

Software-as-a-Service Company Saves \$900,000 Through Mitigating Sales Tax Exposure



Company Background

A technology company (the Company) that provides cloud-based Software-as-a-Service (SaaS) has more than 160 customers across 33 different states. Founded in 2015, the Company has grown its annual recurring revenue to more than \$6 million.

Situation: Sales Tax Obligations Spanning Multiple States

The Company was only registered with and reporting sales tax to its home state. With customers spanning 33 states and a workforce of more than 50 remote employees, all of the Company's sales tax obligations were not being met.

If Situation Is Not Remedied

Immediate Issue

If the Company did not properly report sales tax where filing obligations exist, the Department of Revenue could assess penalties and interest on unreported sales tax.

With sales tax obligations in more than 30 states, the Company's sales tax exposure continued to increase as each day passed.

Future Issue

If an investor was interested in purchasing the business, it is likely that the unsatisfied sales tax obligations would be identified as part of due diligence, resulting in a potentially unfavorable adjustment to the business sale price.

Guidance

Cherry Bekaert's audit team identified the situation and introduced the Company to Cherry Bekaert's Sales and Use Tax team to assist with its multi-state sales tax compliance. That team advised the Company on how to move forward to resolve its situation with the following services:

- ▶ **Nexus Review** - Identify sales tax obligations.
- ▶ **Taxability Review** - Determine if sales were taxable.
- ▶ **Exposure Analysis** - Quantify historical sales tax exposure.
- ▶ **Mitigation** - Implement an action plan for customer outreach to reduce back taxes owed.
- ▶ **Remediation** - Participate in Voluntary Disclosure Agreements with states to reduce the taxes owed and waive penalties for late filing.
- ▶ **Tax Engine Selection and Implementation** - Configure Avalara's tax engine for sales tax rate calculations to automate sales tax within their enterprise resource planning system.

After completing the nexus review, taxability review and initial exposure analysis, the sales tax exposure of the Company was identified to total more than \$1.2 million. After quantifying sales tax exposure, Cherry Bekaert advised the Company of efforts that could be taken in order to mitigate the risk identified. The Company agreed to attempt to mitigate the \$1.2 million in risk through reaching out to the Company's customers to collect documentation. The Company successfully gathered documentation to support its customers' self-assessed and reported consumer use tax on their own sales tax returns.

Results

Cherry Bekaert's compliance review resulted in a reduction of \$900,000 in sales tax exposure for the Company. Cherry Bekaert then assisted the Company with remediating the remaining sales tax exposure through voluntary disclosure processes and filing historical returns.

Once the Company's sales tax exposure was remediated, the Cherry Bekaert team assisted with selecting and implementing a tax engine. Avalara's sales tax engine, AvaTax, was determined to be the best choice for the Company for sales tax rate automation, relieving the stress and uncertainty of historically managing sales tax rates.

Guiding Your Business Through Sales Tax Compliance

Cherry Bekaert's Sales and Use Tax team is here to be your trusted advisor when working through the complicated sales tax obligations that are presented to technology companies.

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