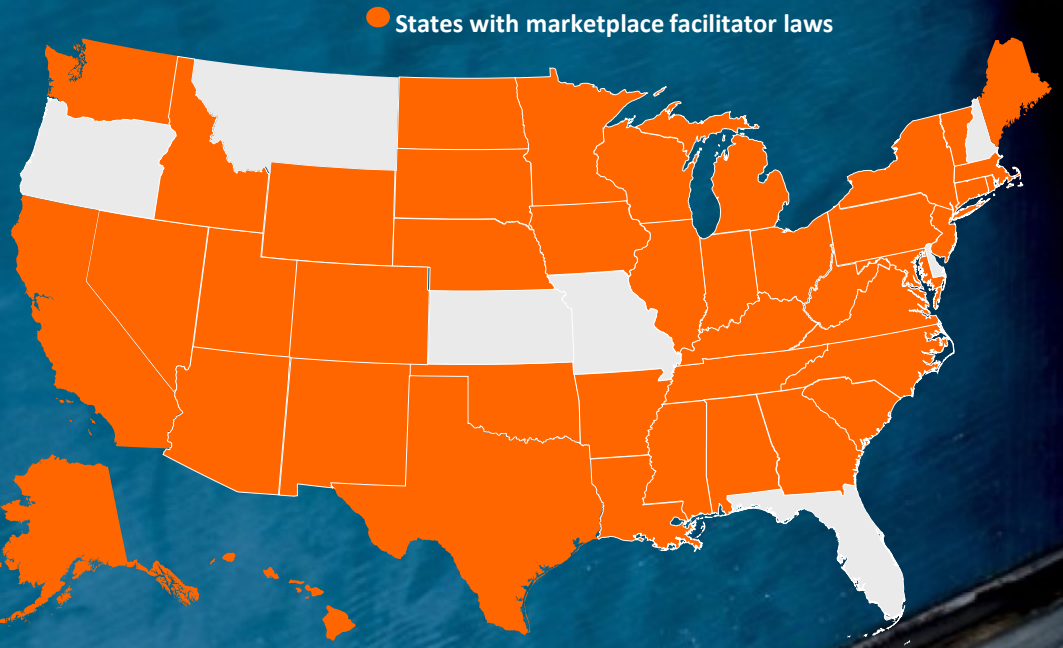
Connecticut
$250,000 in sales
and 200+ retail sales

Georgia
$100,000 in sales or
200+ retail sales

Alabama
$250,000 in sales (exempt sales included

3. MOVING ON MARKETPLACES
and marketplace sellers

Amazon, Etsy, Walmart, hit with new sales tax obligations



More than **40 states** have marketplace facilitator laws.

- Florida, Kansas, and Missouri may enact such laws in 2021

Marketplace sales open sellers up to more **nexus-triggering activities**:

