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Performing a State Nexus Study in an Ever-Changing State Tax Environment

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November 18, 2025

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Apricus Business Consulting

INTRODUCTION

Thank you for joining today's session!

Today's Presenter:

- 25+ years of State and Local Tax (SALT) consulting experience
- Experience at four national accounting firms and two Fortune 100 companies
- Built and managed regional SALT consulting practices at three national CPA firms (RSM, BDO, and Elliott Davis)
- Based in Asheville, NC
- South Carolina CPA
- Member of NCACPA and SCACPA

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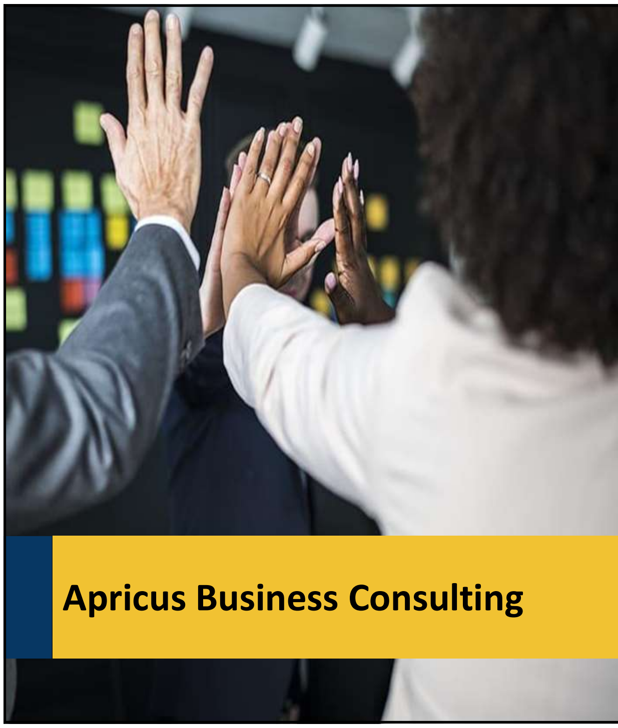

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ABOUT OUR COMPANY

Apricus Business Consulting provides **State and Local Tax (SALT) consulting** services to accounting firms, business owners, and management teams. Our team of experienced professionals provides value-adding consulting services in various SALT practice areas.

We also perform business value opportunity **("Found Money")** reviews to uncover potential savings in Federal, State and non-tax areas.

Income Tax | Sales Tax | Credits & Incentives | Payroll & Unemployment Tax | Property Tax | Value "Found Money" Reviews

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AGENDA

Performing a State Nexus Study in an Ever-Changing State Tax Environment

- **Nexus Overview**
- **The Changing State Tax Environment**
- **The "Whys"**
- **The "Hows" - Performing a Comprehensive State Nexus Study**
- **Bringing it all Together**
- **Questions?**

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Session Objectives

Participants will learn the following in this session:

- Gain an understanding of nexus for state tax purposes
- Learn about the history of nexus and the key developments and initiatives which established today's nexus environment
- Understand the reasons for pursuing a state nexus study
- Learn an approach to performing a comprehensive state nexus study

Section 1:

Nexus Overview

Nexus Overview

- State Nexus (Definition) = The minimum connection a business has with a particular state that allows the state to tax the business
- The concept of nexus is important because it determines whether a business is required to register, file returns, and pay taxes in a particular state
- State Tax Types
  - Income & Franchise Tax
  - Sales & Use Tax
  - Gross Receipts Tax
  - Employment Tax
  - Property Tax

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Nexus Monitoring Today

- Monitoring nexus has become very important from a risk management perspective!
- Understanding key nexus considerations for a business provides management teams and their tax advisors with information to:
  - Assist with making timely tax compliance decisions
  - Supports filing\non-filing positions
  - Manage the changing tax "footprint" of a growing business
  - Avoid the establishment of historical tax exposures
  - Provide support for audited financial statements
  - Provide information for potential tax planning opportunities
  - Prepare the business for state tax audits
  - Prepare the business for sale or capital investment transactions

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Section 2:

The Changing State Tax Environment

Nexus Background

- Historically, a physical presence was required to establish nexus
- *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992)
- Physical Presence (Examples):
  - Office
  - Employees & Independent Contractors
  - Property & Inventory
  - “Regular & Systematic” Travel
  - Delivery
- Historically, nexus considerations were fairly easy to analyze as part of the state income tax preparation process for the business (i.e., apportionment data; payroll, property, sales)

Quill Corp. v. North Dakota (1992)

- Quill Corporation was a mail order office supply business based in Illinois. Quill also had warehouses in California and Georgia.
- Quill solicited sales through catalogs, flyers, advertisements in national periodicals, and telephone calls.
- Quill did not have a physical location or workers in North Dakota.
- All deliveries were made by US mail or common carrier from out-state-locations.
- Quill had nearly $1 million in annual sales to almost 3,000 customers in North Dakota.

