Guide

The CFO's Guide to Compliance

How financial leaders can efficiently manage sales tax

TaxJar

Introduction

Tasks like preparing a cash flow budget and forecasting have always been part of a CFO's duties. But the modern CFO is tasked with handling much more, including risk management and compliance.

CFOs of e-commerce businesses know that properly handling sales tax is critical to staying compliant. This guide will help CFOs and finance leaders understand how to properly manage sales tax compliance efficiently, leaving plenty of time to focus on initiatives that grow their business. Here are the major issues the guide is focused on:

- Understanding your indirect tax obligations
- Harnessing the power of automation for sales tax compliance
- Integrating tax into ERP systems
- Handling audits
- Navigating compliance issues while fundraising or getting acquired

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Understand and manage nexus

Your indirect tax obligations (sales tax in the U.S. and VAT in Europe) will be impacted by a number of factors depending on where you conduct business. Figuring out your company's tax liabilities is an ever-shifting challenge, from keeping track of varying state tax thresholds in the U.S. to evolving VAT regulation in European countries.

In the U.S., forty-six states and Washington D.C. have a state-wide sales tax, each with its own rules and laws when it comes to administering them – rules that are continually evolving. Businesses must collect and remit sales tax in the U.S. when it triggers "nexus."

Physical nexus is triggered when a business has offices or warehouses in a state, or even in states **where you have an employee working remotely**. (Regulations on remote employees vary by state.) Economic nexus is basically an economic tie to a state that occurs when a business reaches a certain threshold of sales revenue or number of transactions. (For a deeper dive into nexus, we've written **this helpful guide**.)

In the EU, brands must also consider VAT (value-added tax), a multi-stage tax imposed at every step of the supply chain. VAT is due in the country of consumption regardless of the country of the seller, which makes imports from the U.S. subject to VAT when consumed in Europe. Similar to U.S. sales tax, VAT rules are complex and can become tedious when applied to specific transactions and cross-border transactions.

The rules around nexus are still being refined, as some states are now reevaluating the transaction aspect of these thresholds. An unintended consequence of these thresholds was penalizing small sellers that may have a significant amount of transactions, but not a lot of revenue. States like **Maine** and **Wisconsin** eliminated their transaction thresholds, and now only require remote sellers to collect and remit sales tax if sales exceed $100,000 in the previous or current calendar year.

