Avalara

Understanding tax risk and ZIP codes

Not all tax rates can be calculated using ZIP codes alone. Today, along with the other columns in your Avalara TaxRates tax tables (like the Estimated Combined Rate, which gives you a total estimated tax rate, and individual rates for cities, counties, and special districts), you'll see a column called "Tax Risk."

This column is designed to help you understand how much risk you're taking on by using ZIP codes to calculate rates.

When a tax rate in your table has a risk value of 1, this means the entire ZIP code is associated with a single city and county. This indicates a high likelihood that a single rate applies across the whole area.

Any ZIP codes with a higher number, however, are associated with multiple counties or cities — and the higher the number, the more boundary lines the ZIP code crosses. If you're downloading rate tables to use for these ZIP codes, you may be exposing your business to significant risk at audit time and aggravating customers by overcharging them on items by as much as five or six percent.

What this means for your growing business

Every business needs to assess its own risk tolerance, and there is no magic formula for determining when one should begin taking sales tax accuracy seriously. But if your business is growing, you should know that your appeal to state auditors grows with you.

What this means for your consulting business

Risk tolerance is something that can only be assessed and assumed by business owners themselves. If you build or configure ecommerce solutions for clients and you rely on free ZIP code based tax rates tables for sales tax calculation, you are exposing your customers to risks that they never agreed to.

AvaTax: An accurate alternative for businesses and agencies

Avalara AvaTax automatically provides the precise tax rate for every transaction, based not only on address, but also on sourcing and product taxability rules.

Solutions for businesses

Avalara AvaTax automates sales tax compliance and plugs into the software you already use.

Learn More

Solutions for agencies

Instead of exposing your clients to unnecessary audit risk by relying on ZIP code based rate tables, instantaneously calculate sales tax with our REST API.

Get Started