THE DEFINITIVE GUIDE TO SALES AND USE TAX

A Sales and Use Tax Compliance Primer

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INTRODUCTION

For years, "tax-free online shopping" has brought customers to the web in droves, all while raising the ire of brick-and-mortar retailers claiming an unfair price advantage to sellers offering prices free of sales tax. At the center of these debates lies the small to medium business, attempting to navigate changing sales tax requirements, and facing increased scrutiny under these new rules.

Sales tax compliance is becoming a sticky wicket, as state and local governments revise tax laws to increase revenue, and Congress considers granting states the authority to make remote sellers charge sales tax.

This Definitive Guide lays out sales and use tax basics as well as commonly misunderstood elements of sales tax compliance, to provide you a one-stop reference for all things sales and use tax related. The last two sections include a state-by-state summary of sales tax rules and regulations, and a glossary of terms.

How this guide may help you

If you collect sales tax from customers in one or more taxing jurisdictions, this guide is for you. Covering everything from sales tax challenges to use tax statutes, this paper provides a detailed primer on sales and use tax compliance.

This guide is divided into six main sections:

1. Overview of the sales and use tax landscape.
   Who owes it? Who collects it?
2. Discussion of the complexities in sales and use tax laws.
   Who is exempt?
3. Information about complying with sales and use tax.
   What steps can a company take?
4. General sales tax rules by state.
5. Glossary of relevant terms.
6. Additional resources.

What this guide will not provide

Although we hope you'll find it helpful, this guide is not presenting legal or tax advice. And it is definitely no substitute for expert advice. For that, please consult your tax advisor.

THE SALES AND USE TAX LANDSCAPE

Did you know?

Many states have passed laws requiring remote sellers (sellers based in one state selling into another) to collect sales tax if they receive a certain number of referrals from in-state affiliates. Congress recently introduced the Marketplace Fairness Act of 2013. If enacted, this law would authorize states to require almost all remote sellers to collect sales tax as long as the states meet certain simplification requirements. This will please states that have worked at lightning speed to implement remote seller sales tax rules.

Sales tax defined

Sales tax is a transactional tax that is imposed on the privilege of transacting business in a particular state and/or local jurisdiction, based on the product or service being sold. As a general rule, the sale of tangible personal property (TPP) is taxable unless specifically exempted by statute, or through the receipt of a valid exemption certificate. By contrast, services are generally exempt unless specifically identified as taxable by statute. Exceptions are the two true gross receipt states, Hawaii and New Mexico. In these two states, the tax is imposed on the seller, with few exceptions.

45 states, including the District of Columbia, impose some form of sales and use tax. These transactional taxes are called by various names including Sales Tax, Transaction Privilege Tax, Gross Receipts Tax, General Excise Tax, Retailers Occupation Tax, Gross Retail Tax, and/or Consumer Sales Tax. The five states that do not impose general sales and use taxes are Alaska, Delaware, Montana, New Hampshire and Oregon, although Alaska does not impose a state sales tax, many local jurisdictions there impose a local sales tax.

A recent Census Bureau report1 indicates that sales tax comprises 31% of taxes that states collect, second only to income tax. Nationwide, sales taxes collected in 2011 totaled approximately $234 billion, an increase of 5.4% from 2010.

Sales tax versus use tax. How are they different?

States that impose a sales tax impose a corresponding use tax based on the storage, consumption or use of the tangible personal property or taxable service. A use tax comes in one of two forms, either a seller's use (collected by the seller) or consumer's use (self-assessed and reported by the purchaser). When the seller does not collect a sales tax, a consumer's use tax is due. Generally speaking, whether a taxable transaction is subject to sales tax or use tax depends on whether the seller has nexus in the ship-to state. The following are examples of transactions that result in a tax:

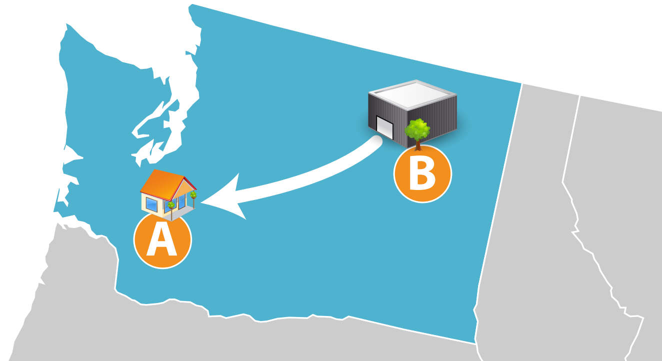
The following are examples of transactions that result in a tax (though if the Marketplace Fairness Act of 2013 passes, remote seller requirements could change):

EXAMPLE 1:
Transaction resulting in sales tax

A Items purchased in WA.

B Seller ships from WA.

Shipped to the customer in WA.
Therefore, the seller charges sales tax.

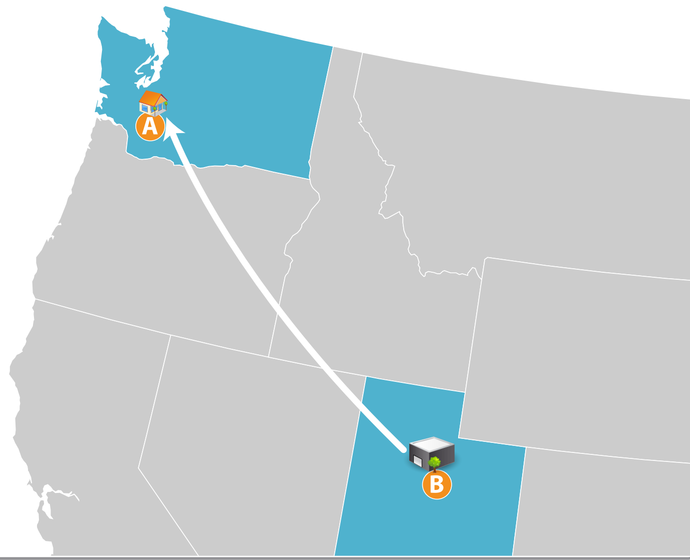


EXAMPLE 2:
Transaction resulting in seller's use tax

A Items purchased in WA.

B Seller ships from Utah, but
has nexus in WA.

Shipped to the customer in WA.
Therefore, the seller has seller's
use tax obligation.

