



# Keeping tax exempt customers happy

How certificate management processes can create a customer service edge



Document management is a frequently overlooked area of business that can damage or enhance the customer's opinion of a company.

The right processes can create a smooth buying experience; the wrong ones can create barriers to purchasing, and may incur significant hidden costs.

We all know that happy customers are likelier to become loyal customers. It's why businesses strive to deliver great customer service – a philosophy that extends to the purchase process itself. Exemption certificate management is an often overlooked part of that process, but can have a huge impact on the satisfaction of tax exempt customers.

Document management is complex, with variations in tax jurisdictions across the country. But a poor process for handling exemptions can be a source of frustration, reducing customer retention and company profits. Improperly collecting and managing exemption data by employees or within internal systems can have huge consequences downstream. Mismanagement leads to inaccurate billings, employees spending valuable time fixing errors, order delays, huge audit assessments, and other liabilities. Even more troublesome is not collecting the proper documentation at all.

This whitepaper covers how inadequate processes for managing exempt customers and exemption certificates impact business. It also introduces best practices for properly managing exemption certificates, creating a positive customer experience through ease of purchase, and automated collection through digital channels.

### Better processes are better for business

While customer service initiatives are often engaging topics for business leaders, improving exemption management is usually met with less enthusiasm. The perceived disconnect between sales, service, and profitability and the dry world of sales tax compliance is wide, but the two are more closely aligned than one may expect.

For a practical example, consider an auto parts dealer supplementing their on-hand stock. If they have to pay the tax on their order, then wait for a credit or work with customer service for a rebate, they're investing funds and time to recoup taxes they shouldn't have had to pay in the first place. At best, they become an annoyed customer. At worst, they abandon their cart altogether and take their business to a competitor with a built-in tax exemption process.

For many companies the percentage of gross revenue that comes from exempt sales can be significant. Between sales to schools, government agencies, and religious institutions, the numbers are staggering. Even without selling directly to exempt consumers, there are exempt sales to resellers, manufacturers, the agricultural industry, and much more.

The ability to easily handle exempt sales can expand markets and help create new business partnerships as well. For instance, businesses looking to create new drop shipping relationships are more likely to consider a shipper that can smoothly handle exempt sales. Especially with the increase in scrutiny by states imposing marketplace or economic nexus laws.

## How exemption certificate management impacts customer service

Effective exemption certificate management processes help keep customers happy. Applying the right tax rates, enabling omnichannel uploads, automating verification and renewals – each of these contributes to a simplified process. And the less customers have to think about, the better their overall experience.

When implementing a successful document management process, it's important to consider each of the following points:

### Initial certificate collection

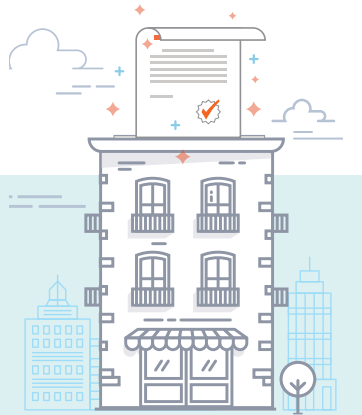
Do employees know which exemption certificates to collect and how to verify them?  
Are they collected and verified correctly the first time?

### Existing customer certificate lookup

Do employees in all customer-facing departments have quick access to current exemption information?

### Tax exempt purchase experience

Is the current experience for exempt customers quick and reliable?  
Does the process cause order delays?  
Are taxes and exemptions properly applied in mixed purchases?



Managing exemption certificates is not merely an administrative task. It is a vast, untapped area to create a competitive advantage through improved customer service.

## State and local regulations

Does the system account for differences in taxability rules in each jurisdiction?  
Can it track which states count tax exempt sales toward economic nexus thresholds?

## Billing and invoicing

Are bills and invoices accurate?  
What percentage of refund checks or credits are processed due to tax errors?

## Certificate renewals

Are certificate expirations tracked?  
Are updated versions of expired certificates filed on time?

## Audits

How often are customers contacted for missing certificates?

