

DETERMINING SALES TAX NEXUS

DATA ACCURACY AND ACCESSIBILITY IS KEY

By [Judy Vorndran](#) and [Stacey Roberts](#)

Determining your sales tax nexus footprint for compliance, or in preparing to add sales tax automation, starts with your business sales data. How is it organized? Do you capture full address information? Are there differences between where you bill and where you deliver?

Data must be accurate and granular to tell the right story to see what is happening in each state. A certain line level of detail describing what was shipped where and when is necessary to reconcile a transaction for nexus purposes. If a business is relying on data tracked in a shipping system alone, transaction level detail needed for determining nexus may not be available. This may mean pulling data from multiple, concurrent operating systems to accurately capture sales details, or in many cases, reconfiguring systems to produce the right sales data for determining nexus.

If you are using a customer relationship management system (e.g., Salesforce), or separate order/billing system (e.g., Zuora), or even a fulfillment/shipping system (e.g., Finale), do they interact with each other in order for you to know where orders come from, how they are fulfilled (whether services or goods) and where they are going? Ultimately, your data tells a complex story of who you are and where you are, which you'll need to make critical decisions about how your business is going to comply with sales tax.

Determining nexus

Assessing how a business captures information can be challenging for companies, especially if they are unfamiliar with the data buckets needed to determine nexus. The goal is to make sure the right data is being collected and accessible at the right level of granularity to fully capture the tax consequences of each transaction by state.

This requires businesses to understand far-ranging questions about their sales transactions and processes.

- How are sales generated?
- Do salespeople travel or are sales conducted solely over the web?
- Do they use third party marketing platforms – i.e. Amazon, Walmart, Etsy, eBay?
- Do they use third party fulfillment services – 3PL warehouses or FBA Amazon?
- How are orders placed—via phone, email, and/or web order?
- How are payments made—ACH, credit card, and/or invoiced after received?
- How are orders assimilated per customer (i.e. all on one invoice for multiple items, or multiple invoices for separate items)?
- How are orders fulfilled? (i.e., remote workforce, marketplace, fulfillment company, wholesale, resale, other)?
- How does the customer receive their goods or services (i.e. telephone call, in person meeting, FedEx, USPS, other)?
- How are returns handled?

Over the years, we've learned how to determine nexus accurately and some best practices for optimizing and organizing your data to determine your nexus footprint.

Data streams. Start by reviewing the data streams and system feeds you rely on day-to-day to transact sales to see what level of transaction detail is being collected. Think about how you capture data in your general ledger (GL), invoicing, sales, shipping, inventory management, accounts payable/accounts receivable, financial accounting or other systems and the level of detail these systems collect. Is it accurate and enough? When “bill to”, “ship to” or address information is being gathered incorrectly or incompletely, your nexus footprint will reflect these inaccuracies, leading to non-compliance.

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Good data that maps what is happening where will help you see your nexus footprint and next steps for sales tax compliance. Ask yourself, how good and how organized is your sales tax data? And, what level of granularity is necessary for accurate sales and use tax compliance?



About the authors

Three separate companies brought [Judy Vorndran](#) and [Stacey Roberts](#) together time and again over the 25 years each was honing their specialties in state and local tax. At TaxOps, the two work closely with businesses of all sizes helping them navigate the morass that is state and local tax. They can be reached at jvorndran@taxops.com and staceyroberts@taxops.com. Visit TaxOps.com for tax business consulting, compliance and advocacy and SALTovation.com for strategies and tools for SALT compliance.

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Sales invoicing. Capture line-level details on the type of transaction (product or service), jurisdiction (i.e. state or local), and address so taxability can be determined and the transaction can be mapped to the correct tax rate and state. A couple tips:

- A transaction is one customer per order; orders can have multiple line items and still be considered one transaction.
- Avalara's AvaTax uses the exact address to identify where a transaction takes place. Using a zip code alone could result in an incorrect sales tax rate because a single zip code can have more than one sales tax rate.

General ledger. Understand how your general ledger (GL) system works and what level of detail can be extracted. If the best you have is sales by state, but no transaction level detail, sales tax automation software may not be able to accurately generate transaction levels by state for nexus purposes or taxability decisions.

Type of transaction. Everything from whether it's a product or service and how it is sold—wholesale, resale, or through a marketplace—impacts taxability and must be tracked. In California, only tangible goods are looked at for determining Wayfair thresholds, not services. Other states look at taxable vs. wholesale to determine Wayfair thresholds.

Breadth of nexus. Wayfair is only one layer of nexus. If you already have a physical presence via remote employees, inventory in third party warehouses, or a traveling sales force, Wayfair may be important, but nexus might have already been established via a physical presence prior to Wayfair enforcement dates.

Good data that maps what is happening where will help you see your nexus footprint and next steps for sales tax compliance. Most businesses do not have the in-house resources to complete a transactional-level nexus analysis. That's where our team comes in. Get in touch and we can help get you easily and economically get on the road to sales tax compliance.

Let's talk tax

For a deeper discussion of nexus in state and local tax, please contact:

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About TaxOps

TaxOps is a leading tax specialty and business consulting firm helping growth-oriented businesses worldwide. Seasoned professionals with significant Big Four experience lead our teams, providing the strength, experience, and resources of a national tax firm with the hands-on client engagement of a boutique firm. From one-off studies to full-service tax outsourcing solutions, TaxOps delivers federal, state and local, international, and tax minimization solutions that drive better tax outcomes.

About Avalara

Avalara helps businesses of all sizes achieve compliance with transactional taxes, including sales and use, VAT, excise, communications, and other tax types. The company delivers comprehensive, automated, cloud-based solutions that are designed to be fast, accurate, and easy to use. We automate and simplify governmental compliance processes, including tax determination, exemption certificate management, and tax return preparation, filing, and remittance. Avalara works within a customer's own accounting, ERP, ecommerce or other business applications making the integration of tax and compliance solutions easy for customers. Visit Avalara.com.