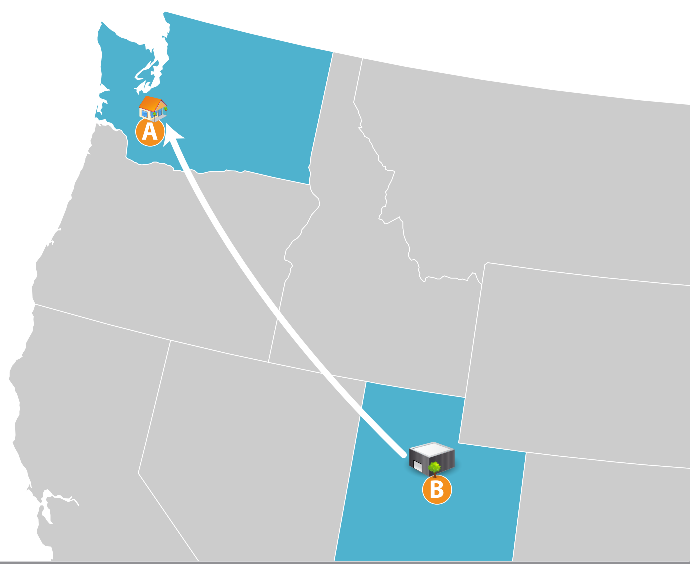


EXAMPLE 3:
Transaction resulting in consumer use tax

A Items purchased in WA.

B Seller ships from Utah, but
does not have nexus in WA.

Shipped to the customer in WA.
Therefore, the customer has
consumer use tax obligation.



Avalara

Common misperceptions about sales tax

1. ***"Outside the state where I'm located, I don't have to worry about sales tax."***
   Definitions of nexus between states are often so incongruous and confusing, many businesses remain in the dark about their collection obligations outside of jurisdictions in which they're physically located. By failing to comprehend the nuances of sales tax requirements, merchants can unknowingly increase their risk of audit. As rules requiring out-of-state companies to collect sales tax are considered at both the state and federal level, the path to compliance gets even steeper.

2. ***"I only need to know and collect one tax rate in additional states where I have operations."***
   The reality is that sales and use tax is a moving target. Recent legislation and proposals at the federal level are indicative of more sales tax obligations across more business and services types. This moving target could make it even harder for companies to accurately collect and remit taxes to avoid audits and penalties.

3. ***"This company has been doing it this way for years so there is no need to change."***
   With the high number of annual sales and use tax related changes, it is no wonder businesses have a difficult time keeping up. Tracking rates, managing exemption certificates, and filing returns manually tap limited company resources in an era of slim margins and higher audit rates. Sellers risk potential tax exposure and future liability under an audit if they don't collect tax correctly.

Did you know?

Companies that sell products in many states are finding that the best way to manage sales and use tax is to implement solutions that automate as much of the process as possible, from calculation to returns filing. Many of these products integrate seamlessly within existing accounting and ecommerce systems.

Nexus: Why it may not be enough to determine tax liability

Nexus means a connection or tie. It is a legal term that denotes a business's presence in a state or local jurisdiction for tax collection purposes. Nexus exists if a business connection with a state is substantial enough to allow the state to require tax collection. This connection could include a physical location (store, office or warehouse), company property, sales personnel or representatives, or any other business activity that extends beyond the use of a common carrier or the U.S. Postal Service.

The Supreme Court decision, Quill vs. North Dakota, guides the current "significant physical presence" definition of nexus. Although states are not allowed to enact nexus legislation in conflict with federal regulations, they are allowed to define nexus until such time as federal legislation passes.

Somebody has to pay

As a general rule, once nexus exists, the seller inherits a legal obligation to collect tax on all taxable transactions and remit any tax due to the applicable taxing authorities (e.g., Department of Revenue, Tax Commission, State Board of Equalization or Department of Taxation). If the seller has no nexus in a taxable state, the full responsibility of remitting any tax becomes the responsibility of the purchaser (i.e., consumer's use tax).

States are broadening definitions of nexus in an effort to capture more tax on sales. California and Illinois, for example, have determined that online affiliates create a physical presence, and therefore nexus. If your neighbor publishes a blog with affiliate links to Amazon products, he is considered an Amazon seller. This activity creates nexus in his state for Amazon. To avoid creating nexus, Amazon, Overstock and the like fought states and even broke affiliate relationships in order to avoid collecting sales tax.

Self-assessment of tax

When sales tax is not due, the purchaser has the obligation to self-assess the tax. Self-assessing the tax means reporting to the appropriate taxing jurisdiction any taxable purchases made during a certain reporting period and remitting the associated tax. Many states have added a line on personal income tax returns for the purpose of reporting tax-free purchases.

If a seller has nexus in a state, they will not be released from the liability of collecting the sales or seller's use tax, even though the purchaser may have self-assessed the tax on the purchase. The burden of proof falls on the seller and they have the responsibility of proving that the state received the appropriate revenue. With few exceptions, the purchaser is not released from the ultimate liability of the tax if the seller fails to collect and remit the tax due to the state. Both the seller and the purchaser can and will be assessed the tax due, if an auditor discover improperly filed or under-reported taxes.

Self-administered and Home Rule jurisdictions

Home Rule states are those that allow local jurisdictions to impose their own sales and use taxes. The following are Home Rule states:

- Alaska
- Alabama
- Arizona
- Colorado
- Idaho
- Louisiana

Taxing jurisdictions (city, county, et. al.) within these states can self-administer taxes and impose their own taxability rules. Sales tax administration costs in these jurisdictions are so high, some businesses have chosen to take their chances with an audit, rather than comply with these rules.

Sourcing

The term "sourcing" describes the location used to calculate tax rates, boundaries, and jurisdictions. Destination-based sourcing associates the rate charged with the delivery location of the product or service. Origin-based sourcing refers to the location of the business that provides the taxable item. In the case of brick-and-mortar stores, the sales tax rate is based on the store location.

For retailers shipping across taxing jurisdictions, whether online or via catalog, sourcing rules come into play more frequently. Such companies must be aware of tax rules and apply these rules for both calculating and remitting the correct tax. Only a handful of states have origin-based sourcing rules, where products that are shipped to the customer are taxed based on the location of the business itself.

