anrok

Get a demo

GUIDE

The software finance leader's guide to sales tax platforms

Today's software companies usually share a few key qualities: customers in many US states and countries around the world, a recurring billing model that can fluctuate based on usage, and a distributed (and quickly growing) workforce.

Oh, and there's another thing today's digital businesses have in common—they're increasingly required to collect and remit sales tax in jurisdictions all over the world.

There are a few ways software companies typically tackle this problem. Some outsource sales tax compliance to their accounting firms, paying steep fees to do so. Others try to handle it in-house, burning through team resources and potentially leaving some gaps in their coverage. And many simply put off compliance for another day, exposing themselves to the risk of audit and racking up sales tax bills that can hit six figures.

Luckily, there's a better way to solve sales tax, and that's leveraging a sales tax automation platform. The right tool can take care of compliance with minimal support from your team, and ensure you have comprehensive coverage across the globe.

As a modern software company, you need a sales tax platform that can handle the complexities of your business. But the capabilities that matter most aren't always obvious.

Many sales tax platforms weren't built to support the nuances of selling SaaS and other digital products. The shifting nature of sales tax legislation also means that compliance requirements change frequently.

We're here to help. Read on to get an in-depth list of the software finance leader's essential requirements for an effective sales tax automation platform in 2023.

What to look for in a sales tax automation platform

Whether you're evaluating a new solution for getting compliant for the first time, or making sure your current platform checks all the boxes, there are some table-stakes requirements for any sales tax tool.

Plus, if you're selling SaaS or another digital product, there are a few key features to look for. Here's a handy checklist of everything to consider as you compare sales tax platforms.

Core functionality

For a modern digital business, there are four key steps to getting sales tax compliant: connecting your billing and HR systems, monitoring your sales tax exposure, calculating sales tax in real time, and filing returns to keep audit-ready records. Along the way, there's some core functionality that your sales tax platform should provide.

Connect

- **Real-time billing integrations**
  Sales tax automation relies on real-time syncing from your billing and payment systems. Look for no-code, well-maintained integrations with the tools you currently use (or might migrate to in the future), plus API access and integration support if your team has a custom-built billing system. And make sure the integrations you need are truly real-time, with no request batching or delays.

- **HR system integrations**
  An HRIS (or payroll system) integration is important for monitoring physical nexus, or the impact of your employee locations on your sales tax liability. While many platforms lack this functionality altogether, it's easy to put physical nexus monitoring on autopilot with no-code HRIS connections.

- **Historical exposure modeling**
  If you're getting compliant for the first time, you likely already have some exposure. During the integration process, look for a platform that can backfill your historical transactions, quantify your existing sales tax exposure, and model a range of potential compliance scenarios.

Monitor

- **Global exposure monitoring**
  Once connected to your billing system, your sales tax platform should monitor your economic exposure—cross-referencing your sales volume and number of transactions

with sales tax and VAT laws in every state *and* country where your product is taxable.

- **Physical nexus monitoring**
  Along with economic exposure monitoring, it's key to track where you might have physical nexus due to employee or office locations. This should be automated through your HRIS or payroll system integration, and reflected in your overall exposure.

- **Real-time exposure alerts**
  A fast-growing business could have new exposure anywhere, anytime. Your sales tax platform should alert your team when you're nearing a registration threshold in any jurisdiction, and again when you cross it. Crucially, exposure alerts should be based on the taxability of your specific products (not generalized from "basic" categories like physical goods).

Calculate

- **Real-time tax calculation**
  Your sales tax platform must be able to calculate and add the right sales tax to your transactions—in real time, without any manual work. If you're selling internationally, you should also look for a platform that can support recording transactions in multiple currencies.

- **Smart VAT ID validation**
  To accurately calculate your international exposure and charge VAT, your sales tax platform should be able to validate VAT IDs. Importantly, B2B sellers are typically not required to charge VAT if a valid ID is collected, so your platform should also be able to alert you when B2B transactions might be missing documentation.

- **Tax exemption handling**
  Ensure you're not over- or under-collecting tax by choosing a platform with built-in handling for exemptions. In the US, your platform should manage exemption certificates, and internationally it should double-check for missing or invalid VAT IDs.

File

- **Built-in registration and filing**
  Keeping up with compliance paperwork can be daunting. Look for a platform that offers

one-click registration, automated return filing, and remittance in the US, with no extra fees. While some steps are trickier to execute internationally due to global regulations, a good platform will at least have options for supporting you through those processes.

- **Reporting and reconciliation**
  Make sure you're audit-ready by choosing a platform with reporting that's easy to navigate, filter, and export. Bonus points for tools that help you streamline sales tax reconciliation for your quarterly or monthly close.

Key features for SaaS

- **Home-rule jurisdiction coverage**
  Digital products are taxed in hundreds of home-rule jurisdictions, US cities or regions that have their own sales tax regulations (Colorado alone has over 70 home-rule cities). While it's critical for your sales tax platform to cover every jurisdiction where your product is taxed, many platforms are missing this functionality altogether, requiring customers to manually handle home-rule compliance.