Quill Corp. v. North Dakota (1992)

- In 1987, North Dakota amended its laws so that any person who solicits customers in the state was obligated to collect and pay sales taxes on any sales made within the state. **(Sales and Use Tax Case)**
- The state tax commissioner filed suit in state court to require that Quill comply with the law. The trial court declined, but the state supreme court reversed.
- U.S. Supreme Court reversed the state court in an 8–1 decision and concluded that the state tax was an unconstitutional burden on interstate commerce.
- The decision effectively prevented states from collecting sales or use tax from retail purchases made via the Internet or e-Commerce unless the seller had a physical presence in the state.

Changing Nexus Environment

After the *Quill* decision, states continued pursuing select cases and initiatives to expand nexus.

1. States Enacted Forced Combination & Unitary Reporting
2. MTC Factor Presence Model Regulation (2002)
3. States Enacted Gross Receipts Tax
4. State Challenges to Public Law 86-272

Nexus considerations began to require more details than provided by apportionment data (property, payroll and sales)

The birth of the State Nexus Study!

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Unitary & Combined Reporting

- Many states have enacted unitary reporting requirements
  - Consolidated returns – mandatory or elective
  - Combined returns – mandatory or elective
  - Worldwide or Water's Edge reporting
  - Apportionment – Joyce or Finnigan methodology
- Some states enacted forced combination guidance
- These laws focus on state <u>income tax</u> reporting

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MTC Factor Presence Nexus

- The Multistate Tax Commission ("MTC") is an intergovernmental state tax agency working on behalf of states and taxpayers to facilitate the equitable and efficient administration of state tax laws.
- The MTC drafted the model statute for factor presence nexus in 2002, which has been adopted in full or part by a number of states.
- The model statute includes "bright line" threshold amounts to use in determining if substantial nexus exists to subject a business to state income tax.
- One of the primary goals of factor presence nexus was to provide an easily ascertainable nexus standard.

MTC Factor Presence Nexus (cont…)

- Under the MTC's factor presence nexus standard, a company is doing business (and has established nexus for state income tax purposes) in a state if the property, payroll, or sales exceed these thresholds during the tax period:
  - $50,000 of property,
  - $50,000 of payroll,
  - $500,000 of sales, or
  - 25% of total property, total payroll, or total sales.
- The threshold amounts may be adjusted annually
- Some states which adopted the standard chose to only include the sales factor (or a "bright line" sales threshold amount). *Economic Nexus?*

Factor Presence Nexus States (For Income Taxes)

#	State	Nexus Criteria	Recent Threshold (for discussion purposes only)
1	Alabama	Factor Presence	2024 (1) $64,000 of property; (2) $64,000 of payroll; (3) $635,000 of sales; or (4) 25% of total property, total payroll, or total sales.
2	Arkansas	Factor Presence	Effective January, 1, 2026: $250,000 or more per year
3	California	Factor Presence	2024: (1) $73,502 of property; (2) $73,502 of payroll; (3) $735,019 of sales; or (4) 25% of total property, total payroll, or total sales.
4	Colorado	Factor Presence	(1) $50,000 of property; (2) $50,000 of payroll; (3) $500,000 of sales; or (4) 25% of total property, total payroll, or total sales.
5	Connecticut	Gross Receipts	$500,000 or more per year
6	Hawaii	Gross Receipts & Transactions	$100,000 or more per year or 200 or more business transactions
7	Maine	Factor Presence	(1) $250,000 of property; (2) $250,000 of payroll; (3) $500,000 of sales; or (4) 25% of taxpayer's property, payroll, or sales.
8	Massachusetts	Gross Receipts	$500,000 or more per year

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Factor Presence Nexus States (For Income Taxes)

#	State	Nexus Criteria	Recent Threshold (for discussion purposes only)
9	Michigan	Gross Receipts	$350,000 or more per year
10	New Jersey	Gross Receipts & Transactions	Effective July 31, 2023: $100,000 or more per year or 200 or more business transactions
11	New York	Gross Receipts	2024 tax year: $1,283,000 or more; 2022 and 2023 tax years: $1,138,000 or more; Prior years: $1,000,000 or more
12	Pennsylvania	Gross Receipts	$500,000 or more per year
13	Tennessee	Factor Presence	(1) $50,000 of property; (2) $50,000 of payroll; (3) $500,000 of sales; or (4) 25% of total property, total payroll, or total sales.
14	Texas	Gross Receipts	$500,000 or more per year
15	Virginia	Factor Presence	Any positive factor for property, payroll or sales

Note: Some localities, such as New York City and Philadelphia, also have factor presence nexus standards.