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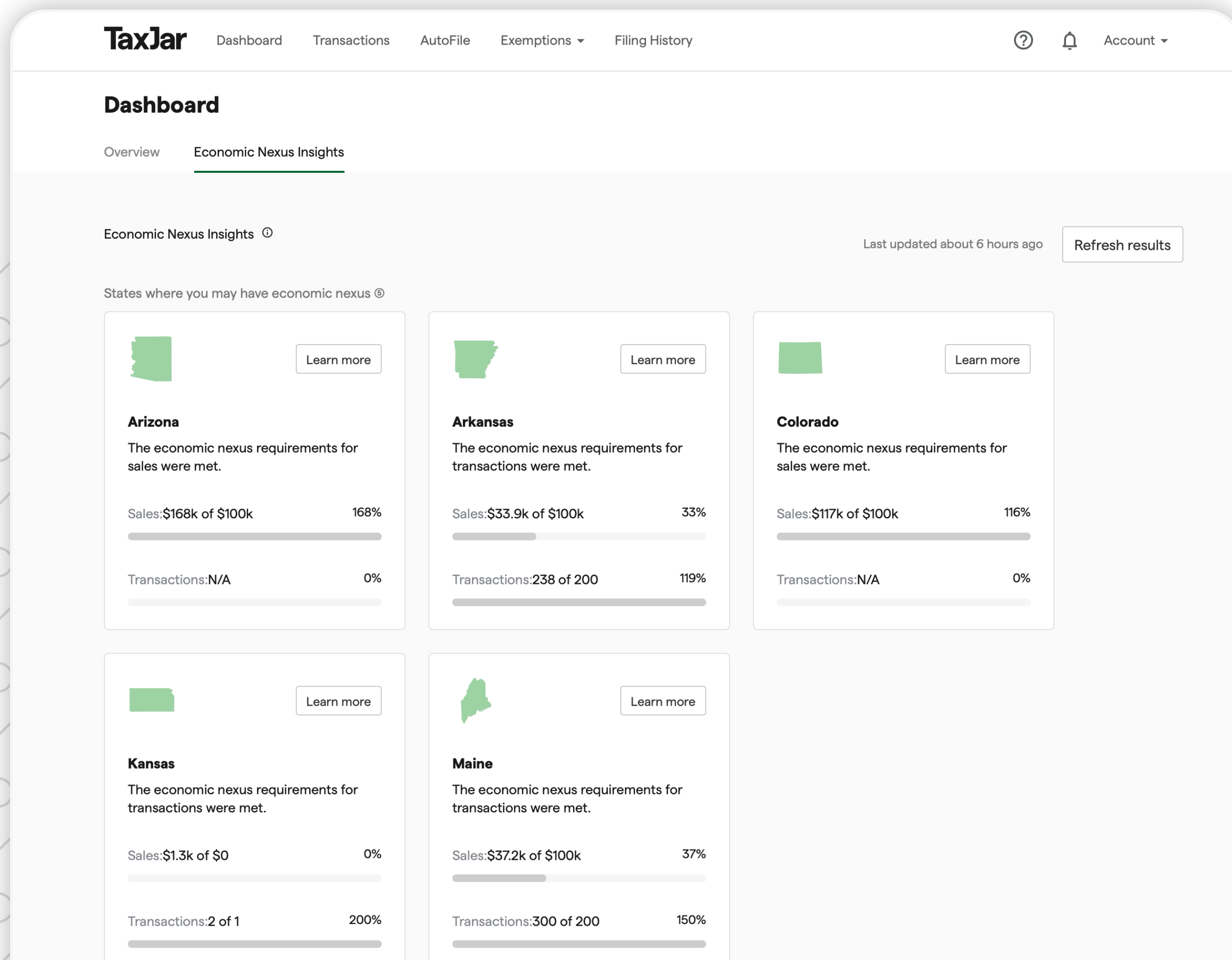
Track economic nexus and stay ahead of compliance

For growing mid-market businesses, achieving nexus in multiple states over the course of a year is a new reality. Moving into new markets and changing product mixes can affect nexus. With those changes come new obligations to collect and remit taxes correctly and in a timely manner, all based on each state's unique regulations. The laws surrounding sales tax also change each year, so it's helpful to think of compliance as something that must be continually optimized. The right automated solution can track this changing legislation (including **transaction thresholds** and **pink taxes** being removed in multiple states) and update their systems accordingly, keeping you compliant now and in the future.

On January 1, 2022, **88 sales tax rate changes** went into effect across 18 states.

Some merchants selling through marketplaces like eBay and Amazon may be under the impression that because sales tax is automatically collected and remitted through the marketplace, they have no tax liability. But in some states, marketplace sales count towards nexus. A sales tax compliance platform can flag **marketplace sales** that count in the appropriate states, giving your company a look into your potential tax obligations.



Invest in automation

It's not an exaggeration to say that automation will disrupt how business is done across the globe – **McKinsey predicts** "that 50 percent of today's work activities could be automated in the next few decades." While automation will take some time to replace that amount of work, it's possible to harness its power today with regards to sales tax compliance. This frees financial leaders like you to do more strategic advising, and spend less time buried in a spreadsheet.

A filing solution can automate sales tax filing and remittance. It enhances productivity for employees on the finance team and therefore keeps costs down. How many hours per month does your team currently spend on preparing and filing? Have you ever encountered filing errors? Automation can significantly reduce errors that may happen when taxes are manually filed, **a process that's known to be time-consuming**.

When your company uses a SaaS tax compliance product, it's possible to customize an API that scales as your business grows. Look for a developer-friendly option that allows you to collect sales tax at the correct rate from buyers in your nexus states, set shipping and product taxability, and automate sales tax reporting and filing.

Whereas some companies may be forced to hire additional team members in a finance department to regularly file in multiple states, letting **a sales tax solution automate compliance** reduces that need. It also lowers the capital outlay that could be spent more efficiently for necessary capital expenditures, or to increase headcount on other teams opening the door for company growth. Automation is a trend that will accelerate in the future – automating sales tax compliance is a way to take a step in that direction today.