- **Accuracy for digital products**
  Every jurisdiction has its own (often shifting) definitions of SaaS and other digital products. Make sure your sales tax platform has comprehensive and up-to-date coverage for your specific products, no matter how they're categorized in different jurisdictions.

- **Support for SaaS billing models**
  Many sales tax platforms were designed to support a wide range of businesses, and miss the nuances of subscription billing models. Make sure your sales tax platform is able to handle recurring transactions, true-ups, credit memos, and refunds, without extra maintenance.

Pricing

- **Predictable pricing**
  The right pricing model will support your company's growth, not penalize you for it. Choose a sales tax platform with clear, easy-to-project pricing—and make sure it doesn't charge you for non-taxable transactions, like SaaS sales in California.

- **All-inclusive pricing**
  Make sure you're getting everything you need to get compliant, with no hidden fees or add-ons. You should also consider any additional resources required to fill in compliance gaps, like your team's time or extra spend with an accounting firm.

Implementation and support

- **SaaS expertise**
  Choose a sales tax platform that can handle your product's nuances, and a team that's intimately familiar with SaaS business models and dedicated to keeping up with digital sales tax legislation.

- **White-glove onboarding**
  Getting your implementation right is key to achieving complete sales tax automation. Look for a platform with quick integrations, no extra fees for implementation, and support at every step of onboarding.

- **First-class customer support**
  As your business grows and sales tax legislation continues to evolve, make sure you'll have ongoing, proactive support from a team of sales tax experts. Ask for case studies or references to other companies similar to your business to understand true implementation time and quality of support.

Comparing sales tax platforms for digital businesses

When it comes to choosing the right sales tax platform for your software company, there's only one option that provides the right coverage.

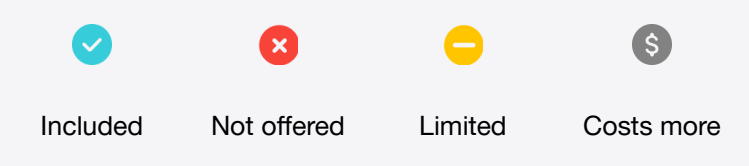
Anrok was built specifically for businesses selling SaaS and other digital products, and includes everything you need in a single solution. And like the innovative digital companies we support, our team of SaaS tax experts and seasoned developers have built a modern software platform with features no other sales tax tool offers.

Other options on the market fall into two categories: Legacy sales tax platforms and platforms built to support e-commerce businesses.

Legacy platforms cater to a wide range of business models, and leave customers to piece together the right coverage for their specific needs (often through a number of pricey add-ons). These companies are also notorious for slow and painful implementation and customer support, overall costing a lot of extra time and money to maintain.

E-commerce platforms were built to support physical retail businesses and simple one-off purchases, and don't typically have the functionality required for businesses selling digital subscriptions. These platforms are also simpler and less comprehensive when it comes to end-to-end compliance and sales tax expertise.

Here's a breakdown of the core sales tax automation features for SaaS businesses across different sales tax platforms today:



Connect	anrok	Legacy platforms	E-commerce platforms
Real-time billing integrations	✓	–	–
HR system integrations	✓	✗	✗
Historical exposure modeling	✓	✗	✗

Monitor	anrok	Legacy platforms	E-commerce platforms
US exposure monitoring	✓	✓	✓
International exposure monitoring	✓	$	✓
Physical nexus monitoring	✓	✗	✗
Real-time exposure alerts	✓	✗	✗
Calculate			
Real-time tax calculation	✓	✓	✓
Smart VAT ID validation	✓	–	–
Tax exemption handling	✓	$	–
File			
US registration and filing	✓	$	$
International registration and filing	$	$	$
Reporting and reconciliation	✓	–	–

Key features for SaaS	anrok	Legacy platforms	E-commerce platforms
Home-rule jurisdiction coverage	✓	✗	✗
Accuracy for digital products	✓	–	–
Support for SaaS billing nuances	✓	–	✗
Pricing			
Predictable pricing	✓	✗	✗
All-inclusive pricing	✓	✗	✗
Customer support			
SaaS expertise	✓	✗	✗
White-glove onboarding	✓	$	–
First-class customer support	✓	–	$

Proactive compliance is key to protecting your company's hard-earned revenue: Businesses that aren't compliant can end up paying uncollected sales tax out of pocket, plus penalties and fees. In fact, the average cost of non-compliance for a SaaS company is nearly 5% of revenue.

Sales tax automation eliminates these worries, without increasing the strain on your team's time and resources. That's why finding a platform that can meet the specific needs of your digital business is so important—it can make the difference between total peace of mind and leaving portions of your revenue exposed.

If you're ready to start automating sales tax compliance with the only solution built for modern digital businesses, reach out to our team today.

Ready to future-proof your revenue?

Get a demo