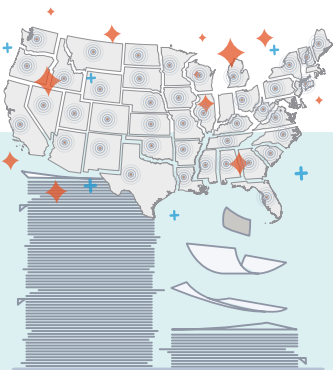
Inefficiency in any of these areas not only creates tax liability for a business, but can cause frustration for customers.

## The cost of mismanaging tax exempt customers

An inefficient tax exemption process isn't just a problem for the customer experience; it can also lead to significant hidden costs to fix preventable problems, most of which impact departments outside of tax management, including credit, customer service, collections, accounts receivable and payable, sales, and store managers.

The time and resources spent preparing for and managing an audit are also an important factor. Manually locating each certificate an auditor requests is time-consuming, especially if businesses have to reach out to customers to reconstruct the necessary documentation. Compare that to the ease of a self-serve portal an auditor can use to pull up the information they need, when they need it.

Lastly, liabilities have to be accounted for. Even if a business has sufficient reserves to cover mismanagement, there's an opportunity cost associated with maintaining that kind of cash on hand. With a better process for managing tax exempt customers, the headaches, frustrations, and costs on all sides can be dramatically reduced.



### Quick facts

Varying state rules and nexus laws make it difficult to keep up with exemption certificate regulations. There are over 12,000 U.S. tax jurisdictions.

## What makes exemption certificate management so complex?

It's easy to think managing documents should be as simple as collecting a certificate at the point of sale, then making sure it's properly completed. But like most business processes, it's not as simple as it first sounds.

Process decisions occur when:

- **Collecting exemption certificates**
- **Storing collected exemption certificates**
- **Locating exemption certificates when customers make repeat purchases or during an audit**
- **Ensuring exemption certificate data is accessible by tax calculation and billing software**

Take initial certificate collection, for example. Customer service or sales are typically the teams who collect exemption documentation. But unlike the tax department that deals with these issues every day, they don't necessarily have the knowledge to verify the correct information during a sale. If the certificate is incomplete or from the wrong tax authority, it's not valid and won't hold up during an audit.

In most cases, the tax department first validates an exemption certificate while preparing for or during an audit. Should they find errors, it's their responsibility to reconcile, verify, and produce new tax exemption certificates – rarely an easy task. If an exemption certificate is improperly stored or missing, the tax department will have to contact the customer to collect a new one.

Between reconciliation calls to customers, delayed invoices, billing fixes, and penalties and interest incurred, both customer service and the bottom line can take a hit as a result of mismanaged certificates.

### Best practices for managing exemption certificates

Managing complexity starts with creating an exemption certificate process that's consistently enforced throughout an organization. The first step is reviewing current policies and procedures by mapping each part of the process, whether handled correctly or incorrectly.

Once a business understands how things are currently handled, the next step is identifying areas for improvement. Common improvements include proper validation at the point of sale to eliminate or lessen the negative impacts downstream, as well as training frontline employees on the basics of exemption certificates and exempt sales.

The next step is considering technology solutions. An exemption certificate management (ECM) system is designed to manage the complexity of exemption certificates and automatically stay current on changes to exemption certificates. In many cases, the software can be integrated with point-of-sale, ecommerce, tax decision, and enterprise resource planning (ERP) or billing systems.

The appendix includes a list of common exemption certificate management best practices (Figure 1), an exemption certificate validation checklist (Figure 2), and a process workflow for collecting, reviewing, and updating billing systems (Figure 3).