The following are states that tax sales at their origin:

- Arizona
- California
- Illinois
- Mississippi
- Missouri
- New Mexico
- Pennsylvania
- Texas
- Utah
- Virginia

SALES AND USE TAX COMPLEXITIES

Determining accurate taxability encompasses layer upon layer of complexity. From determining and tracking jurisdictions, rates, and transaction types to surviving an audit, it's a burdensome, increasingly costly chore that promises to get more difficult.

Determining the taxability of products and services

Each state, and in some cases local jurisdictions (see Home Rule definition) establish their own unique taxability rules for purposes of generating sales and use tax revenue. Shortfalls in state revenues are motivating legislators to find ways to pass laws that will expand their existing taxable base.

Lacking tax expertise and without a sophisticated tax decision-making system, companies can find it difficult to properly calculate rates for all taxable transactions. Sellers need to know what's taxable in each applicable taxing jurisdiction to prevent tax exposure and future liability under audit. Moreover, they need to know what's not taxable, to avoid over-charging tax and potentially becoming named as a defendant in a class-action lawsuit. The more a company can automate tax collection and payment systematically, the more it can reduce tax exposure.

Did you know?

While searching for the perfect pumpkin for Halloween in Iowa, be sure the pumpkin patch knows that you're going to use the pumpkin for making pies rather than for decoration; it will save you 7% sales tax.

Multiple taxing jurisdictions and tax rates

There are over 11,000 taxing jurisdictions in the U.S., with localities increasing tax rates on a regular basis. Without an automated sales/use tax system in place it is almost impossible for a company to administer sales/use tax collection and reporting responsibilities in a multi-state environment.

Application of state-by-state exemptions

Many states offer special exemptions for manufacturing, industrial, farming, promotional materials, pollution control, capital improvements, warehousing, call centers, food, and various services.

Most of these exemptions have limitations and restrictions that are difficult to interpret correctly. One example is the manufacturing exemption. Some of the limitations include only machinery and equipment that expands a company's capacities or operation and exclude replacement due to wear and tear. Other states limit the exemption to the "actual process" in which an item changes from one form to another. Throughout the U.S., there are dozens of variations of qualifying exemptions.. As a result, companies erroneously overpay thousands of dollars in sales and use tax.

Bundled transactions

Bundled transactions are "packaged" sales that include both taxable and non-taxable items or services that are sold as a single unit. This type of transaction creates difficulty with system and law interpretation.

Digital Goods

Digital goods are typically things like podcasts, music, video files, or e-books that are delivered electronically, but states often define these goods only vaguely, if at all.

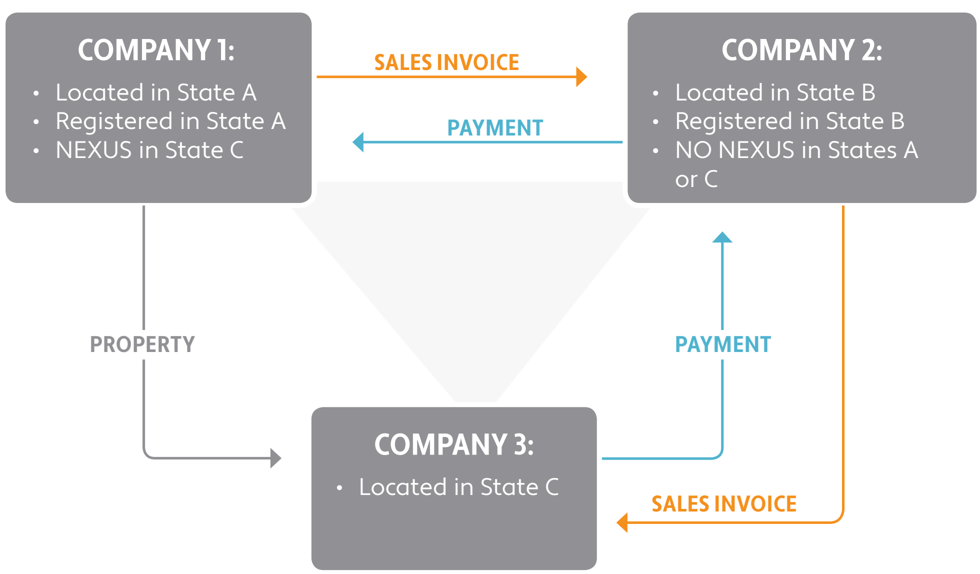
Sellers of digital goods face an uphill battle when determining if and when to charge sales tax. A number of states have determined that businesses selling digital goods such as MP3s, e-books, and movies should charge sales tax. Other states allow these sales to remain sales tax-free (though technically consumers still need to pay consumer use tax).

Even if you get a handle on which states tax digital goods, you still need to know what counts as a digital good in those states. In other words, how do states define digital goods? The 22 states (such as Indiana, Kentucky, and New Jersey) that have signed on to the national effort to streamline sales tax laws define digital goods as electronically delivered movies, e-books, and music.

States not currently part of the streamline agreement often use a different approach. Connecticut includes ring tones and software under the digital goods category. Illinois counts newspapers, magazines, books and music downloaded electronically as digital goods. Other states such as California, Colorado, and Arkansas, don't define digital goods whatsoever.

Drop shipments–the "Bermuda Triangle"

Third-party drop shipments are the Bermuda Triangle of sales and use tax. These transactions involve at least three separate parties and two separate sales. It gets more complicated when each party is in a different state. The following diagram shows a typical third-party drop shipment transaction.



In this example, and in most drop-shipment transactions, taxability relies on documentation. That is, will State C accept a resale certificate from Company 2 in State B? Because Company 2 does not have nexus in State C it is unable to provide a State C resale certificate, relieving Company 1 of its collection responsibility.

The Institute for Professionals in Taxation (IPT) publishes a Third-Party Drop Shipment Survey annually. Companies with drop shipment concerns can purchase this survey on IPT's website, **www.ipt.org.**

Exemption certificate documentation

Generally, all purchases of tangible personal property are presumed to be taxable. Unless there is a specific statutory exemption or a receipt of a properly prepared and executed exemption certificate, the sale is subject to tax. Exemption certificate documentation can come in many forms and applies to all purchases. Each state establishes its own laws related to exemption documentation. In most cases, the seller is required to obtain exemption certificate documentation on or before the date of sale, in order to be released from the liability of the tax. Some states have "all-in-one" exemption certificates that cover all available reasons for exemption treatment, and others have specific exemption documentation for each available reason. The most widely used exemption certificate is the MTC (Multi-state Tax Commission) form.