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State Gross Receipts Tax

- 7 states currently have a gross receipts tax
- Most states use an annual sales threshold to determine nexus
- List of the 7 states with a gross receipts tax:
  1. Delaware Gross Receipts Tax
  2. Nevada Commerce Tax
  3. Ohio Commercial Activity Tax
  4. Oregon Commercial Activity Tax
  5. Tennessee Business Tax
  6. Texas Franchise Tax
  7. Washington Business & Occupation Tax

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State Gross Receipts Tax (cont…)

- There are states that impose a sales tax but call it a gross receipts tax: New Mexico and Hawaii
- Several states have or allow local gross receipts taxes:
  - Oregon Commercial Activity Tax
  - Tennessee Business Tax
  - Virginia Business, Professional & Occupational License Tax
  - Washington Business & Occupation Tax

  - Cities: Portland (OR), Philadelphia (PA), Los Angeles and San Francisco (CA)

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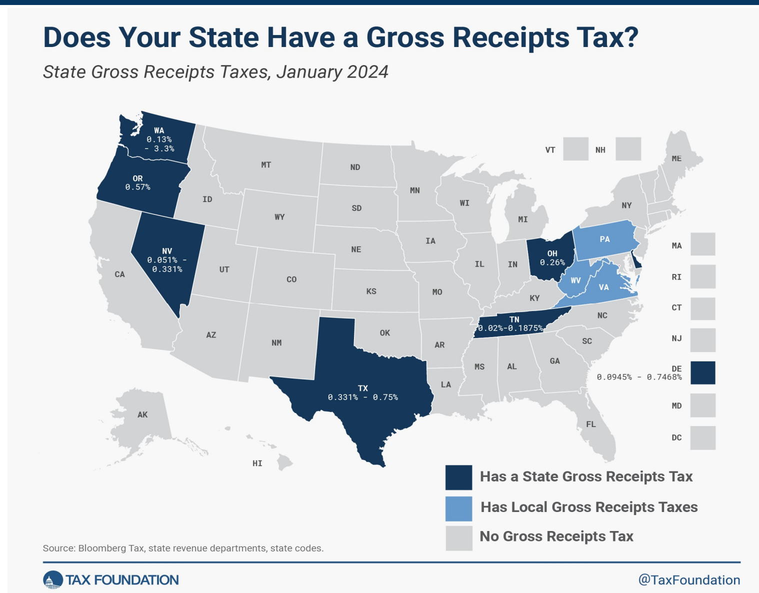
State Gross Receipts Tax



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Public Law 86-272

- Congress enacted Public Law 86-272 on 9/14/1959
- Provides a "safe harbor" for businesses
- A state may not impose a net income tax on an out-of-state business if its only in-state activity is:
  - Solicitation of orders,
  - By an employee or representative,
  - For sales of tangible personal property,
  - Orders are sent outside the state for approval, and
  - Orders are filled by shipment or delivery from outside the state

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MTC's P.L. 86-272 Initiative

- In 2021, the MTC issued a revised statement providing a new section for when the use of an "interactive" website will defeat P.L. 86-272 immunity, even if the company has no other contact with the customer's state
  - Providing post-sale assistance to customers via either electronic chat or email accessed through a website link;
  - Soliciting and receiving online applications for branded credit cards;
  - Inviting viewers to apply for employment;
  - Contracting with a marketplace facilitator to offer for sale the company's products via a website and maintains the company's inventory;
  - Inserting internet "cookies" into the computers or other electronic devices of customers; or
  - Remotely fixing products via the internet and Wi-Fi.

Status of MTC Initiative

Three states, California, New Jersey, and New York, quickly moved to adopt the revised statement, with others in consideration.