**Figure 1.** Exemption certificate management best practices

## Exemption certificate management best practices

### Overall management

- ✓ **Software-as-a-Service (SaaS) Exemption Certificate Management (ECM) software**
  - Web-based software for collecting, storing, and managing exemption certificates
  - Accessible across company
  - Increases compliance level significantly
  - Integrates with point-of-sale, ecommerce, tax decision, and billing software

### Collection

- ✓ **Point-of-purchase, including ecommerce**
- ✓ **Basic sales tax training for customer-facing employees**
- ✓ **SaaS ECM software**
  - Built-in exemption certificate rules provide tax expertise to customer-facing employees

### Storage

- ✓ **Centralized and electronic**
  - Easy to locate exemption certificates
  - Reduces time needed during audits

### Validation

- ✓ **Integrated review after collection of exemption certificates**
- ✓ **SaaS ECM software with review capabilities**
- ✓ **See checklist in Figure 2**

### Billing

- ✓ **Charge tax if a valid exemption certificate isn't on file**
- ✓ **Apply jurisdiction-level exemption data in tax decision and billing systems**
  - Update when necessary
- ✓ **SaaS ECM software integrates with other internal systems**

## Maintenance

- ✓ **Track exemption certificate expirations**
  - Collect new certificates prior to expiration
- ✓ **Track exemption certificate form changes**
  - Update collection efforts with new forms when necessary
- ✓ **SaaS ECM software automates maintenance**

**Figure 2.** Sales tax exemption validity checklist

## Sales tax exemption validity checklist

### In nearly all cases, certificates require:

- Seller name/address**
- Buyer name/address**
  - All complete, no blanks
  - Name on certificate should match name on customer account
- Date**
  - Current, not several years old
- State of exemption**
- State sales tax registration number**
  - Very few requirements to verify authenticity of registration number
  - Some states do not require sales tax registration numbers for specific industries (e.g., agricultural, manufacturing, wholesalers). Customers who do not provide a registration number should include an explanation as to why they are not providing one.
- Type of exemption claimed**
- Type of property or service purchased**
- Normal course of business of the buyer**
- Buyer signature**
  - Some certificates require an “authorized signature” of owner, partner, or corporate office

### Some certificates may require:

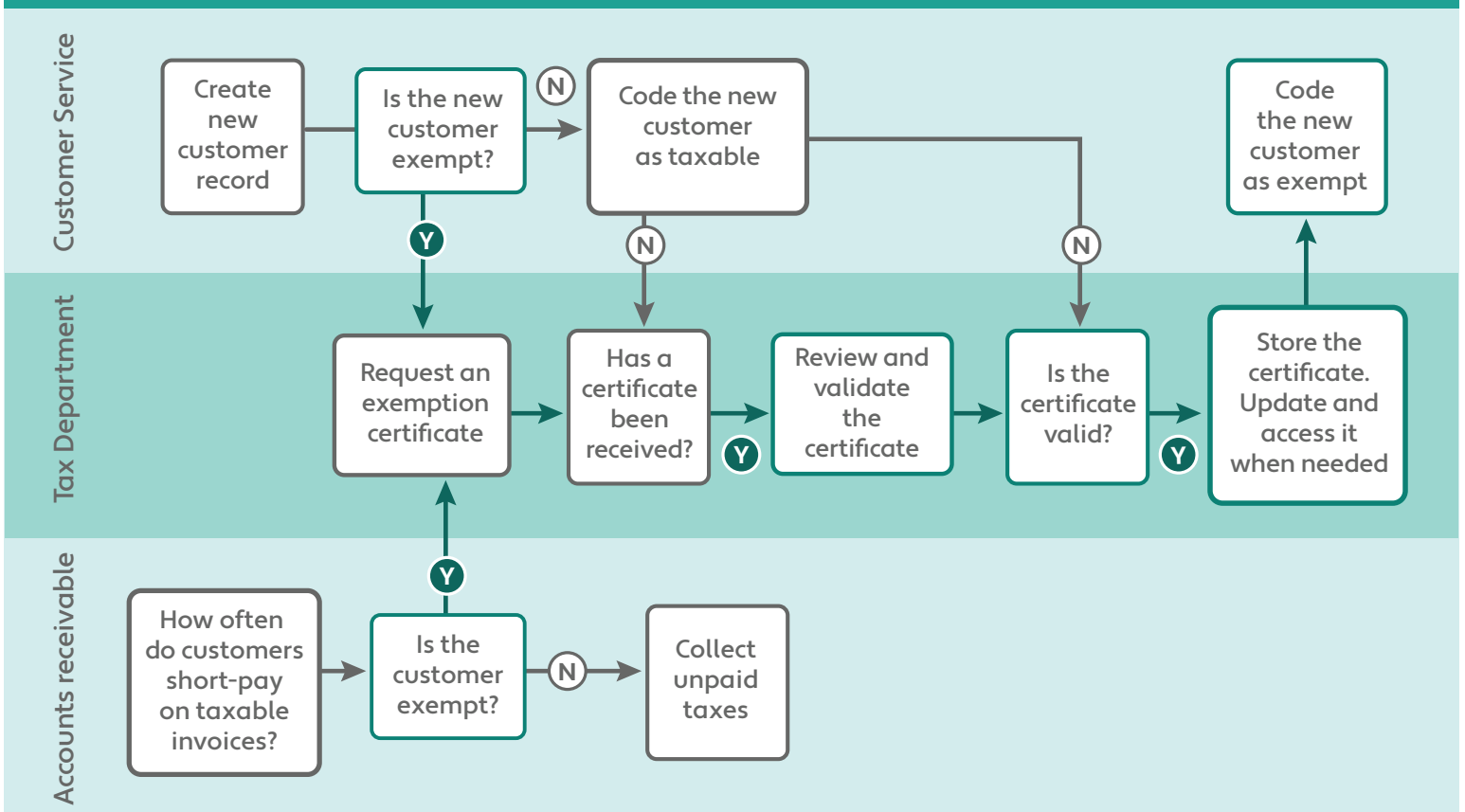
- Blanket checkbox**
- Single checkbox with PO number**
- Title**
- Printed name of buyer/signer**

