

SaaS: Sales/Use Taxes

SOFTWARE AS A SERVICE

As your SaaS company evolves, so do your tax needs. Sales/use taxes can be particularly difficult to navigate, since most SaaS companies are focused on other operating and finance priorities earlier in their lifecycles and may not understand the breadth and scope of their sales/use tax obligations.

Gone unchecked, sales tax compliance issues can potentially weaken M&A deals, delay S-1 filings, and shrink profit margins.

YOUR TAX NEEDS

These big picture questions can help you better understand what tax needs you should be addressing now to keep your company on the path forward:

Do you collect sales tax?

- Software as a Service (SaaS) is taxable in several states, even though it is regarded as a “service.” If you are not collecting the tax, the tax liability gets passed from customers to the business – quickly and effectively eroding profit margins.

Do you operate in multiple states?

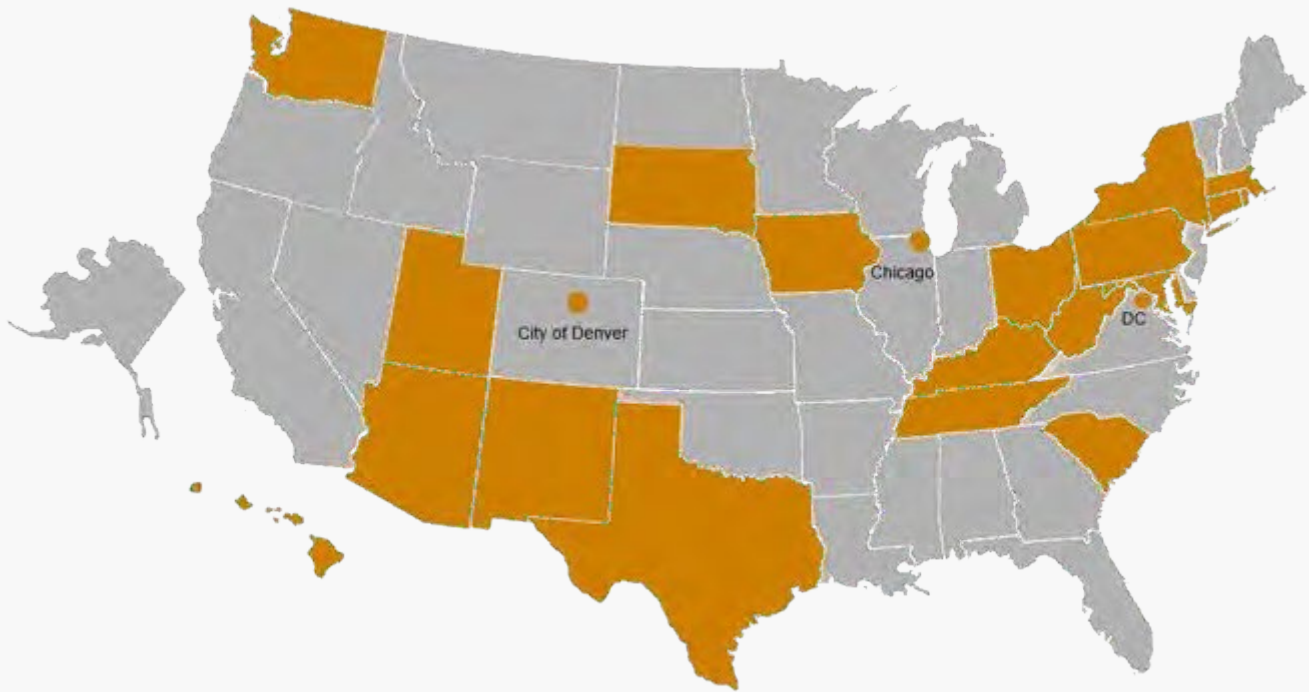
- “Nexus” is a sufficient connection/presence with a state that establishes your tax collection duty (and liability for the tax if you do not collect it). After the Wayfair Supreme Court decision, an economic presence is sufficient to establish that nexus. This means that if you exceed the “Wayfair threshold” in a state (typically \$100,000 of sales or 100 transactions, per year) you have a tax collection duty. Physical presence is also a nexus trigger and is typically established by:
 - An office in a state
 - A remote workforce/employee in a state
 - Visiting customers to solicit sales/close a deal
 - On-site training, implementation, or other on-site customer visits

Have you performed a nexus evaluation?

- A sales tax expert can perform this evaluation to identify and quantify these tax collection obligations and related prior period liabilities for the applicable taxes, interest and penalties, and recommend a plan for remediation.

IS SAAS TAXABLE WHERE YOU DO BUSINESS?

- Arizona
- Connecticut
- City of Denver
- Washington DC
- Hawaii
- City of Chicago
- Iowa
- Kentucky (eff. 1/1/2023)
- Maryland
- Massachusetts
- New Mexico
- New York
- Ohio
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Washington
- West Virginia



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