- California – Issued a technical advice memorandum, which was deeded invalid based on procedural grounds
- New York – Issued a revised regulation, which has been held valid, except for the retroactive application (December 27, 2023)
- New Jersey – Issued a technical memorandum and new regulation, which has been held valid (June 16, 2025)
- Massachusetts – Issue a revised regulation (October 10, 2025)

Wayfair Case

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South Dakota v. Wayfair (2018)

- The physical presence standard set under Quill was overturned
- Economic nexus with bright-line thresholds added a new standard for establishing sales tax nexus
- All 45 states (plus DC) with a sales tax have enacted economic nexus legislation
  - Most states use a sales threshold of $100K
  - Some states also use a 200 separate sales transaction test
  - Thresholds typically applied for the prior or current year
  - Effective date for many states is 10/1/2018
- Substantially changed sales tax considerations for businesses

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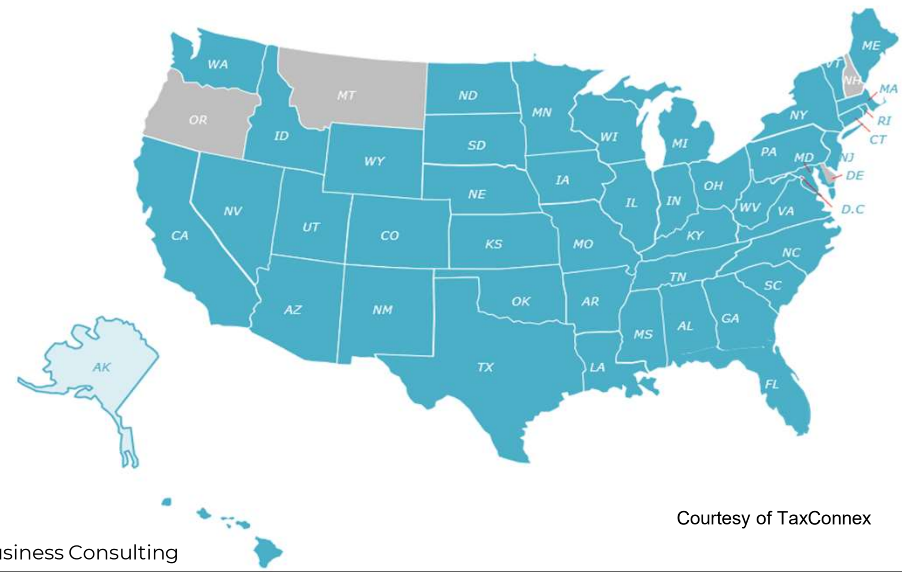
Economic Nexus - Sales Tax



Courtesy of TaxConnex

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Section 3:

The “Whys”

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Why Pursue a Nexus Study?

- Compliance
  - State Tax Compliance
  - Financial Statement Requirements (ASC 740, ASC 450)
- Risk Management
  - Documenting Filing\Non-Filing Positions
  - Identifying "Hidden" Liabilities, Penalties, and Interest
- Consulting/Revenue Opportunities
  - State Nexus Study
  - Remediation\Registration
  - Ongoing Compliance Fees
- Trusted Advisor Status

Nexus Monitoring Today

- Monitoring nexus has become very important from a risk management perspective!
- Understanding key nexus considerations for a business provides management teams and their tax advisors with information to:
  - Assist with making timely tax compliance decisions
  - Supports filing\non-filing positions
  - Manage the changing tax "footprint" of a growing business
  - Avoid the establishment of historical tax exposures
  - Provide support for audited financial statements
  - Provide information for potential tax planning opportunities
  - Prepare the business for state tax audits
  - Prepare the business for sale or capital investment transactions

Section 4:

The "Hows" - Performing a Comprehensive State Nexus Study

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A Comprehensive State Nexus Study

A 4 Phase Approach

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Phase 1
Nexus Review

Phase 1: Nexus Review

- Identify and analyze the business activities conducted in each state and determine whether nexus has been established for the tax types selected by Company management to be included in the study
    - 3 Types: Income & Franchise, Sales & Use, Gross Receipts
  - Step 1: Project kickoff meeting (or call)
  - Step 2: Information Request
  - Step 3: Data Review
  - Step 4. Prepare Memorandum\Matrix and Recommendations

Phase 1: Project Kickoff

Step 1: Project kickoff meeting (or call) - typically 1.0 to 1.5 hours

- Conduct a detailed interview about business activities
- Gain understanding of organization structure\entities
- Gain understanding of key revenue streams
    - Products, services, and intangibles
    - Retail, wholesale, exempt, e-commerce
- Identify areas of physical presence in a state
    - Offices, employees, independent contractors, inventory
    - Delivery, travel, tradeshow, leased equipment, loans
- Identify economic nexus activities (sales and transactions)

Phase 1: Information Request

Step 2: Information Request (typically covering a 3-year lookback)