## Other items to review:

- Verify it's the correct form**
  - Forms may not be substituted with a W-9, seller's permit, registration, or license document
  - Forms must be the official, state-approved certificate
- Check that the form is completely filled out**
- Be sure the form is supplied in good faith**
  - Be familiar with exemptions available in the state and exemptions available for the type of property purchased
- Confirm certificate expiration date and whether it's still valid**
- Validate method of payment**
  - Government and nonprofit exemptions stipulate that the purchase must be directly paid for with organization/government funds

Figure 3. Best practice exemption certificate workflow

## Cross-functional process



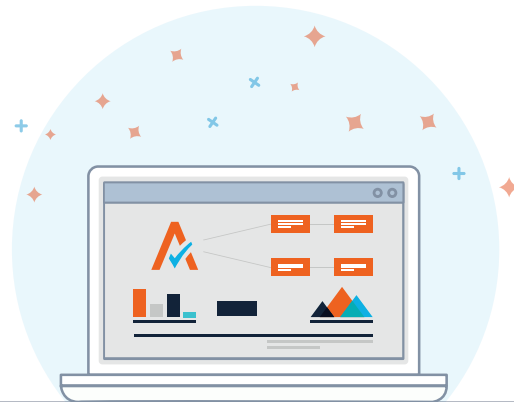


## Summary

Businesses rarely consider exemption certificate management as an area of improvement for customer service, customer retention, and profitability and often underestimate the complexity exemption documentation entails. With hundreds of constantly changing exemptions in jurisdictions across the country, this data must be carefully tracked and properly managed by employees and internal systems.

Mishandled exemption data can negatively impact many areas of business, including inaccurate billings, employees spending valuable time fixing errors, poor customer experience, huge audit assessments, and more.

Although managing exemption certificates is complex, businesses can employ several best practices within an exemption certificate management process. A well-defined, consistently enforced process can lead to improved customer service, customer retention, and profits in an area most other companies ignore, creating a competitive advantage.



To learn more about  
Avalara CertCapture, visit:

[avalara.com/certcapture](https://avalara.com/certcapture)

or call

**844-722-5748**

## About Avalara CertCapture

CertCapture is a highly scalable solution to collect, store, track, analyze and utilize exemption certificates to support sales and use tax compliance. CertCapture minimizes risk of failed audits with centralized management of exemption certificates, improves the tax exempt customer experience, and allows companies to scale quickly for new regulations and changing compliance requirements.

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, excise, communications, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Canada, the U.K., Belgium, Brazil, and India.