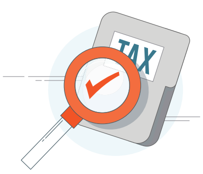
FINANCING YOUR FUTURE?

These tax tips can help secure investment.

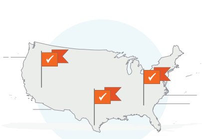
Companies need capital to grow. But backing a venture is a big decision – a risky one – and investors don't fund deals without first doing their homework. For any financing event, public or private, investors not only look closely at how you plan to grow the business but also how you're managing it now. This includes tax compliance and audit histories. Follow these best practices to present your business in the best light to investors.



DON'T: Have a checkered tax past

Growth-focused businesses tend to underestimate the impact of sales tax on company valuation. Understandably, your focus is on what you think investors want to hear – revenue projections, market opportunities, new product offerings – the secret sauce that makes your venture a smart bet. But business investment is a lot like home buying; fancy interior features don't mean much if your foundation is faulty. That includes shoring up tax compliance advises financial consultant and strategist Lisa Serwin. "If there is a funding round, company sale, or IPO, being clean and consistent and having an auditable record is of the utmost importance," says Serwin. Poor sales tax management practices or unfavorable audit outcomes can impact valuation, jeopardize funding, or even nullify deals.

Andrew Johnson, CPA and Managing Partner with Peisner Johnson agrees. "We've been on both sides of these transactions and seen many instances where sales tax exposure is the single biggest obstacle to overcome," says Johnson. Investors are naturally cautious, Johnson explains, because, they could bear the burden of any past sales tax exposure. "It's very important for a company looking to sell, or even just seeking outside funding, to make sure they're on top of potential exposure."



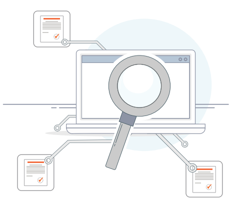
DO: Keep up with tax law changes

High-visibility events like funding rounds and IPOs can also bring your business to the attention of state auditors looking to draw in more tax dollars. "Companies with a higher profile and higher revenues tend to be chosen for audits more often," warns Shane Ratigan, an attorney and state and local tax compliance analyst.

It's important to assess changes in your business that could lead to changes in your sales tax obligations, especially in light of new economic nexus laws now in effect in more than 40 states. These laws were rapidly adopted following the Supreme Court decision in South Dakota v. Wayfair, Inc., which overruled the physical presence requirement in favor of allowing states to require businesses to register, collect, and remit sales tax on remote sales if certain sales volume or revenue thresholds are met.

These new nexus laws affect most sellers in some way, but for growing businesses, the likelihood is much higher that your tax obligations will change, possibly substantially. And there's little reprieve if you fall behind. Several states have nexus discovery units within their revenue departments that scour public information to find companies that are not compliant with their laws. The more you "stand out from the crowd" among other businesses, the more likely they are to notice your situation.

To avoid frequent reassessments of tax risk or, worse, failing an audit altogether, it's imperative to have a tax compliance plan that scales with your business, factoring in funding rounds, mergers or acquisitions, and growth-related activities, and addressing any new tax responsibilities that result from those activities up front.



DON'T: Get too creative with your capital

Getting start-up capital through programs like Kickstarter is popular with entrepreneurs, but uncharted territory for state taxing authorities. Only one state, Washington, has published guidelines for addressing tax related to financing raised through crowdfunding. Just because the rules aren't clearly spelled out, doesn't mean you don't have to prove compliance. The Tax Adviser has a good article on crowdfunding and sales tax.

How you plan to use financing also has tax implications. Hiring remote sales staff; adding new products, services, or sales channels; putting money in product development or R&D – all of these growth activities can change or add to your sales and use tax compliance requirements. Some of these changes can be beneficial to your business. For example, some states, including California and Texas, offer a partial sales and use tax exemption for equipment used in research and development.

But knowing when you qualify for these exemptions – and where you qualify – can be difficult to discern. Exemption criteria can differ widely by state, and fast-growing companies typically have obligations to collect and remit sales tax in multiple states. It's a lot to ask internal teams to be experts on every state's tax rules or make judgment calls about what's taxable and what's exempt.

DO: Automate tax for added assurance

As you grow, the work required to get you – and keep you – sales tax compliant may be more than your team or current tax solution can manage. This is the tipping point at which automation becomes critical. Most high-growth companies operate in the cloud, so putting tax management there is a natural extension of that strategy.

Be smart about your choice of providers. Choose tax automation software that integrates easily into your existing ERP and ecommerce systems. Also consider the maturity of the solution, its capabilities across all areas of tax compliance, and its fit with your business needs as you grow.

Avalara is highly regarded in this space. In fact, IDC recently named Avalara as a Leader in sales tax automation, and one of the best options for growth companies. Avalara's cloud tax solutions directly address the events or "triggers" growing businesses experience that can lead to new or expanded tax obligations, and IDC recommends Avalara "when your business is growing and encountering indirect tax management challenges, such as navigating regulatory change, beginning an omni-channel ecommerce strategy, facing new product expansion, or selling in new geographic areas."

Having dedicated sales tax software working in your financial systems shows investors you're serious about getting tax compliance right. And that confidence in your compliance may be just what seals the deal.

While we hope you find this information valuable, this is not a substitute for tax advice from a certified tax professional. If you're unsure of your tax liabilities, please contact a tax expert.