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Anrok

Navigating sales tax for SaaS



*Disclaimer: All figures are estimates and are based on information provided by the respective jurisdiction's website.
Anrok and its personnel are not tax advisors or accountants and are not providing any tax advice or legal guidance.*

-  Why do software companies need to worry about sales tax now?
-  When should startups tackle sales tax?
-  What strategies are there for quantifying impact and understanding exposure?

INTRO

About Michelle



Michelle Valentine
CEO & Co-founder



INTRO

About Anrok



Backed by

SEQUOIA 

 Index Ventures

Seen in

Forbes

 **TechCrunch**

Chosen for

-  Accuracy for SaaS
-  End-to-end automation
-  Customer experience

Anrok



Why do software companies need to worry about sales tax now?

When should startups tackle sales tax?

What strategies are there for quantifying impact and understanding exposure?



MR AND MRS

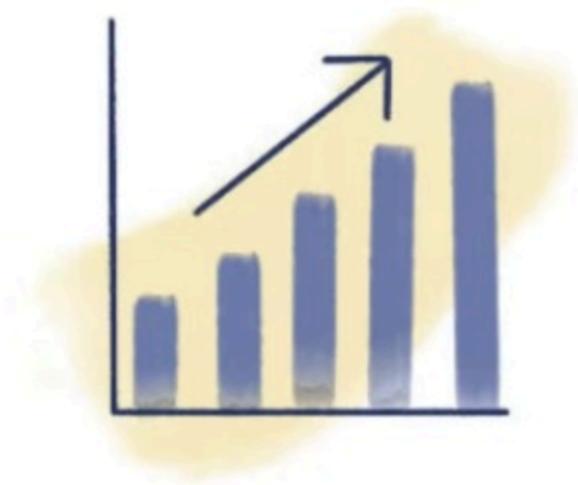
VS



Since the 2018 **South Dakota v. Wayfair** Supreme Court case,
SaaS companies have to collect and remit sales tax based on
physical and economic presence.

NEXUS

Nexus determines a company's obligation to collect sales tax



Economic nexus

Based on Sales and /
or transactions



Physical nexus

Based on where the company has
offices or remote employees

NEXUS

Economic nexus threshold examples



New York
\$500k in sales AND
100 transactions



Pennsylvania
\$100k in sales



Utah
\$100k in sales OR
100 transactions

Why do software companies need to worry about sales tax now?



When should startups tackle sales tax?

What strategies are there for quantifying impact and understanding exposure?

It depends.

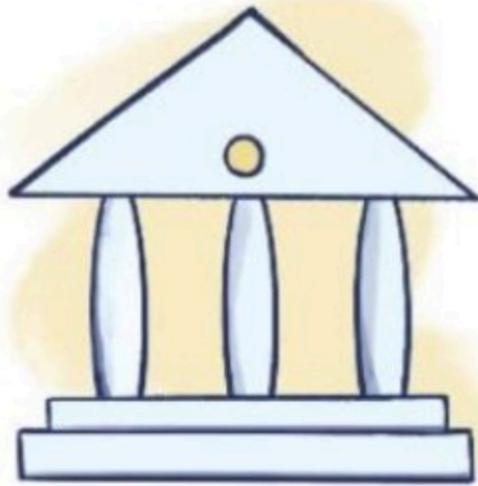
What is your exposure?

What is your risk tolerance?

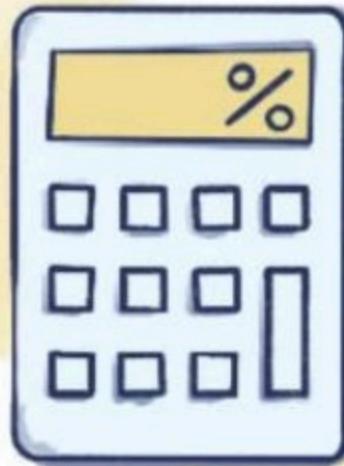


UNDERSTAND YOUR RISK

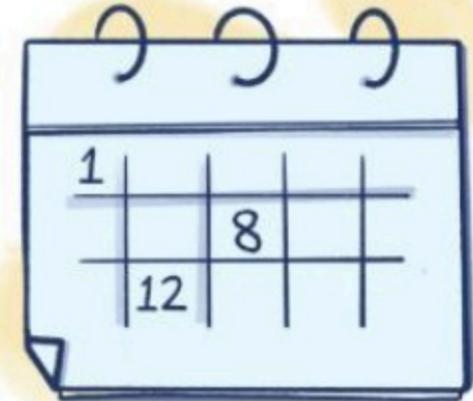
The costs of non-compliance are high



Audit risk



Revenue impact



Hiring implications

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IMPACT ON PROFITABILITY

Average annual revenue drag weighted by State GDP

Select states	CA	NY	TX	PA	TN	WA	Other	All
Effective non-compliance rate ¹	-	11.3%	7.4%	10.5%	12.4%	8.7%	8.3%	8.8%
Weighted revenue drag²	-	0.9%	0.6%	0.4%	0.2%	0.3%	1.9%	4.3%

Not charging sales tax may result in ~4.3% drag on profitability and material cash outflows upon achieving sales tax compliance



¹ Effective non-compliance rate = Typical sales tax rate * (1 + penalty rate) * (1 + late payment interest rate)

² Weighted revenue drag = Effective non-compliance rate * state share of GDP. This is one framework to understand the implications of the non-compliance rate on revenue, assuming your sales across the US roughly reflects state share of GDP



Why do software companies need to worry about sales tax now?

Economic nexus and the rise of remote



When should startups tackle sales tax?

Compliance risks and how sales tax directly impacts bottom line



What strategies are there for quantifying impact and understanding exposure

Back of the envelope estimates and taking action with a nexus survey