



The New Tax Leader's Almanac:

Practical Insights on 2025 State and Local Tax Changes

As the longest running continuously published periodical in North America, *The Old Farmer's Almanac* thrives due to its practical insights, meticulous cataloguing of external risks, adaptability and inventiveness. One of the publication's earliest innovations consisted of drilling a hole in each book so farmers could hang it from a nail. The *Almanac* also embraced the Internet era by moving online sooner than many other publishers.

We designed this 2025 compendium of annual state and local tax compliance challenges to provide similar value to indirect tax leaders and their teams. Tax groups will certainly need to leverage their grasp of compliance risks and their adaptability – along with external expertise and supporting tax automation – to address this year's imposing assemblage of policymaking trends, nexus developments, and auditing risks.

Indirect Tax Trends and Complications

In the U.S., numerous high-impact legislative and regulatory actions are expected to materialize. These variables include the expiration, extension or enhancement of the Tax Cuts and Jobs Act (TCJA); a possible corporate tax rate adjustment; and potentially major customs and tariffs changes. On the global front, European Union (EU) member countries continue to move ahead with e-invoicing mandates as countries in several regions increase value added tax (VAT) rates in response to external pressures. Besides those developments, indirect tax teams should pay close attention to:

- The rising importance of sales and use tax revenue:** Property taxes and sales taxes comprise the largest revenue sources for local governments, and the former is decreasing in many areas, due to recent property tax reduction and the declining value of commercial real estate. Plus, pandemic-driven funds dispersed by the government to states are no longer flowing. These conditions are forcing state and local governments to increase the revenue they derive from sales taxes.
- Questionable state and local fiscal conditions:** Many cities have already reduced service-related costs as much as possible, so additional budget cuts may not be a viable alternative. While state-level fiscal conditions appear promising by some measures, other data paints a riskier picture. "Tax receipts in most states declined for the second consecutive year in fiscal 2024 – an extraordinary event outside a recession," according to Pew research.¹ Although state rainy day funds achieved record highs in early 2024, cracks are now showing. The pace of emergency fund growth is declining as some states quickly deplete these reserves, according to related Pew research.²
- New fees:** Fees represent an increasingly common way for state and local governments to raise revenue. It appears likely that other states will soon join Colorado and Minnesota in imposing retail delivery fees. Marketplace facilitator fees are also being considered in some states.
- New moves to extend sales taxes to services:** If their fiscal challenges intensify, more states could once again broaden their indirect tax base by extending sale taxes to previously untaxed services. While state legislatures tend to avoid applying sales taxes to healthcare, childcare and eldercare services (doing so would be regressive), other business services may be subjected to sales tax requirements in 2025.



Nexus Recalibration

States continue to update economic nexus thresholds, and these changes must be reflected in compliance processes. The most notable nexus-related adjustments include:

- A growing emphasis on revenue thresholds:** More states are eliminating annual transaction volumes (e.g., 200 transactions within in-state customers during a fiscal year) as an economic nexus threshold and instead relying solely on total revenue amounts (e.g., \$200,000 in-state revenues during a fiscal year). Since state vary in their nexus treatments, it is important to keep pace with all of these changes.³
- Marketplace facilitator transactions:** As B2C and B2B organizations across industries increase their use of e-commerce and marketplace facilitators, more nuanced nexus determinations and considerations are needed. A seller that ships products to the end customer via a marketplace facilitator's warehouse in another state may establish an economic presence in that state. Multi-part questions arise regarding which party is responsible – the seller or the marketplace – for registering and filing sales taxes in a particular state.
- Income tax nexus also poses challenges:** Income tax nexus can give sales tax nexus a run for its complexity money. The [Wayfair decision](#) and the evolution of factor presence or economic nexus standards applicable to business activity taxes have expanded a state's ability to impose tax on businesses. While Public Law 86-272 can protect businesses who have limited solicitation activities in a state from income tax, numerous stipulations exist and this protection is only available for the sale of personal property.⁴
- Scrutiny of foreign in-bound sellers:** Remote nexus laws and related thresholds apply to cross-border sellers in some jurisdictions, including Australia and New Zealand. Plus, many U.S. states remain highly attuned to economic nexus related to sales by foreign inbound sellers.

“Navigating the complexity around state and local tax regulations and rates is one way CPAs provide valuable, proactive advisory services to their clients.”

April Walker
AICPA Lead Manager of Tax Practice & Ethics



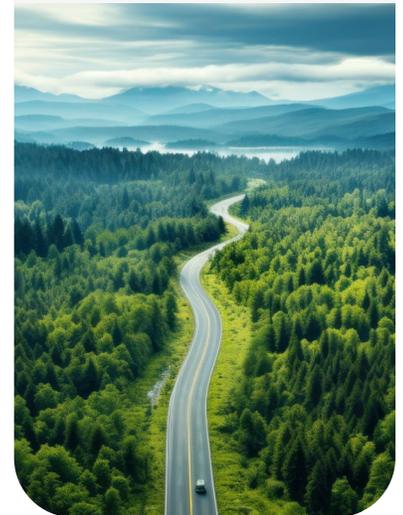
Audit and Enforcement Trends: More complexity ... and Cooperation?