Example of exemption certificate records include:

- Resale certificates.
- List of exempt customers.
- Direct pay permits.
- MTC form.
- Manufacturing/Industrial exemption certificates.
- Records of capital improvement.
- Border state exemption certificates.
- Temporary storage records.

Which groups are always exempt?

In all cases, a sale to the federal government (or one of its agencies) is exempt from state taxation. Other exempt customers include state and local governments and agencies, charitable or non-profit organization such as churches, hospitals, or schools, and relief organizations, resellers, foreign diplomats, and Native Americans.

Audits

Each taxing state and local jurisdiction has an audit division responsible for ensuring that the governing jurisdiction receives the tax revenue that is due.

Who is likely to be audited?

Each licensed businesses is a potential audit candidate. In addition, all unlicensed sellers that have nexus in a state or local jurisdiction can be audit candidates. Even though it's difficult to audit unlicensed out-of-state sellers, the possibility for audit exists, and any tax deficiency, penalty and interest associated with non-compliance can be sufficient to cripple if not bankrupt a business.

What do auditors review?

Auditors review both sales and purchase transactions during a given reporting period, based on the statute of limitations (usually between 3 and 4 years). In most cases, an auditor will use a sampling methodology (block, random, or statistical) to review sales and non-capitalized purchases. They will generally review 100% of all fixed asset purchases. Because the auditor's time is limited, an audit usually focuses on areas that will generate the greatest amount of error, tax deficiency, and recovered tax revenue.

The scope of the audit is usually determined by initial selective sampling. If a taxpayer does not maintain sufficient records, or if reports and records are not easily audited, the auditor has the authority to conduct the audit in any way they deem necessary.

Who must provide proof? How are disagreements resolved?

Once the auditor identifies a deficiency, the burden of proof that the assessed tax is not due shifts to the taxpayer. If the taxpayer does not agree with the assessment issued, there are certain appeal rights that range from an informal hearing to the U.S. Supreme Court. Most disagreements are resolved in an informal hearing phase. All audit assessments are legally binding bills that are enforceable.

Internet Tax Freedom Act

In October 1998, then-President Clinton signed into law the Internet Tax Freedom Act (ITFA). The Act imposed a three-year moratorium on any taxes on Internet access and multiple and discriminatory taxes on electronic commerce. The act provided an exception for state and local jurisdictions that were already taxing access charges.

With a name like the Internet Tax Freedom Act, you can imagine the confusion that ensued. ITFA does not give consumers freedom from taxes on purchases made online. If a seller has nexus (through a store, sales staff, inventory, and so on) and is already collecting tax in a particular state, the seller must continue to collect sales and use tax on all taxable sales regardless of the channel of sales. The act was designed to prevent a taxing jurisdiction from imposing tax collection duties on a seller if the only channel of sale is through the Internet.

The Streamlined Sales Tax Project

The Streamlined Sales Tax Project (SSTP), www.streamlinedsalestax.org, is an effort among state governments and private industry to create uniformity in administering sales and use tax compliance and reporting. The goal is to simplify sales and use tax collection and administration for retailers and governing jurisdictions, thus improving compliance and encouraging remote sellers to collect tax. Through the efforts of SSTP, costs and administrative burdens on retailers that collect tax in multiple states can be significantly reduced. SSTP levels the playing field so that physical stores and remote sellers follow the same rules. The original agreement was adopted in November 2002.

The key simplification measures include:

- Uniform definitions within tax law
- Rate simplification
- State level tax administration
- Uniform sourcing rules
- Simplified exemption administration
- Uniform audit procedures
- State funding of systems

States partner with private suppliers of services, like Avalara, to certify the accuracy of their software. By using a Certified Service Provider (CSP), businesses are immune from audit liability for the sales processed through the CSP software. In addition, states will pay the cost of service for any business that voluntarily becomes a taxpayer in an SST state. Avalara is one of six CSPs.

The Streamlined Sales and Use Tax Agreement (SSUTA) distinguishes between sellers that are obligated to register voluntarily and those that are not. If a seller voluntarily registers to become a taxpayer through the SSTP they will not be charged a registration fee, they may be able to file returns less frequently, and they can complete their registration online and not be required to provide additional information required of non-volunteer taxpayers. All sellers that register through the SST system are eligible for amnesty regardless of their voluntary status.

Did you know?

When you think of Utah, adult entertainment typically doesn't come to mind. In an effort to close the budget gap, Utah enacted a 10% sales tax on certain adult "services."

Before getting inked in Arkansas, make sure you budget for the 6% tax on tattoo and body piercing services.

COMPLYING WITH SALES AND USE TAX

Compliance is comprised of four main areas:

1. Registration and collection.
2. Return preparation and filing.
3. Exemption certificate management.
4. Audit management.

All companies, regardless of their size, will be required to address items 1 – 3 at some point during the business lifecycle. Once nexus has been decided and registration with the jurisdiction is complete, the company must collect taxes. This includes assigning taxability and tax to products or services, and instituting a collection process. Point-of-sale retailers have a fairly simple tax collection task: programming cash registers to apply and capture the tax on the correct items at the time of sale. Wholesalers and manufacturers have few issues with tax collection, but have a larger concern with managing exemption certificates. Companies that sell directly to end users in multiple states and that have nexus in multiple states have the greatest challenge related to taxation.

Preparing and filing returns

Prepayments

The preparation and filing of returns is one of the most time-sensitive aspects of the tax management process. Companies should meticulously maintain a calendar of critical due dates to file and pay returns in a timely manner.

To improve cash flow, many states have imposed prepayment requirements on larger taxpayers. Some states, like Illinois, inform taxpayers what their monthly prepayment should be, whereas others, such as Florida, provide multiple ways to calculate the prepayment amount:

- 60% of average tax liability for prior calendar year.
- 60% of tax due for the same month prior year.
- 60% of current month liability.

Who Is Required to Make Prepayments?

Taxpayers that remit large amounts of tax to a jurisdiction may be required to make prepayments.