- Commonly Requested Information
    - Corporate data, SOS registrations, tax returns
    - Sales by state by type
    - Employee data (location, hire & term dates)
    - Use of independent contractors
    - Property and inventory information
    - Salespeople territory & travel details (W-2 and 1099)
    - Trade show activities
    - List of current state tax returns filings (I&F, S&U, GR)
    - Copies of customer contracts and invoices

Phase 1: Data Review

Step 3: Data Review

- Review all data provided
- Request additional or corrected data, as necessary
- Schedule meetings or calls with key departmental personnel, as necessary
    - Human resources, sales, delivery, etc.
- Begin to "map" key state nexus considerations
    - Consider nexus footprint for each tax type included
    - Physical presence, economic nexus, affiliate nexus, Internet
    - Determine applicability of Public Law 86-272

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Phase 1: Memo & Recommendations

Step 4: Prepare Memorandum & Recommendations

- Include background section providing an overview of the corporate structure, current tax filings, key revenue streams, and business activities
- Prepare a section for each tax type included
    - Prepare state tables showing where nexus has been established but not filing returns
    - Determine when nexus was established in each state
    - Add discussion of Public Law 86-272, if applicable
- Prepare a conclusion section with recommendations

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Phase 2
Sales Tax Taxability

Phase 2: Sales Tax Taxability

- To the extent that the Company has established nexus for sales taxes, research may be required to determine the taxability of the Company's products and services in each nexus state
- The sales tax taxability analysis includes the preparation of a matrix:
  - Taxability/research conclusions for each revenue stream,
  - Applicable state statutory citations,
  - Additional comments and recommendations, including guidance regarding when the Company must charge sales tax to customers
- Review matrix with Company management

Phase 2: Sales Tax Taxability

#	State	Taxability	Statutory Exemption Available (Alternative Energy)?	Manufacturing Exemption Available?	Exemption Certificate Required?	Guidance	Statute Citations	Comments
1	California	Taxable (Unless Partial Exemption Certificate Received)	No	Yes - But has a Reduced Tax Rate	Yes	Effective July 1, 2014, through June 30, 2030, California partially exempts from sales and use tax machinery and equipment used in the generation or production of electric power from sources other than a conventional power source. The partial exemption reduces the tax rate to 3.3125% on purchases of qualified tangible personal property. The partial exemption rate is 3.9375%, and it reduces the state sales and use tax rate applicable to sales that qualify for the partial exemption to 3.3125% (current state rate of 7.25% – partial exemption rate of 3.9375% = 3.3125%), plus applicable district taxes. City and County Sales & Use Tax rates may be found at https://www.cdtfa.ca.gov/taxes-and-fees/sales-use-tax-rates.htm	Cal. Rev. & Tax. Code § 6377.1(a)(5); Cal. Rev. & Tax. Code § 6377.1(b)(9)(A)(i); California Department of Tax and Fee Administration Special Notice L-518 (December 2017); California Tax Publication 541	To claim exemptions related to manufacturing equipment, purchasers must complete Form BOE-230-M, *Partial Exemption Certificate for Manufacturing, Research and Development Equipment*, provided by the California State Board of Equalization. Additional partial exemption certificates may either Form CDTFA-230-M or Form CDTFA-230-MC. For additional information, see https://www.cdtfa.ca.gov/industry/manufacturing-exemptions.htm#Qualifications
2	Colorado	Taxable	No	Yes	Yes	Colorado exempts from sales and use taxes machinery, machine tools, or parts thereof that meet all four of the following qualifying criteria. To qualify for exemption, machinery, machine tools, or parts thereof must be: 1) used in Colorado; 2) purchased for more than $500; 3) of such nature that they would have qualified for the federal investment tax credit provided by section 38 of the Internal Revenue Code of 1954, as amended; and 4) used directly and predominantly in the manufacturing of tangible personal property for sale or profit.	Colo. Rev. Stat. §39-26-709(1)(a); Sales & Use Tax Topics: Manufacturing, Colo. Dept. Rev., 06/01/2021	Colorado Form DR 1191, *Sales Tax Exemption on Purchases of Machinery and Machine Tools*, must be completed in order to take advantage of the exemption for machinery and machine tools. The Company should charge sales tax unless the customer provides an exemption certificate.
3	Florida	Taxable	No	Yes	Yes	Generally, the sale of manufacturing equipment is subject to tax in Florida; however, there are narrow exemptions for certain machinery and equipment. Industrial machinery and equipment that is purchased by eligible manufacturing businesses and is used at a fixed location in Florida for the manufacture, processing, compounding, or production of items of tangible personal property for sale, is exempt from the tax. If, at the time of purchase, the purchaser furnishes the seller with a signed certificate certifying the purchaser's entitlement to this exemption, the seller is not required to collect the tax on the sale of these items, and the Department will look solely to the purchaser for recovery of the tax if it determines that the purchaser was not entitled to the exemption.	Fla. Stat. § 212.08(7)(jj)(1)	Purchasers that want to take advantage of the following exemptions should present a completed exemption certificate or signed affidavit attesting to the purchaser's eligibility for exemption to the vendor, which must be retained in the vendor's records. The Company should charge sales tax unless the customer provides an exemption certificate.

