6 Common Sales Tax Registration and Filing Errors

Sales tax filing and reporting rules vary between jurisdictions in material ways. Each state has unique filing schedules, forms, payment thresholds and other administrative requirements that make staying on top of returns challenging. Following a few best practices can help you avoid costly penalties and fines. Here are six common filing and registration errors and tips for keeping on top of returns.

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1. Not knowing nexus

Identifying where you have nexus keeps you ahead of the auditor and gives you a leg up on the competition.

Whether a company has a sales tax obligation is the crux of the sales tax challenge. There are approximately 12,000 jurisdictions within the U.S. and 100,000+ rule changes annually; that's a daunting set of variables few manual systems can handle. The connection between a company and a state, in which the company acts as an agent of the tax authority and collects and remits accordingly, is called "nexus."

Nexus can be triggered by a physical presence in a state, such as a warehouse or distribution center, or a virtual connection, such as a remote relationship with a vendor or online advertiser. Large online retailers such as Amazon and Overstock now collect sales tax in states in which they have neither distribution centers nor warehouses.

Determining where a business has nexus is complex, especially for businesses selling into multiple states. A nexus study can be a worthwhile investment to ensure compliance.

2. Failure to register

Knowing where, when, and how to register to pay tax is crucial.

Once you determine where your company has nexus, you are then required to file and remit sales tax accurately and on time to the applicable jurisdictions. Other than employment and income tax, the most common type of tax requirement is sales tax. Sales and use tax obligations and filing requirements can confuse even the most knowledgeable tax analyst. Additional registration is required in states in which these entities transact business. Business registration is required in most states for organizations formed as a corporation, nonprofit organization, or a limited-liability partnership.

For businesses selling into states participating in the Streamlined Sales Tax (SST)) project (24 states), one form can be used for all participating states.1 However, states may require additional forms to complete the registration process in some cases (complete listing of state sites). For businesses selling into non-SST participating states, or into only a few SST states, individual registration rules and requirements can be found on the individual state sites.

Sales and use tax registration differs from state to state. One form may be used to register in the 24 states participating in the Streamlines Sales Tax (SST) project; however, in some cases, even SST states may require additional forms to complete the registration process. Registering to sell in non-SST states or only a handful of SST states requires additional steps, with added complications

3. Wrong forms and formats

Keep a list of states that currently require e-filing or plan to institute similar requirements this year.

Following the example of the IRS, many states are starting to require electronic filing and payment of sales tax. Knowing which states have which requirements is challenging, as requirements change frequently. Depending on where your client's company is registered and where they have nexus, they might be required to file electronically for all returns, or some, or depending on the amount of the return.

In Indiana, all business tax forms must be filed electronically. In New York, e-filing is only required for businesses with broadband Internet. As more states move filing and remittance online, your clients can go to individual state sites for information, or turn to you for the expertise they need to stay compliant.

4. Late filing

Identify changes to state filing schedules, as well as tax amounts that might trigger prepayment or a different filing schedule.

Late filing is not only an easy way to incur fines and late fees; the consistent late payment of sales tax obligations can be a red flag for over eager auditors grasping for more revenue on behalf of struggling states.

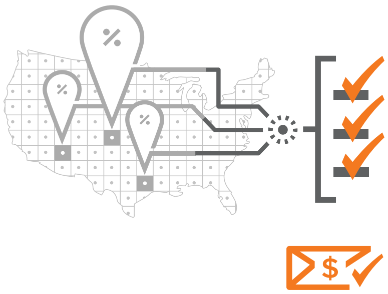
States often require multiple filing dates, depending on the amount of the remittance. They also frequently make allowances made for companies that consistently demonstrate accuracy and timeliness. Some states also periodically offer amnesty for overdue tax liabilities. For a list of states with amnesty programs, follow this link.

5. Remittance errors

Reconcile transaction records with sales tax payable accounts.

Return preparation is driven by data, great volumes of which can lead to inaccuracies and oversights, particularly when calculations are handled manually.

Check the prepayment requirements in applicable jurisdictions. A number of jurisdictions (including California, Mississippi, and North Carolina) require prepayment for larger tax amounts. Some prepayments involve a different filing schedule than regular returns, and some prepayments are due more than once a month. If your company is required to make prepayments and remit sales tax in multiple jurisdictions, you could end up managing multiple filing schedules.



6. Automate

One of the best ways for you to stay on top of filing, registration and remittance is to utilize automated systems. [Avalara Returns] is one such option. Returns helps ensure end-to-end automation of your clients' sales tax compliance process.
Returns ensures the right amount is remitted to the right taxing authority at the right time, dramatically shrinking the time client companies spend on sales tax return processing.

Get Started.

To learn more about pricing, view online demonstrations, or chat about AvaTax's capabilities, visit:

www.avalara.com

or call

877.780.4848 today.

[i]*This project is funded under an agreement with the Streamlined Sales Tax Governing Board, Inc.*

About Avalara
A privately held company, Avalara was founded by a team of tax and software industry veterans to fulfill a vision of delivering an affordable, scalable sales tax solution. Thus making what was not economically feasible in the past for mid-sized business not only affordable, but more accurate as well – all with the latest and most innovative technology available. From Bainbridge Island, close to Seattle, Avalara's knowledgeable staff works tirelessly to help customers put the hassles of sales tax compliance out of mind. Avalara's mission is to transform the tax process for customers by creating cost-effective state-of-the-art solutions. The company does so through integrated on-demand, Web-based software services that provide transparent transactions, accurate tax compliance, painless administration and effortless reporting.