There are three types of prepayments:

1. Prepayments included with current return – the following states require companies to include any prepayments with their current return:

- Alabama
- Florida

• Georgia
• Kansas
• North Carolina
• Ohio

2. Prepayments made separately from returns – the following states require prepayments to be made separately from returns:

• Illinois
• Minnesota
• Missouri
• New York
• Oklahoma
• Pennsylvania
• Texas

3. Prepayments considered deposits against total sales tax obligations – the following states consider prepayments deposits against total taxes owed:

• California
• Iowa
• New York
• New Jersey

As you can see, types of prepayments vary by state. Once a taxpayer meets the minimum threshold amount owed, states will typically notify the taxpayer of their prepayment requirement via mail. However, taxpayers are required to monitor their activity in each state and not rely on the state to inform them when a prepayment requirement has been met.

How are prepayments calculated?

Just as the threshold for making prepayments varies by state, so do prepayment calculations.

Many states offer multiple calculation methods, including those listed below:

- Florida–60% of the current month liability, or 60% of tax due for the same month prior year.
- Minnesota–90% of June liability.
- New York–90% of actual liability for the first 22 days of the month, or 75% of 1/3 of liability for the same quarter prior year.
- Pennsylvania–50% of the gross tax reported for the same month, prior year.

When are prepayments due and how are they paid?

Some prepayments are made on the monthly sales tax return along with tax due for the month, while others are made separate from the returns themselves. For instance, taxpayers required to make prepayments in Georgia and Florida will report tax due for the month and both make the prepayment and claim credit for the prior month prepayment. Illinois requires taxpayers meeting the prepayment threshold to make four separate prepayments each month: 7th, 15th, 22nd and 29th.

Timely filing

To compensate companies for collecting and reporting tax, many jurisdictions allow for a timely filing discount. Unfortunately, few states apply this calculation universally. For example, Florida allows a timely filing discount of 2.5% on the first $1,200 of tax reported, not to exceed $30. Illinois calculates the timely filing discount at 1.75% of sales tax due.

Filing of returns and tax payments must be completed using the method the jurisdiction mandates. As technology has improved, many states have begun requiring taxpayers to file returns and pay taxes electronically. Some states accept credit cards for payment of tax. A company's tax department must monitor tax payments and know when they have met electronic filing, electronic payment, and prepayment thresholds. Although states send notices to taxpayers informing them of changes in filing and payment requirements, companies are required to make the mandated changes regardless of whether they have received notification.

Tax preparation and filing do not end when a return is mailed or payment is made. Jurisdictions send notices when they believe a return has not been filed incorrectly, late, or not at all. The taxpayer is responsible for reviewing and responding to notices in a timely fashion. Notices that remain unresolved can result in tax levies on the company bank account, or tax liens placed on the company and/or their corporate officers.

Managing exemption certificates

Every sale should be considered taxable until proven exempt. One of the most important tasks for a company's tax department is obtaining a properly prepared exemption certificate. The tax department should review exemption certificates for accuracy and completeness as soon as they are received.

The onus is on the seller to:

- Verify validity of certificates.
- Generate reports summarizing status and location of certificates.

Whether or not a licensed seller collects the tax, they bear the liability of the tax. Otherwise clean audits can end up with negative findings, should the seller not be able to document and justify granting a customer an exemption.

Without a system to automatically monitor and manage exemption certificates, many companies needlessly expose themselves to significant audit risk.

Managing an audit

Entire books have been written about tax audits and how to coordinate and control them. A company's tax department is likely to be most concerned with the following four aspects:

1. Scheduling–every audit should be scheduled in advance with the auditor.
2. Record presentation–early in the audit process, agree with the auditor on which records and documents will be reviewed, how the data for the audit will be tested and projected, and any other special needs the auditor may have.
3. Review of findings–review and discuss with the auditor items the auditor identifies.
4. Appeals and remedies–review and monitor a timeline of dates and deadlines to preserve protest and appeal rights.

Internal audits

Typically, independent departments responsible for ensuring compliance with financial and accounting policies perform internal audits. Because the sales tax function is typically a pass-through (dollars collected equal dollars remitted), the sales tax department is often on the periphery of an internal audit analysis. Within the tax department there should be a continuous self-audit to ensure that data is being captured and processed correctly, and tax procedures, including remittance, are being followed in all departments, including Accounts Payable, Purchasing, Marketing, and Sales.

Part of the audit function should include reviewing and reconciling sales tax general ledger accounts regularly, especially when the return preparation and filing is outsourced. By reviewing and reconciling the general ledger, it should be quite easy to identify when taxes have been paid incorrectly.

Small to mid-sized companies typically do not have staff with sales tax expertise, which can put them at risk for noncompliance. Regardless of company size, reconciling the sales tax general ledger accounts will help ensure proper payment of taxes collected.

Tax planning

A company's tax department should actively participate in business decisions such as where to establish new operations. All too often, the tax implications of such decisions are discovered after the fact, with a direct impact on profits.

Legislative review

Legislation constantly changes. A tax department should review pending laws and their potential impact on the company, products, and services it sells.

Did you know?

If you buy a Coca Cola in a glass or cup in Chicago you'll pay a 9% tax, but if you buy it in a bottle or can you only pay 3%.

If you like blueberries and want to buy them in the great state of Maine, you'll pay an additional 0.75% per pound tax. The tax is used toward advertising and research for blueberries.

SALES TAX PRACTICES BY STATE

This list is not exhaustive, and is subject to change. We encourage you to research the current standards and exceptions for states in which you do business.

Alabama

- Many cities and counties in Alabama administer their own laws, tax rates, collection and audits, or they contract out to third parties such as Revenue Discovery Systems and Sales Tax Auditing and Collection Services.
- Taxability rules (for example, whether food sales are taxed) may differ between state and local jurisdictions.
- Services are generally non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Location-based reporting is required at the local level.
- Prepayment requirements may exist.
- Separate returns are required for sales, seller's use, consumer's use and rental tax.

Alaska

- Alaska has no state sales tax but there are numerous local jurisdictions that do impose sales tax.
- Each local jurisdiction establishes its own taxability rules.

Arkansas

- Tax is imposed on the seller's gross receipts.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Timely filing discount is only available for sales tax reported.