Sales Taxability Matrix

Phase 2: Sales Tax Taxability

		Equipment			Services	
#	State	Manufacturing Exemption Available?	Exemption Certificate Required?	Shipping/Delivery Charges	Installation Services	Repair Services
1	California	Yes (Partial)	Yes	Excluded	Excluded	Not Taxable
2	Colorado	Yes	Yes	Excluded	Excluded	Not Taxable
3	Florida	Yes	Yes	Excluded	Included	Taxable
4	Illinois	Yes	Yes	Excluded	Depends	Taxable
5	Indiana	Yes	Yes	Included	Excluded	Not Taxable
6	Iowa	Yes	Yes	Excluded	Depends	Taxable
7	Kansas	Yes	Yes	Included/Excluded beginning 7/1/23	Included	Taxable

Executive Summary

Phase 3
Historical Exposure Calculations

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Phase 3: Historical Exposure Calculations

- For states where nexus has been established and the Company is not filing tax returns, estimate the historical tax exposure amounts for the tax types included in the study
- Typically use a three-year look back period
- Calculations include estimated tax, penalty, and interest
- Historical exposure estimates are important
  - Financial statement implications
  - Develop a strategy and costs to gain compliance
  - Identify need for mitigation strategies to reduce exposure
  - Identify and recommend best practices

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Phase 3: Historical Exposure Calculations (Sales Tax)

#	State	Equipment	Discount	Shipping	Installation / Service	Repairs	Other	# Taxable Rev Streams	Taxable Amount	2020 Blended Tax Rate	Estimated Tax Due	Penalty %	Estimated Penalty Due	Interest %	Estimated Interest Due	Total Estimated Tax, Interest & Penalty
1	California							1	$0	8.66%	$0	10.0%	$0	8.0%	$0	$0
2	Colorado	215,648		18				1	$215,648	7.65%	$16,497	18.0%	$2,969	9.0%	$1,485	$20,951
3	Florida							3	$0	7.05%	$0	10.0%	$0	9.0%	$0	$0
4	Illinois				49,737			3	$49,737	9.08%	$4,516	10.0%	$452	5.0%	$226	$5,194
5	Indiana							2	$0	7.00%	$0	10.0%	$0	4.0%	$0	$0
6	Iowa	163,460						3	$163,460	6.94%	$11,344	10.0%	$1,134	7.0%	$794	$13,273
7	Kansas	3,030						4	$3,030	8.68%	$263	24.0%	$63	6.0%	$16	$342
8	Michigan	13,337		15				3	$13,352	6.00%	$801	25.0%	$200	6.4%	$51	$1,053
9	Minnesota	121,321						3	$121,321	7.46%	$9,051	15.0%	$1,358	5.0%	$453	$10,861
10	Mississippi							4	$0	7.07%	$0	10.0%	$0	6.0%	$0	$0

Example of 2020 Sales Tax
Exposure Calculations

Phase 3: Historical Exposure Calculations (Sales Tax)

		2020				2021			
#	State	Est. Tax	Est. Penalty	Est. Interest	Total	Est. Tax	Est. Penalty	Est. Interest	Total
1	California	$0	$0	$0	$0	$29,810	$2,981	$1,789	$34,580
2	Colorado	$16,497	$2,969	$1,485	$20,951	$13,950	$2,511	$837	$17,298
3	Florida	$0	$0	$0	$0	$0	$0	$0	$0
4	Illinois	$4,516	$452	$226	$5,194	$0	$0	$0	$0
5	Indiana	$0	$0	$0	$0	$50	$5	$2	$57
6	Iowa	$11,344	$1,134	$794	$13,273	$26,634	$2,663	$1,598	$30,895
7	Kansas	$263	$63	$16	$342	$19,721	$4,733	$789	$25,243
8	Michigan	$801	$200	$51	$1,053	$743	$186	$32	$960