Consider this when selecting a product solution

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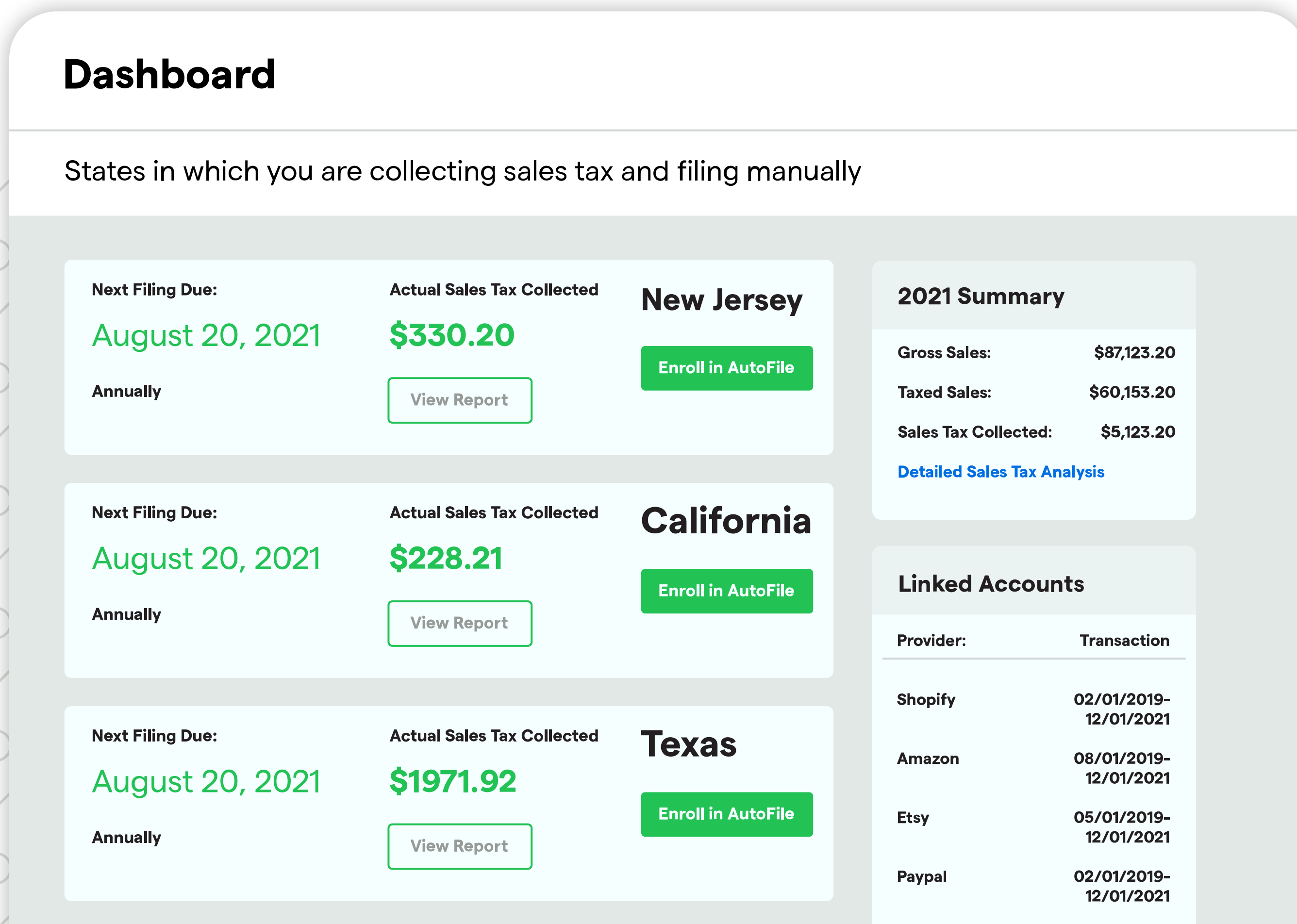
Integrate tax with an ERP for a full picture of your company's financial health

ERP (Enterprise Resource Planning) systems allow a CFO unprecedented visibility into all the data sets needed to make financial decisions at a company, whether it's related to supply chain or accounting. But those choices cannot be made with full visibility unless sales tax is a part of the calculation.

Once a sales tax compliance solution is integrated, an ERP can consolidate all the available financial metrics and information into a singular view, which mitigates silo issues around data. Data silos can cause a myriad of problems, including making decisions based on fragmented and incomplete data sets, which only gives the CFO partial visibility into potential compliance issues.