Arizona

- Special tax rates may apply for certain types of transactions such as lodging, tourism, and dining.
- Many cities in Arizona self-administer their own laws (Home Rule), tax rates, collection and audits.
- Food is exempt from state sales tax.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Location-based reporting is required at the local level.
- Annual prepayment requirements may exist.

California

- Partial exemption rules exist for certain types of transactions (e.g., agricultural and manufacturing).
- Services are generally non-taxable.
- Bundled transaction rules may exist.
- A gift exemption may exist.
- Special software taxability rules may exist (electronic transfer vs. tangible personal property).
- Food is exempt from state sales tax.
- Many organizations that are usually exempt (e.g., state and local government, certain charitable/non-profit organizations) are subject to sales and use tax.
- Location-based reporting may be required.
- Modified origin sourcing rules may be in effect.
- Prepayment requirements may exist.

Colorado

- The taxable event takes place at the ship-to location or place of consumption.
- Many local jurisdictions in Colorado self-administer their own laws, tax rates, collection and audits. Taxability rules (for example, whether food sales are taxed) may differ between the state and local jurisdictions.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.
- Many cities impose a Property Improvement Fund (PIF) surcharge that is reported separately from sales tax. These funds are typically applied in retail mall locations.
- Certain fees, like the PIF, must be included in the taxable base.
- Location-based reporting is required at both the state and local levels.

Connecticut

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or dining.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.
- Clothes are exempt from state sales tax with limitations/restrictions.
- Non-prescription medicine is generally treated as non-taxable.

District of Columbia

- Many services are subject to sales and use tax.
- Food is exempt from state sales tax.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Non-prescription medicine is generally treated as non-taxable.

Florida

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or dining.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.
- Location-based reporting is required.
- Prepayment requirements may exist.

Georgia

- The taxable event takes place at the ship-to location or place of consumption.
- Taxability rules (for example, whether food sales are taxed) may differ between the state and local jurisdictions.
- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Qualified agriculture producers receive a sales tax exemption on agricultural equipment and production inputs.
- Food is exempt from state sales tax.
- Location-based reporting is required.
- Prepayment requirements may exist.

Hawaii

- Hawaii is a gross receipt state, and tax is always imposed on the gross receipts of the seller.
- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Any tax collected from customers is included in the taxable base (essentially a tax on a tax).
- Transportation services are generally not subject to tax but most other services are taxable.
- In additional to monthly, quarterly, and semi-annual returns, Hawaii requires an annual recap return to be filed.

Idaho

- Special tax rates may apply to certain types of transactions such as lodging, tourism, or dining.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.

Illinois

- Reduced tax rates apply to food and medical supplies.
- Most services are non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Sales shipped to Illinois from outside of the state are taxed at the seller’s use tax rate, regardless of whether or not the company has a physical location in Illinois.
- Location-based reporting is required.
- Prepayment requirements may exist.

Indiana

- Services are generally exempt from sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.

Iowa

- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.

Kansas

- The taxable event takes place either at the ship-from location or where the order is placed.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Prepayment requirements may exist.

Kentucky

- Services are generally exempt from sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.

Louisiana

- All Parishes (including cities) in Louisiana administer their own laws, tax rates, collection and audits.
- Taxability rules (for example, whether food is taxed) may differ between the state and parishes.
- Services are generally non-taxable.
- Farming machinery/equipment exemptions are available but may be subject to limitations.
- Food is exempt from state sales tax.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Limited exemptions exist for resale certificates (credit structure).

Maine

- Services are generally non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.

Maryland

- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.
- Non-prescription medicine is generally treated as non-taxable.

Massachusetts

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Services are generally non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.
- Clothes are exempt from sales tax but limitations or restrictions apply.

Michigan

- Special tax rates may apply for certain types of transactions such as lodging, tourism, and eating establishments.

- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.

Minnesota

- Special tax rates may apply for certain types of transactions such as lodging, tourism, and eating establishments.
- There are a few cities (Duluth, for example) that administer their own sales tax laws, collection and audits.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Certain food items are taxed; others are not.
- Clothes are exempt from state sales tax but limitation and restrictions apply.
- Non-prescription medicine is generally treated as non-taxable.
- Prepayment requirements may exist.

Mississippi

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.

Missouri

- Reduced tax rates apply to food.
- Services are generally non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.

Nebraska

- Many services are subject to sales and use tax.
- Farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.

Nevada

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.

New Mexico

- Tax is imposed on the seller's gross receipts.

New Jersey

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not..
- Clothes are exempt from state sales tax but limitations and restrictions apply.
- Non-prescription medicine is generally treated as non-taxable.
- Capital improvement exemptions are available.
- Returns must be filed electronically.

New York

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Certain food items are taxed; others are not.

- Clothes are exempt from state sales tax but limitations and restrictions apply.
- Non-prescription medicine is generally treated as non-taxable.
- Capital improvement exemptions are available.
- Prepayment requirements may exist.

North Carolina

- Some services are subject to sales and use tax.
- Taxability rules (for example, whether food is taxed) may differ between the state and local jurisdictions.
- Manufacturing and farming machinery/equipment may qualify for a reduced tax rate treatment.
- Manufacturing machinery tax is required to be filed on a separate form from sales and use tax
- Food is exempt from state sales tax.
- Prepayment requirements may exist.

North Dakota

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Certain food items are taxed; others are not.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.

Ohio

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.
- Exemptions exist for warehouse/distribution center machinery and equipment.
- Call center (direct sales) equipment exemptions are available.
- Prepayment requirements may exist.

Oklahoma

- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Prepayment requirements may exist.

Pennsylvania

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Clothes are exempt from state sales tax but limitation and restrictions apply.
- Non-prescription medicine is generally treated as non-taxable.
- Prepayment requirements may apply.
- Returns must be filed electronically.

Rhode Island

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Services are generally non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.
- Clothes are exempt but limitations and restrictions apply.
- Non-prescription medicine is generally treated as non-taxable.

South Carolina

- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment may qualify for a reduced tax rate treatment.
- There is a reduced tax rate on food

for those 85 years of age and over.
- Location-based reporting is required.

South Dakota

- Services are generally subject to sales and use tax.
- Farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.