- Storing inventory in a warehouse
- Economic activity

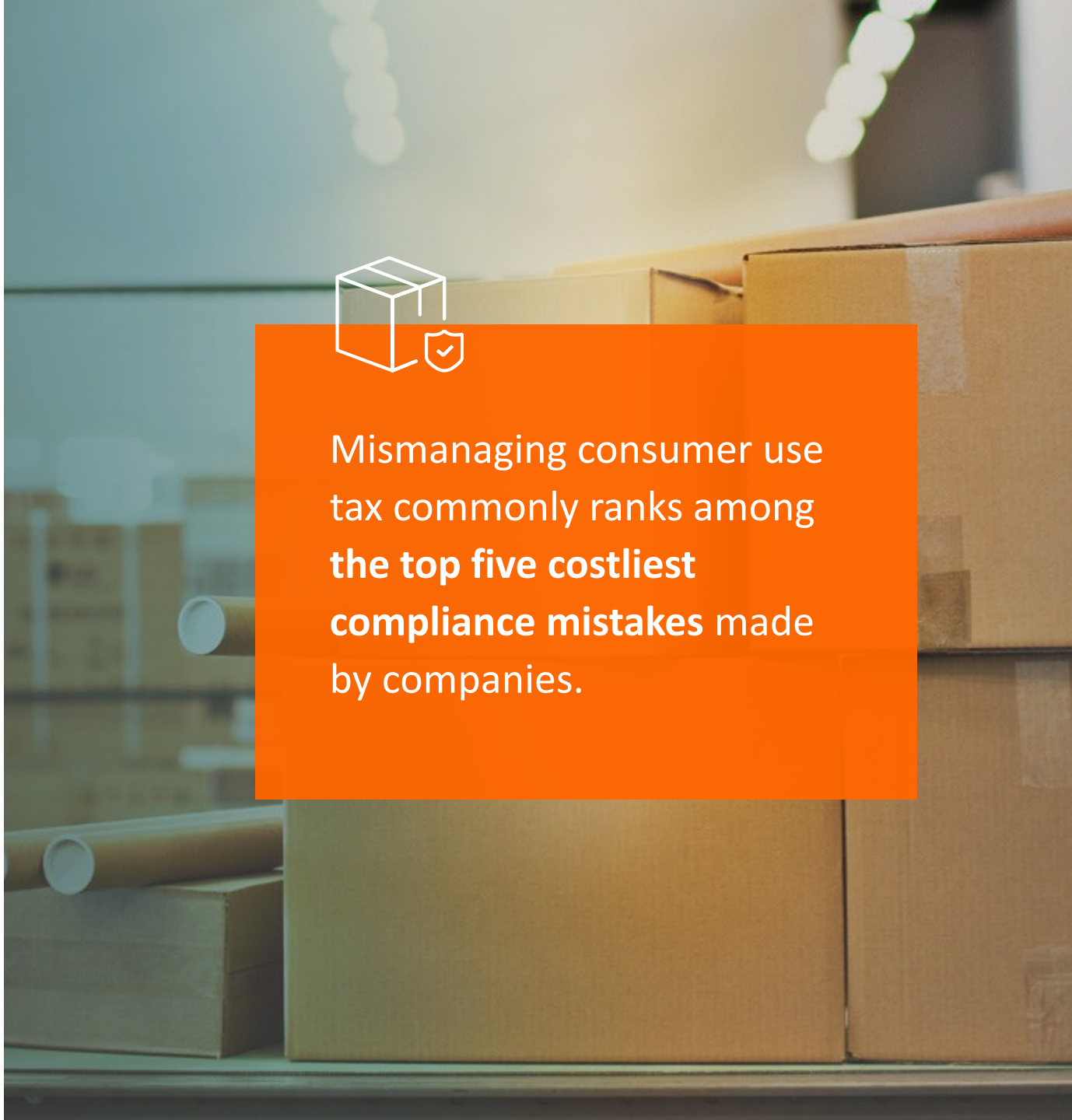
Fulfillment by Amazon **(FBA) sellers** may still be on the hook to collect & remit.

- California Department of Tax and Fee Administration is holding FBA sellers liable for past sales tax

4. CRACKING DOWN ON CONSUMER USE TAX

2021 may bring increased use tax scrutiny

- Use tax is owed on a purchase when the seller does not collect sales tax, or when the use of the product/service results in more tax owed.
- Common triggers: Inventory transfers, promotional giveaways, and withdrawing inventory for internal use
- Consumer use tax discrepancies are often identified during audits.



Mismanaging consumer use tax commonly ranks among **the top five costliest compliance mistakes** made by companies.

5. TAXING COVID-19 SURCHARGES

Retailers have started applying a surcharge to cover pandemic-related costs.

- Purchase of PPE
- Increased handling fees
- Takeout charges

States may tax the surcharge to increase collections.

- South Carolina has deemed surcharges subject to state's sales tax
- Other states may follow suit

The 2 holdout states

Florida

- House Bill 15, introduced in December 2020, would require remote sellers and marketplace facilitators to collect and remit sales tax in they have 200+ transactions or more than $100,000 in sales in the state.

!

If enacted, the Bill would take effect on 7/1/2021

Missouri

- Introduced in November 2020, House bill 2 would impose collection obligations on remote sellers and marketplace facilitators that meet or exceed $100,000 from sales on tangible personal property and digital goods and services.

!

If enacted, the Bill would take effect on 1/1/2022

ECOMMERCE & MANUFACTURING

Industry spotlights

IMPACT ON RETAIL/ECOMMERCE

COVID-19 accelerated ecommerce growth by 5 years*

Business focus shifts online to follow consumer behavior

- Online sales can trigger economic nexus obligations.
- Where a business has nexus depends on each state's economic activity threshold, and which sales count toward that threshold.