For example, an ERP system would make it easier to monitor physical nexus (by tracking which states where your company has anything from offices to warehouses and 3rd party affiliates). When sales data is input into a compliance solution, it can handle tracking economic nexus with its robust reporting apparatus. Sales tax is an important part of any financial plan created through an ERP, and helps offer a fuller picture of your company's financial position.

89% of companies looking to purchase ERP software identified accounting as the most critical ERP function.



Develop a strategy for audits

Companies can get **audited for a number of reasons**, which can range from raising a new funding round or having revenues significantly different from the industry standards auditors use as guidelines. Some companies have been audited after announcing via press release about achieving significant growth. When an audit happens, what exactly are auditors looking for?

Audits measure tax assessments in three major areas, according to expert Lauren Stinson, CMI, the National Leader of Sales and Use Tax at Cherry Bekaert LLP (and a trusted **TaxJar Partner**):

1. **Sales**
   The state is looking to verify that for every sale your company is making into their state, there is tax collected at the appropriate rate, or that there are **exemption certificates** on hand to document that the transaction was exempt from tax. For a more detailed look at exemption certificates, **this article can provide background**. Companies that utilize the TaxJar API or have integrated TaxJar into platforms like WooCommerce and NetSuite have **the ability to upload and store the certificates**.

2. **Purchases**
   A state's taxing authority also typically audits the purchase of fixed assets to make sure that tax was paid. Keep in mind that just because you are a remote seller that made sales in a given state, that doesn't necessarily mean you have made purchases in that state – this may only apply to the state where your company is physically based.

3. **Expenses**
   The auditor will also look to ensure that taxes were paid on purchases of expenses. Documenting sales tax you paid on expenses might not feel important on the surface, but because **resale certificates** can be used to purchase raw materials tax-free in some states, it's important to keep accurate records of any purchases of expenses.

How a CFO can be proactive when it comes to audits:

1. **Keep all documentation that's been sent to the auditor**
   Because audits can last anywhere from a few months to multiple years, there can be turnover on both your finance team and with auditors from the state's taxing authority. It's critical to keep records of anything sent to the auditor – this eases the burden of transition and gives both parties clear documentation of any negotiations that have been agreed to should there be future audits.

   There are also a number of things Stinson says that CFOs can do once their company has been audited:

2. **Make sure that all returns have been filed**
   If you use a sales tax compliance platform like TaxJar, it's easy to stay organized and informed using our reporting dashboard, where our system compiles real-time transactional data from all your linked accounts and CSV imports into individual state tax sales reports. While you can use the reports to manually file on your own, when you enroll in AutoFile – one of TaxJar's standout features – these reports will be automatically used to populate filing and remittance. We also provide reporting on a daily basis, and at the end of each filing period, so you'll have access to the reports on the first of the following month.

3. **Provide the auditor all the documentation – provided it's reasonable**
   They usually have a long laundry list of requests. Be forthcoming with the information that's requested. When you get into the granular aspects of the type of audit that's being conducted (it could be a sample audit or a detailed audit), look at how they're going to do the audit. Be sure that the auditor has selected an appropriate time frame that's representative of the overall business – if you're a seasonal business, make sure the audit is looking at your busy season. And if there is a request for materials that seems out of the bounds of a reasonable audit, some companies push back on those requests.

Why companies may consider hiring outside help for an audit

Not every accounting professional has deep knowledge of State and Local Tax (SALT) – that's why it may be worth it to contract the services of an expert in that specific area. Stinson says that if a company's financial team doesn't have experience handling audits, it may not be the most efficient use of your team's time.

For example, an outside firm knows the type of documentation that's reasonable for an auditor to ask for, and how to manage a hearing (whether it's informal or formal) in the case of any disagreements between the state and your company. Larger companies can be mired in audits for years, and even mid-market companies are typically looking at audits that last six months, with plenty of back and forth between a company (or a company's representative) and the auditor. An experienced outside firm can manage this process and work towards the best possible outcome for your company.