While the frequency of sales and use tax audits has returned to pre-pandemic levels, the nature of these reviews evolved in 2024 and will continue to do so throughout this year. Indirect tax leaders and teams can improve their chances of successful audit outcomes by considering the following developments:

- Departments of Revenue (DOR) auditors are also targeting smaller to mid-sized companies:** Texas, California, New York, Florida and other large states have focused the lion's share of their auditing resources on the largest taxpayers; now those states are upping scrutiny of mid-sized organizations.
- Auditors often struggle with complex revenue streams:** The ongoing transformation of digital products and e-commerce often can make it more difficult for auditors to evaluate taxability and tax determinations. Numerous judgments are involved in analyzing the technical aspects of taxability on digital offerings, and auditors often need help from indirect tax groups (and their external advisors) to understand the unique structures of digital revenue streams.
- Auditors focus on reconciliation:** It has become increasingly important for organizations to reconcile their global sales data and sales tax collections (by country and U.S. state) on tax returns to ensure the reporting accuracy of collected sales tax and income tax.
- Complex industries should expect more auditing inquiries:** Auditors are focusing on industries with complex processes, intricate supply chains and high volumes of purchasing activity (e.g., (energy, manufacturing and large hospital systems).
- Compliance clarity can be hard to come by:** Like most corporate tax groups, state DORs are grappling with the tax and accounting talent crunch, which is evident in their delayed responses to taxpayer requests for rulings and guidance on unique and intricate tax compliance treatments.
- There may be opportunities for more cooperative interactions:** As audits grow increasingly digital and targeted, it paves the way audits that focus more on governance controls and tax control frameworks, and less on transaction-based auditing.
- VDAs and amnesty programs are worth a look:** Given the challenges posed by evolving nexus rules, many organizations are taking fresh looks at the voluntary disclosure agreements (VDAs) and amnesty programs that states offer. These offerings typically enable companies to proactively disclose previous tax liabilities in exchange for the elimination of penalties and, in some cases, reduced interest (or no interest) on those payments.
- Exemptions also attract attention:** Auditors are also zeroing in on resale certificates and sales tax exemption certificates, so tax groups should maintain accurate, easily accessible certificates.

“Complex digital revenue streams also pose challenges to state auditors... We regularly work with auditors to help them understand the structure of a client’s revenue streams to ensure we’re aligned on the proper tax treatment.”

Mo Huda
Partner, Moss Adams



Conclusion: Service and Software Copilots are Available

Given this collection of policymaking volatility, nexus challenges and auditing risks, it's good news that indirect tax groups have more expert co-pilots – both human and technological – to call on for compliance support.

From a services perspective, CPA firms offer a valuable assortment of compliance support, including nexus analysis and planning, U.S. and global compliance advisory services, audit support, tax automation implementation support, and managed services designed to perform larger compliance processes. For example, Moss Adams' sales tax assessment offering, which is designed to strengthen the accuracy and efficacy of tax compliance activities, is well-suited for companies that are transitioning from manual filing to automated filing, implementing new ERP or point-of-sale (POS) systems, or in the early stages of building a compliance capability.⁵

From a technology standpoint, indirect tax leaders should recognize how advanced tax automation can:

- Offset staffing and skills gaps
- Improve tax compliance accuracy and process efficiency
- Support multiple revenue streams and revenue types
- Automate exemption certificate management
- Enable the use of advanced functionalities and tools (e.g., AI, machine learning, tax data analytics)
- Accelerate responses to tax rates and rules changes as well as strategic business initiatives

These benefits make it important for indirect tax leaders to develop and update a tax technology road map – one that identifies the current and future state of supporting tax automation along with a plan for closing the gap. This decidedly modern plan helps tax leaders plan and prioritize activities and investments throughout the year to prevent tax compliance from being hindered by rate changes, policymaking upheavals, audits, early frosts or extreme weather events.

End Notes

¹ <https://www.pewtrusts.org/en/research-and-analysis/articles/2024/11/25/states-confront-new-fiscal-challenges-in-a-post-pandemic-landscape>.

² <https://www.pewtrusts.org/en/research-and-analysis/articles/2024/09/19/states-prioritize-reserves-as-fiscal-flexibility-declines>.

³ <https://www.aicpa-cima.com/resources/landing/salt-roadmap-state-and-local-tax-guide>.

⁴ <https://www.mtc.gov/wp-content/uploads/2023/02/StatementofInfoPublicLaw86-272.pdf>.

⁵ <https://www.mossadams.com/articles/2023/10/sales-tax-assessment-and-automation>.

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“Only about 60% of companies currently have a tax technology roadmap that identifies the efficacy of their current tax tech stack, where tax automation needs to be, and a plan for closing the gap.”

Michael Bernard
Vertex Vice President and
Chief Tax Officer