International sales see growth

- Further complicating tax compliance with item classification, duties, and tariffs
- Brexit will require most U.S. sellers and marketplaces to be U.K. VAT registered

*TechCrunch, August 2020 **U.S. Census Bureau News, November 2020

IMPACT ON MANUFACTURING

COVID-19 accelerated B2C sales & marketplace transactions

New customers and selling models

- Clothing manufacturers producing masks and protective gowns
- Distilleries making hand sanitizer

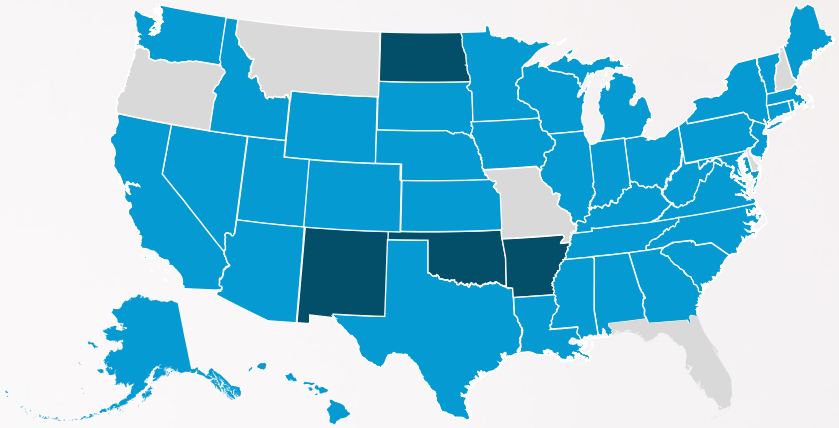
New sales tax obligations

- Exempt sellers aren’t exempt from economic nexus as some states include exempt sales in their thresholds.

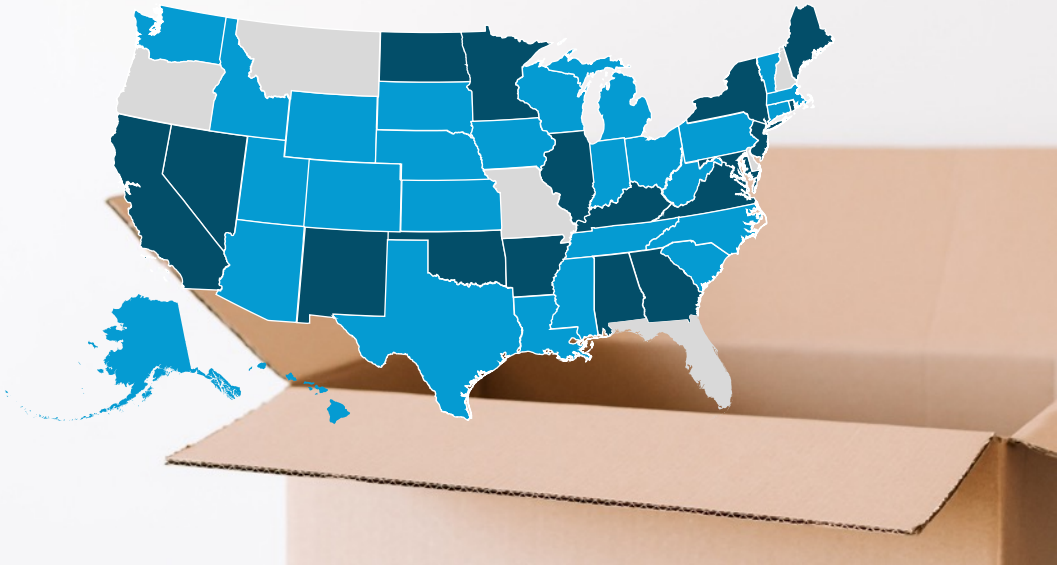
Included

Not included

exempt sales included in threshold?



exempt services included in threshold?