		2022				2023			
#	State	Est. Tax	Est. Penalty	Est. Interest	Total	Est. Tax	Est. Penalty	Est. Interest	Total
1	California	$30,833	$3,083	$1,850	$35,767	$55,053	$5,505	$5,505	$66,064
2	Colorado	$49,670	$8,941	$2,980	$61,591	$24,242	$4,364	$1,939	$30,545
3	Florida	$0	$0	$0	$0	$0	$0	$0	$0
4	Illinois	$44,116	$4,412	$2,206	$50,733	$36,834	$3,683	$2,578	$43,096
5	Indiana	$0	$0	$0	$0	$11,317	$1,132	$226	$12,675
6	Iowa	$11,793	$590	$590	$12,973	$271,509	$13,575	$16,291	$301,375
7	Kansas	$67,907	$16,298	$2,716	$86,920	$39,867	$9,568	$2,392	$51,827
8	Michigan	$8,203	$2,051	$350	$10,604	$9,330	$2,333	$770	$12,432

		Total - All Years			
#	State	Est. Tax	Est. Penalty	Est. Interest	Total
1	California	$115,697	$11,570	$9,144	$136,410
2	Colorado	$104,360	$18,785	$7,241	$130,386
3	Florida	$0	$0	$0	$0
4	Illinois	$85,467	$8,547	$5,010	$99,023
5	Indiana	$11,367	$1,137	$228	$12,732
6	Iowa	$321,280	$17,963	$19,272	$358,516
7	Kansas	$127,758	$30,662	$5,913	$164,333
8	Michigan	$19,076	$4,769	$1,203	$25,048

Example of Sales Tax Exposure Calculation
Summary By Year

Phase 3: Historical Exposure Calculations (Sales Tax)

Estimated Historical Sales Tax, Penalty & Interest
Period: 2020 thru May 2023
As of June 29, 2023

Year	Taxable Sales	Estimated Sales Tax	Estimated Penalty	Estimated Interest	Estimated Tax, Penalty & Interest
2020	$902,152	$66,416	$8,822	$4,514	$79,752
2021	$2,515,926	$201,328	$24,128	$15,849	$241,305
2022	$7,045,175	$569,840	$75,767	$39,403	$685,010
2023 YTD	$12,090,785	$957,034	$91,048	$82,124	$1,130,206
	$22,554,038	$1,794,617	$199,765	$141,890	$2,136,273

Notes & Assumptions Used:

1. Sales Data
   a) Sales Revenue data was provided by the company for 2020, 2021, 2022 and YTD 2023
   b) The "Accounting Value" column was used as the sales price for each transaction (does not include shipping charges)
   c) Tax Status - The "Site Tax Exempt" column was used to categorize taxable vs nontaxable transactions
   d) The "Ship To State" or "Shipping State" column was used to source transactions to each state\foreign

Example of Sales Tax Exposure Calculation
Executive Summary

Phase 3: Historical Exposure Calculations (Income Tax)

Estimated Historical Summary - State Income Tax, Interest, & Penalty
For tax years 2022, 2023, and 2024

#	State	2022 Tax	2022 Interest	2022 Penalty	2022 Total	2023 Tax	2023 Interest	2023 Penalty	2023 Total
1	Arizona	$0	$0	$0	$0	$2,090	$334	$313	$2,737
2a	California	$0	$0	$0	$0	$22,367	$3,131	$5,592	$31,090
2b	California (LLC Fee)	$0	$0	$0	$0	$2,500	$350	$625	$3,475
3	Connecticut	$0	$0	$0	$0	$1,506	$361	$151	$2,018
4	Georgia	$3,267	$613	$817	$4,696	$5,549	$1,165	$1,387	$8,102
5	Hawaii	$56	$13	$14	$83	$92	$15	$23	$129
6	Idaho	$527	$47	$26	$601	$835	$84	$42	$960
7	Indiana	$0	$0	$0	$0	$1,626	$65	$163	$1,853
8	Kansas	$0	$0	$0	$0	$892	$107	$214	$1,213
9	Michigan	$0	$0	$0	$0	$3,357	$554	$839	$4,750
10	New Jersey	$0	$0	$0	$0	$3,487	$785	$872	$5,144
11	North Carolina	$1,160	$174	$174	$1,507	$2,081	$291	$208	$2,580
12	Pennsylvania	$0	$0	$0	$0	$7,093	$993	$709	$8,796
13	Virginia	$1,196	$287	$359	$1,841	$2,319	$464	$696	$3,479
14	Washington (B&O)	$633	$38	$247	$918	$895	$54	$349	$1,298
15	Wyoming	$0	$0	$0	$0	$0	$0	$0	$0
		$6,838	**$1,172**	**$1,636**	**$9,646**	**$56,688**	**$8,753**	**$12,183**	**$77,624**

