

From Overlooked Liability to Optimized SaaS Sales Tax Compliance in Avalara



CLIENT

B2B SaaS Company



INDUSTRY

Technology



OUR ROLE

Sales & Use Tax Consulting
Sales Tax Compliance
Sales Tax Account Cancellations

A B2B subscription-based billing and financial operations Software-as-a-Service (SaaS) company (the Company) engaged Cherry Bekaert tax professionals to file prior returns and close accounts. In reviewing the Company's data, the Firm's Sales & Use Tax team realized its tax compliance software was not properly set up according to current sales tax regulations for SaaS companies.

Uncovering Hidden Liabilities in a Complex Technology Landscape

Headquartered in Metro Atlanta, the Company was also registered in Colorado, where SaaS is not taxable on a state level. However, in some Colorado home-rule cities, like Denver, SaaS sales may be subject to local retail sales tax.

Sales tax rates, rules and regulations change often, and sales and use tax compliance varies greatly by state. This complex landscape presents a unique challenge to several businesses, especially technology companies. They may never know a sales and use tax error has occurred until they are audited or looking to sell and have slowly, unknowingly built up a large sum of sales tax to be owed.

During the six-month tax period under review, the Company accumulated a tax liability of \$2,500. Had this issue not been addressed, it could have escalated into a significantly more extensive and costly liability.

Securing Future Compliance With Professional Guidance

In this case, the Company may have been aware of its need to collect sales tax in the Colorado home-rule cities; however, since the business expanded, Cherry Bekaert discovered the Company had not adequately updated its tax engine, Avalara's AvaTax, to reflect the relevant Product Tax Codes (PTCs). Avalara continued to calculate what it believed was the correct sales tax rate based on the Company's previous input.

While Avalara's solutions are designed to assist companies in effectively managing their sales tax through automation, users are ultimately responsible for determining the appropriate tax codes for the goods and services they sell. Item classification can be time-consuming and is different for each jurisdiction.

Therefore, the importance of regularly reviewing the platform and staying up to date on sales and use tax rules should not be ignored. Companies that take a more proactive approach by collaborating with a professional who has extensive experience in using Avalara solutions and comprehends the intricate details to ensure the system is configured correctly can benefit greatly.

With their deep understanding of the complex sales tax landscape and extensive experience in the technology industry, Cherry Bekaert's team played a crucial role in helping the Company map the correct PTCs and establish compliance.

Annual assessments, performed by the Firm's tax team, will not only verify the platform is set up correctly based on the Company's sales activity but will also help keep the Company in compliance with constantly changing regulations and significantly reduce tax liability in the future, leading to potential cost savings.

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Let Us Be Your Guide

The saying goes, "You don't know what you don't know," but don't let that cause you to overlook major sales tax obligations. As a Certified Avalara Implementation Partner, Cherry Bekaert is well-equipped to assist companies in adequately managing their sales tax, from tax engine selection and implementation to configuration and annual assessments.

Technology companies can additionally rely on Cherry Bekaert to be their trusted advisor in navigating the complexities of sales tax compliance, keeping them informed and well-prepared in this critical aspect of their business operations. Our Sales & Use Tax practice professionals constantly stay updated about sales tax considerations to minimize your company's risk and provide peace of mind.

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