Tennessee

- There are reduced tax rates on food.
- A multi-tier tax rate (single-article tax) is imposed based on maximum dollar amounts in local jurisdictions:
- • First $1,600 taxed at the standard rate
- • $1,601 - $3,200 taxed at a uniform rate of 2.75%
- • $3,201 and above exempt from local tax
- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Location-based reporting is required.

Texas

- Modified origin rules apply to sourcing.
- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Many services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Modified bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Certain food items are taxed; others are not.
- Non-prescription medicine is generally treated as non-taxable.
- Prepayments are optional; however, taxpayers that make prepayments that meet specific rules are allowed additional discounts of 1.25%.
- Location-based reporting is required.

Utah

- Services are generally subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.

Vermont

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Services are generally non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.
- Clothes are exempt from state sales tax but limitations and restrictions apply.
- Non-prescription medicine is generally treated as non-taxable.

Washington

- Many services are subject to sales and use tax.
- Manufacturing machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Food is exempt from state sales tax.

Wisconsin

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Some services are subject to sales and use tax.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Certain food items are taxed; others are not.
- Bundled (taxable and non-taxable items sold together as a single unit) transaction exemption rules apply.

Wyoming

- Special tax rates may apply for certain types of transactions such as

lodging, tourism, or eating establishments.
- Services are generally subject to sales and use tax.
- Farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.

Virginia

- There is a reduced tax rate for food.
- Services are generally non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.
- Non-prescription medicine is generally treated as non-taxable.
- Location-based reporting is required.

West Virginia

- Special tax rates may apply for certain types of transactions such as lodging, tourism, or eating establishments.
- Services are generally non-taxable.
- Manufacturing and farming machinery/equipment exemptions are available but may be subject to limitations and restrictions.

GLOSSARY

ACH Credit: An electronic transfer of funds whereby the taxpayer initiates a transaction and pushes funds to the tax jurisdiction's bank. Payment is not deposited in the jurisdiction's bank account immediately but may be required to process overnight.

ACH Debit: An electronic transfer of funds whereby the taxpayer provides banking information to the jurisdiction and the tax jurisdiction pulls funds from the taxpayer.

Amnesty: A special program offered by a taxing authority to allow taxpayers that have tax deficiencies to report taxes due without incurring penalties. In some cases, interest charges are abated either in full or in part. As a general rule, amnesty periods are short and maintain strict requirements for participation.

Block Sampling: A sampling methodology used by a state auditor to estimate the level of non-compliance without having to review every transaction during the entire audit period. Typically, a block can be a period of time such as a week or a month, or it could be related to specific account numbers or vendors. Based on a block sample, an auditor can extrapolate error rates.

Consumer Use Tax: Tax due from a consumer on the purchase of a taxable product or service in which a sales tax was not imposed. There are a number of reasons why a vendor may not charge sales or seller's use tax on an invoice: (1) not licensed to collect, (2) no nexus in the ship-to state, (3) exempt by statute, (4) receipt of an exemption certificate, or (5) purchase order indicates non-taxable. In most cases, if a seller can't provide justification for not collecting the tax from the customer, the state will assess the seller for the tax due.

EFT (Electronic Funds Transfer): Many states require the electronic transfer of sales and use tax revenues, either because a certain taxpayer reaches a minimum "threshold" as a tax-collecting agent or as a convenience to the state.

Error Rate: A calculated percentage of error. Error rate calculations are generally associated with sales and use tax audits in which the auditor projects the percentage of error based on a sample. An error rate is generally calculated by dividing the total errors found in a sample by the total sales in the sample period.

Exempt Customer: A buyer that is exempt from the imposition of sales and use tax. Examples include federal government, state and local governments, resellers, charitable organizations, and others. With the exception of the federal government, entities that qualify as exempt vary from state to state.

Exemption Certificate: A paper certificate that provides verification that a customer is exempt from taxation. There are several types of exemption certificates available such as resale certificates, exempt organization certificates, direct pay permits, foreign diplomat exemption certificates, and Native American membership cards. Generally speaking, in order for a transaction to be exempt from sales and use tax, the exempt customer must provide a copy of the exemption certificate to the seller prior to, or at the time of, the sale. In most cases, the exemption certificate must contain relevant information such as the purchaser's name, address, exemption number, and effective date, and must include an authorized signature.

Home Rule Jurisdiction: A taxing jurisdiction that imposes taxability rules differently from the state. Only self-administered jurisdictions can be considered Home Rule. Not all self-administered jurisdictions are Home Rule (such as those in Alabama and Idaho).

Institute for Professionals in Taxation (IPT): A professional tax organization based in Washington, D.C. Members range from individuals and small businesses to fortune 500 enterprises. Established in 1976, the IPT is an educational association that seeks to establish standards and uniformity in tax administration requirements.

Item Taxability: The taxable status of a particular item or product that is sold. The statutes of each applicable taxing jurisdiction determine the taxability of products and services.

Multi-State Sales and Use Tax Exemption Certificate: An exemption certificate that can be used for multiple states under a single document. The advantage of using this document is that a company doesn't have to prepare separate exemption certificate documentation for every applicable state. This document has restrictions and limitations. Not all states recognize it as valid, and most accepting states limit its use for purposes of resale only.

Nexus: A legal term that denotes a connection between a business and a state or locality for tax collection purposes. Based on the Supreme Court Ruling in the Quill vs. North Dakota, nexus exists if a business connection with a state is substantial enough to allow the state to impose tax collection responsibility. This connection may include a physical location (store, office or warehouse), company property, sales personnel or representatives, or any other business activity that extends beyond the use of a common carrier or the U.S. Postal Service.

Non-Taxable: Generally indicates that a particular product or service is not subject to tax as determined by statute, regulation, private letter ruling or court case. Occasional Sales: Many states have an occasional sales provision specifying transactions that are "occasional" in nature are exempt from sales tax. An example of such a transaction is a liquidation sale of furniture by a computer hardware manufacturer. The company is not normally in the business of selling furniture, but has used furniture to sell each time it upgrades office furniture.

Prepayment of Sales Tax: Prepayments are referred to in a number of ways: Estimated Tax, PrompTax (NY), Accelerated Payments, quarter-monthly Payments. Prepayments are sales tax paid in advance as required by state or local laws. As a general rule, prepayments are required when a taxpayer reaches a certain annual threshold of taxes paid for a given period of time. Examples of prepayment thresholds:

- California–average tax liability exceeding $17,000 per month.
- Minnesota–fiscal year (July – June) tax liability exceeding $120,000.
- New York–tax liability for June 1 – May 31 exceeds $500,00.
- Pennsylvania–actual tax liability in the third quarter of the preceding calendar year in excess of $25,000.
- Texas–optional.