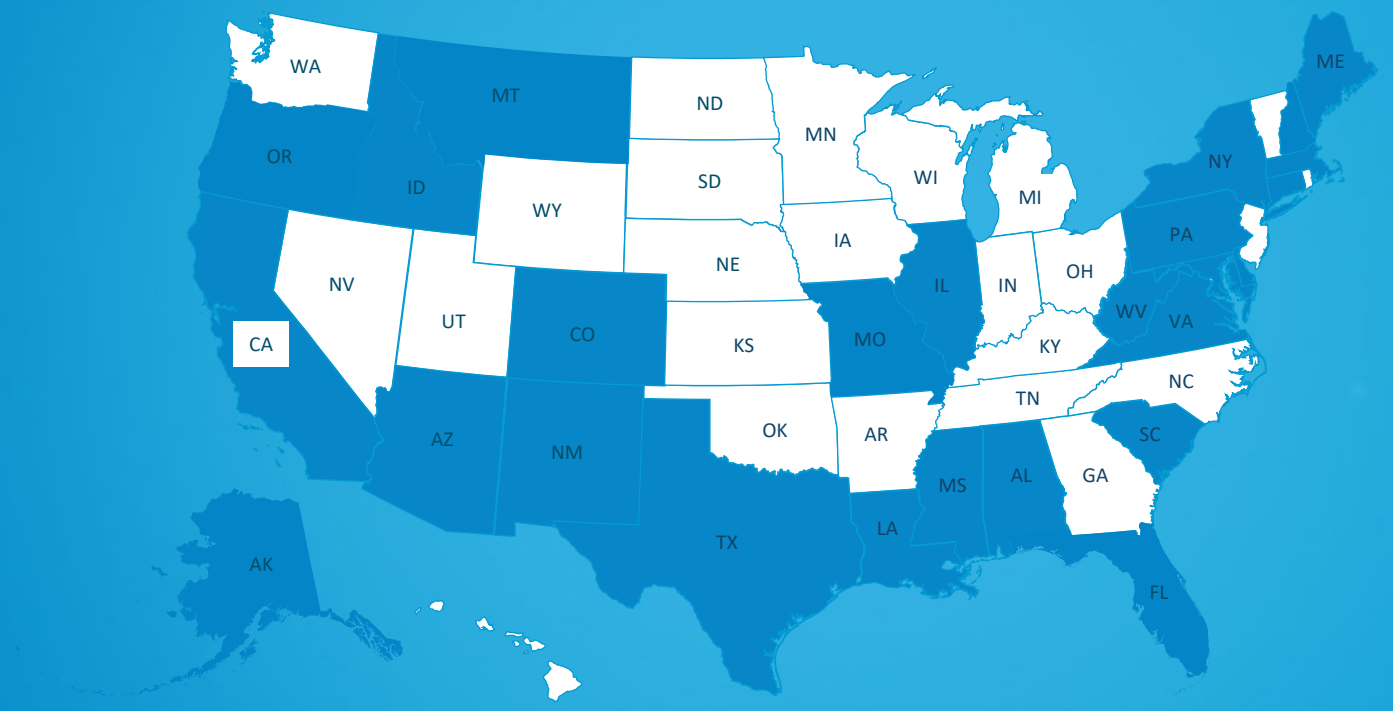


2021 AND BEYOND

Technology and sales tax

States lend a hand with **FREE** Streamlined Sales Tax

● SST member states



Effort by state and local governments to simplify sales tax compliance

Qualified businesses eligible for **free sales tax calculations** and filing in the 24 SST-member states when using a Certified Service Provider (CSP) of sales tax software

Businesses must qualify as a "volunteer seller"

- **No fixed place of business** for more than 30 days in the state
- **Less than $50,000 of property** and payroll in the state
- Less than **25% of total property** or payroll in stat

Learn more about SST at Avalara.com/SST

AUTOMATION REDUCES THE BURDEN

AI, big data, and cloud-computing make managing tax more efficient

!

In the midst of COVID-19, sales tax is the last thing businesses need to worry about.