#	State	2024 Tax	2024 Interest	2024 Penalty	2024 Total	Total - 3 Years Tax	Total - 3 Years Interest	Total - 3 Years Penalty	Total - 3 Years Total
1	Arizona	$0	$0	$0	$0	$2,090	$334	$313	$2,737
2a	California	$21,722	$1,738	$5,430	$28,890	$44,089	$4,869	$11,022	$59,980
2b	California (LLC Fee)	$2,500	$200	$625	$3,325	$5,000	$550	$1,250	$6,800
3	Connecticut	$0	$0	$0	$0	$1,506	$361	$151	$2,018
4	Georgia	$5,129	$590	$1,282	$7,001	$13,945	$2,368	$3,486	$19,799
5	Hawaii	$92	$7	$23	$122	$239	$35	$60	$335
6	Idaho	$820	$49	$41	$910	$2,182	$180	$109	$2,471
7	Indiana	$0	$0	$0	$0	$1,626	$65	$163	$1,853
8	Kansas	$0	$0	$0	$0	$892	$107	$214	$1,213
9	Michigan	$3,568	$339	$892	$4,799	$6,925	$893	$1,731	$9,549
10	New Jersey	$3,324	$382	$831	$4,537	$6,811	$1,167	$1,703	$9,680
11	North Carolina	$2,181	$174	$218	$2,573	$5,421	$640	$600	$6,660
12	Pennsylvania	$6,918	$553	$692	$8,163	$14,011	$1,546	$1,401	$16,959
13	Virginia	$2,806	$281	$842	$3,929	$6,321	$1,031	$1,896	$9,249
14	Washington (B&O)	$1,059	$64	$413	$1,536	$2,587	$155	$1,009	$3,751
15	Wyoming	$0	$0	$0	$0	$0	$0	$0	$0
		$50,118	**$4,377**	**$11,289**	**$65,785**	**$113,644**	**$14,303**	**$25,108**	**$153,055**

Example of Income & Gross Receipts Tax
Exposure Calculation

Phase 4
Remediation, Registration, and Compliance

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Phase 4: Remediation, Registration & Compliance

- Remediation Options: Contact Customers to Obtain Support to Reduce the Estimated Sales Tax Exposures
  - Request exemption certificates
  - Obtain confirmations from customers whether they accrued and remitted use tax
  - Obtain confirmations from customers whether state audits included some or all sales transactions
  - "XYZ" Letters - Formal requests sent to specific customers
- These efforts may substantially reduce the estimated exposures!

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Phase 4: Remediation, Registration & Compliance

Remediation & Registration (4 Options)

1. No registration or filing
2. Register and file returns prospectively
3. File past due returns and pay tax, penalty, and interest
4. Pursue Voluntary Disclosure Agreements or Amnesty Programs in key states
   - These are formal state programs (benefits)
   - Limited lookback periods
   - Waiver of penalties
   - Maybe waiver or reduced interest

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Phase 4: Remediation, Registration & Compliance

Compliance Considerations:

1. Administrative considerations
   a. Volume and cost
   b. Staffing - internal or outsource
2. Processes and procedures
   a. New processes and procedures may need to be developed in multiple departments
   b. Training, tools, management
3. Software & technology - many alternative solutions
4. Legal - Purchase order and contract considerations

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Section 5:

Bringing it all Together

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A Comprehensive State Nexus Study

A Formal Approach

01 **State Nexus Review**
Phase 1
Deliverable:
Memorandum or Matrix

02 **Sales Tax Taxability Review (if needed)**
Phase 2
Deliverable: Matrix

03 **Estimated Historical Exposures**
Phase 3
Deliverable: Calculations

04 **Remediation**
Phase 4
- Request exemption certificates, XYZ letters
- File past due returns
- Pursue VDAs

05 **Registration**
Phase 4
Register in additional nexus states, as needed

06 **Compliance**
Phase 4
Establish processes and file returns prospectively

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Summary & Take-Aways

- Nexus considerations affect any business with activities and/or customers in multiple states
- The state tax environment continues to rapidly change
- Establishing nexus for state taxes is easier today than ever before
- Businesses will have more state tax filing requirements
- There are risk management considerations
- There may be planning considerations
- Consulting and revenue generating opportunity
- Being proactive is the best approach

Client Examples

- Sales Representatives
  - Stone & Vanity Manufacturer
  - Medical Device Repairs
- Payment Plans (i.e., Klarna)
  - Knife Company
- Referral Fees to Customers
  - SaaS Company
  - Weight Loss Coaches/Products

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