Private Letter Ruling: A legal opinion that is provided by a taxing authority based on a request from a taxpayer. Such rulings are useful and highly recommended if the taxpayer is unclear about the taxability of an item, or if the state statutes and regulations don't adequately address the item in question. Generally speaking, Private Letter Rulings are binding and will support a taxpayer's position under audit.

Real Property: Land or building. Also included in the definition of real property is tangible personal property (e.g., carpet) that becomes a component part of a building or structure. The taxation of real property transactions differs from state-to-state. Since real property transactions generally involve the incorporation of tangible personal property, the taxation issue primarily centers on who is deemed to be the "consumer" with respect to the tangible personal property.

Regulation: Administrative policies and interpretations established by taxing authorities relative to the statutes (laws) that state and local lawmakers have passed.

Reserve Account: An account that allows a company to reserve funds for potential sale and use tax liabilities that may be assessed during future sales and use tax audits. Reserve accounts are advantageous when errors or deficiencies are discovered during an audit cycle, or when there are known systemic problems that are preventing a taxpayer from fully complying with the law on a month-to-month basis.

Retailer: The party that sells a product or service to the final consumer. The retailer bears the responsibility for the collection and remittance of any sales and use tax that is due. Taxing authorities will hold retailers accountable for any deficiencies that are found during an audit, and will assess the retailer including penalties for non-compliance.

Sales Tax: A transactional tax that is imposed on the sale of tangible personal property and certain types of services. Generally speaking, a sales tax transaction occurs when the buyer and seller are located in the same state and the products or services are consumed in the same state where they were sold. 45 states and the District of Columbia impose a general sales tax. The five states that have no sales tax are Alaska, Delaware, Montana, New Hampshire and Oregon. Local jurisdictions within a state may impose a local sales tax. Most local sales taxes are administered and collected by the state, and thereafter allocated to local jurisdictions.

Sales Tax Holidays: During these designated periods of time, a state temporarily suspends the imposition of sales and/or use tax. This can include a limited list of normally taxable items (e.g., food and clothing) or all normally taxable items. The suspension period usually last between 1 and 7 days.

Sales Tax Liability Account: General ledger account. This is the liability account that is used to account for the sales tax or seller's use tax that is charged to customers.

Self-Assessment: Self-assessment is required because in most cases the purchaser is ultimately responsible for the tax on the transaction. If a seller doesn't impose tax, it is usually because they are not licensed to collect tax in the ship-to state (they don't have nexus), the ship-to state does not impose a sales tax, or the seller views the transaction as non-taxable.

Self-Administered: A local tax jurisdiction that has chosen to administer sales tax collection itself.

Seller's Use Tax: A transactional tax similar to a sales tax that is imposed on the sale of tangible personal property and certain types of services. Generally speaking, a seller's use tax is due when a sales tax isn't imposed because the seller and buyer are located in different states, and the consumption of the sold products or services takes place in the state in which the buyer is located.

Services: Services come in many forms and varieties (for example, consulting or other professional services, repair of tangible personal property (TPP) repair of real property, and installation of tangible personal property.). The taxability of services depends on a variety of factors such as type of service being performed, state in which the service is being performed or allocated, whether the service is being performed in conjunction with the sale of TPP.

State Policy Statements or Bulletins: Official policy provided by a taxing authority to help taxpayers understand the state's position on a certain tax issue. In many cases, these bulletins are generated because of a recent court case ruling or a change in state law.

Statutes: Laws that have been passed by state and local lawmakers.

Statute of Limitations: A period of time in which a state has to assess additional tax, penalties and interest for non-compliance. For most states, the statute is three years from the time the tax was due or when the return was filed, whichever comes first. A taxing authority for assessment purposes can void a statute of limitation period if fraud or evasion is determined.

Statute of Limitations Waiver: A binding agreement that extends the statute of limitations period. An auditor will often request a waiver from a company so that they don't forfeit time during the early portion of an audit period. The need to request a waiver from a taxpayer is generally a result of time delays in obtaining necessary data from taxpayers, or dealing with unexpected problems.

Tangible Personal Property (TPP): Property that is tangible in nature and not considered real property. Under normal sales and use tax law, all tangible personal property is subject to tax, unless proven otherwise through state statute, regulation, private letter ruling, court case, or other.

Tax Commission: An agency of a state government similar to a Department of Revenue that has the administrative responsibility of collecting and auditing of sales and use tax revenues.

Third-Party Drop Ship: A transaction where the purchaser is not the final consumer. An example of this would be where X (seller) who is located in California sells to Y (buyer) who is located in Nevada, but ships the purchased product to Z (third-party) who is located in Utah. The sales and use tax implication of this type of transaction is related to who bears the responsibility for the collection of tax under this type of sale.

"True Object" Test: A test aimed at determining the real "intent" or "purpose" of the purchase of a product or service. This is useful in deciding whether or not a particular product or service is taxable. A "true object" test might be employed when you have a food item that is packaged in a colorful tin container.

Wholesaler: A party that sells to a retailer. The sale to a wholesaler and the sale from the wholesaler are usually exempt from tax, providing a properly prepared resale certificate is obtained in lieu of the tax.

Wire Transfer: An electronic transfer of funds from the taxpayer's bank to the tax jurisdiction. Wire transfers deposit funds immediately into the jurisdiction's bank account.

ADDITIONAL RESOURCES

Access state-specific tax information and rates here:
http://www.taxrates.com/.

If it's information on sales and use tax you need, we have it here:
http://www.avalara.com/resources

Avalara simplifies tax collection with a web-based solution.
Learn more: http://www.avalara.com/cloudsalestax

END NOTES

[1]State Government Tax Collections Summary Report: 2011, U.S. Census Bureau

[2]Defined by Supreme Court Decision: Quill vs. North Dakota, May 1992.

[3]California and Texas are considered "modified-origin" states, where state, county, and city taxes are based on the origin of the sale, while district taxes are based on the destination of the sale.

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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.