AI

- Repetitive tasks, i.e. calculating sales tax; advanced risk/exposure analysis

Big data

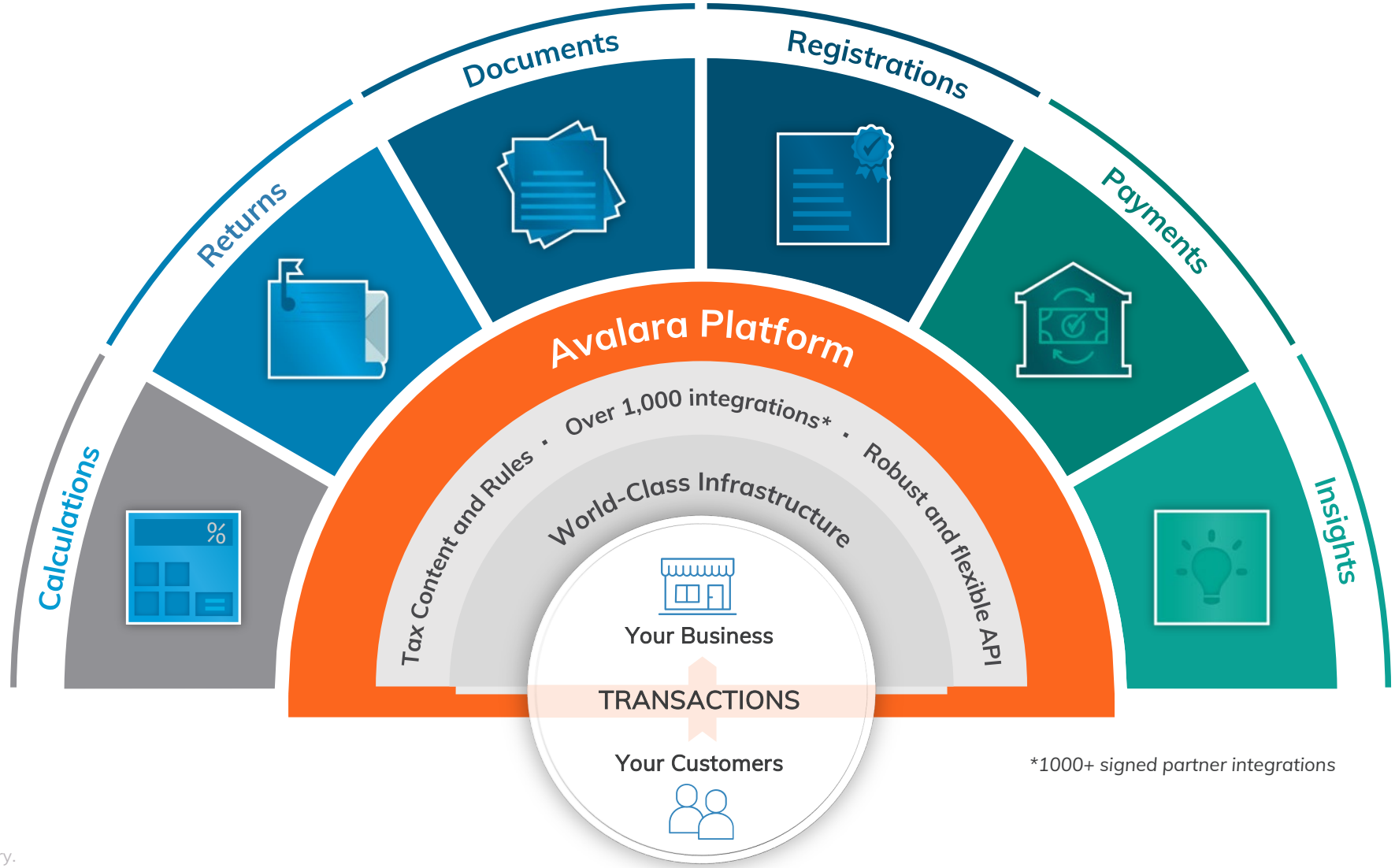
- Allows tax professionals to glean trends and information from state tax department's data

Cloud-computing for sales tax

- Expected to grow in 2020 and beyond

The Avalara Tax Compliance Suite – U.S.

End-to-end sales tax automation



*1000+ signed partner integrations

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Stay Informed

Avalara's COVID-19

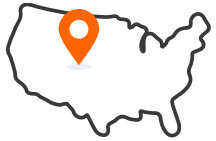
RESOURCE HUB

See the latest news and insight to help you navigate an economy in flux

Laws by state

SALES TAX NEXUS

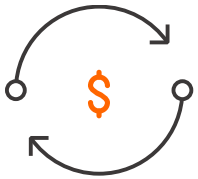
Explore which states currently enforce economic nexus laws and some of the variations in each state's law.



Industry insights

AVALARA COMMERCE MONITOR

Learn national trends and insights from Avalara data in manufacturing, retail, and services.



Learn more about

SALES TAX AUTOMATION

Talk to an automation expert to learn how to offload the sales tax automation can free up your teams and reduce risk.

Learn more at Avalara.com