4. **Make sure there's a proper waiver in place**
   If you don't think you'll be able to meet the deadlines the auditors provide, they're usually amenable to giving your company time to do a fair audit and extending it. That may come with an auditor's request to sign a waiver of the statute of limitations. For example, if a state has a three year statute in place and no waiver is given for the statute, auditors would be unable to make assessments for any period prior to three years before the company was notified of the audit.

   It can be a time-consuming process for any company to collect exemption certificates from customers or track down missing invoices. These technical aspects of the audit are important to be intentionally considered – it sets the table for an audit to be carried out as efficiently as possible.

5. **Pay attention to deadlines**
   Deadlines can creep up on even the most diligent finance team. Meeting deadlines is especially important in an appeal process, as if a deadline is missed, it may result in the loss of appeal rights.

Prepare for raising a new funding round or acquisition

Compliance might not be top of mind for a growing company; issues like adding to the headcount and attracting new customers may be more pressing. In fact, growth may be prioritized over everything else. But when it comes time to move forward with raising a **Series A** – or looking into getting acquired – compliance concerns must also be addressed, and it's often the CFO who is tasked with managing it. Non-compliance can often result in a lower valuation, delay the closing of a deal, or potentially nullify the transaction entirely.

Here's how a CFO can properly prepare:

Make audited financials available
Oftentimes, CEOs and the startup's executive team are focused on putting together the engaging story of a company to potential investors, whether it's through pitch decks or case studies. The CFO has an additional, equally important task.

Not only do they have to build financial models and model growth projections to forecast the company's future, they must make sure the company is compliant across all its departments. That means making sure there are audited financials (or the ability to produce them for that year), which can be difficult. Many early stage companies do not hire a financial lead even after they've begun making sales. **Startups should take steps** to make sure its books are in order by hiring a tax professional familiar with GAAP, and act on any findings of the audit.

What to know about ESG compliance

The **Harvard Business Review notes** that ESG issues range from "climate change, worker advocacy, the pursuit of gender and racial diversity." As of late, ESG compliance has been made **a focus of compliance departments**. In order to be ESG compliant, businesses must "adapt products and services to climate-friendly materials and processes, [evaluate] diversity and wider employment practices, as well as [revamp] how companies engage with communities." If your company is non-compliant, you'll likely face recommendations on how to improve.

Perform ESG diligence

ESG (Environmental, Social, and Governance) is an effort to consider the effects of a company's business on stakeholders like its customers and the community. It's fast becoming an important part of compliance, with the SEC **recently launching a climate and ESG task force**. Outside firms like Allianz, KKR or KPMG can help evaluate your company's ESG bonafides and lend added third-party credibility, which is often helpful to potential VCs and acquirers.

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Collect and remit sales tax

Ensuring your business is following local labor laws and remitting payments correctly to remote workers is no doubt important. But while payroll, income and corporate taxes are generally well understood by a company's financial leaders, oftentimes sales tax is overlooked. Companies must collect and remit sales tax, track their tax obligations in multiple states, and make sure they are charging the correct amount of sales tax to customers, no matter where they're located.

For a CFO looking to manage sales tax compliance, it's easier than ever

Automate filing and remitting sales tax with TaxJar

TaxJar is transforming how CFOs manage sales tax compliance. Our cloud-based platform automates the entire sales tax life cycle across all of your sales channels — from calculations and nexus tracking to reporting and filing. TaxJar also integrates with multiple ERPs, including **NetSuite** and **Adobe Commerce powered by Magento**. With innovative technology and award-winning support, we simplify sales tax compliance so you can grow with ease.

An automated solution can also help you keep track of economic nexus. Once you integrate TaxJar into your e-commerce platforms or ERPs, it springs into action: when your company's economic nexus threshold is close to being reached in a new state, it will send automated alerts when you reach 75% and 100% to notify you of your upcoming obligation.

Automating your sales tax through a trusted solution increases efficiency and accuracy, and can potentially keep down rising labor costs. That's possible with **AutoFile**, which uses the data that we receive from your e-commerce platforms or ERP systems to prepare and submit an accurate return along with your remittance. TaxJar reduces errors with regards to filing, and **guarantees accurate and on-time returns**.

With TaxJar, you can swap the hours your finance team would spend navigating multi-state payment processes with automatic monthly reports, on-time filings, and friendly support when you need it the most.

TaxJar

Give us 30 minutes to show you how we can help. Find a time to talk to our team about how we can help ease the sales tax compliance burden for you.