Six Reasons Retailers Need Tax Automation

How Tax Technology Strengthens Compliance, Reduces Audit Risks and Helps Manage Complexity

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A study of 46,000 shoppers depicted in the *Harvard Business Review* contains insights that delighted retailers with omnichannel capabilities while making their tax executives groan. The research found that customers who used multiple channels on their shopping journey spent significantly more every time they shopped, regardless of whether they purchased online, via their phone or in a store. "The more channels customers use, the more valuable they are," the study concluded.[1] The more channels customer use, however, the more data tax functions must track down, manage and calculate.

While the rapid adoption of omnichannel selling is intensifying tax-management complexity, a number of other factors are exerting the same impact. As a result, it has never been more important, or more valuable, for retail-industry tax functions to deploy and update their tax-management technology. While many retailers have discovered that enterprise tax automation can be a powerful resource, others still rely too heavily on manual processes that increase compliance risks and the possibility of audits. The following factors explain why all retailers should consider investing in tax automation:

1. **Sales tax changes**: When it comes to combined sales and local sales tax rates, Louisiana, Tennessee, Arkansas and Alabama lead the country; each of these states combined rates top 9 percent in 2017.[2] More challenging, from a tax management perspective, is the fact that hundreds of rate changes occur each year. According to Vertex research, a total of more than 500 sales tax rate changes (including the introduction of new taxes) have occurred at the state, county and city level in the U.S. each year since 2013. In 2017, a whopping 398 of these rate changes occurred from Jan. 1 through June 30. Many rate changes require related data-submission changes; as a result, many tax functions must deal with thousands of changes each year.
2. **Jurisdictional complexity**: The growing number of unique tax requirements within each tax jurisdiction makes it virtually impossible to accurately manage tax exception rules manually. Energy Star tax holidays, sugar taxes, sales-tax holidays and electronic waste fees represent common exceptions that require tax professionals to calculate additional data for compliance purposes. A sugar tax, for example, can be levied on a per-ounce basis, which requires tax functions to track the volume of soda sold to accurately calculate the additional tax.
3. **A fluid tax-compliance environment**: At a time when the U.S. continues to pursue a major tax overhaul, other global jurisdictions and regulatory bodies are revamping their tax policies, collection processes and enforcement approaches.
4. **Omnichannel shopping**: Mobile sales represent one more fast-growing channel shoppers are using to make purchasing decisions. The mobile channel influenced more than $1 trillion of consumer spending in 2016, according to Forrester.[3] From a tax-management perspective, each sales channel poses unique challenges, including sales and use tax tracking and compliance.
5. **Increasing M&A activity**: In the first quarter of 2017, the U.S. consumer market, which includes most retailers, posted its busiest period of M&A activity in the past 10 years, according to PwC, whose experts expect this pace to continue.[4] These consolidations create additional tax complexity by expanding retailers' nexus footprint, increasing their product offerings, adding to their sales channels and more. Retailers working through post-merger integration must ensure that their tax-management solution works across different POS systems, e-commerce platforms and other newly acquired software applications.
6. **The need for higher cash reserves**: Sales tax errors expose retailers to potential tax compliance issues and out-of-pocket expenses. The need to sufficiently cover audit risk and exposure challenges can place an unnecessary drain on a retailer's bottom line.

Each of these challenges expands the volume of data that tax functions must manage to remain compliant. While tax automation can strengthen the function's "big" data-management challenge, it also delivers benefits, including:

- **Consistency**: Confidence that the retailer remains in compliance with all taxes in all jurisdictions;
- **Cost-effective compliance**: The highest level of compliance at a greatly reduced cost when compared to manual approaches;

- **Reduced audit exposure:** Lower audit exposure and a reduced need to maintain higher cash reserves to cover penalties or class-action lawsuits;
- **Simplified integration**: Compatibility with any point-of-sale, e-commerce and other back-office systems ensures tax management integration throughout the enterprise.
- **More time**: The tax function is liberated from time-consuming data-collection activities to focus on higher-value tax-planning activities.

While the challenges currently confronting retailers are significant, they are likely to become even more intense in the next few years. "The world of retail has entered a period of enormous disruption," according to a recent Deloitte report, which notes that "agility and flexibility are apt to be required for retailers to thrive in 2017 and beyond."[5] The same holds true for retail tax functions, which can increase their agility and flexibility through tax automation.

About the Author

Pete Olanday has 20 years of experience in system integration, with 14 of those in the Retail space. He has helped national and international clients implement automated solutions for indirect tax in their Point-of-Sales (POS) and ecommerce channels. Prior to joining Vertex® Consulting, Pete worked for an international retailer, managing their POS platform.

Endnotes

[1] "A Study of 46,000 Shoppers Shows That Omnichannel Retailing Works," by Emma Sopadjieva, Utpal M. Dholakia and Beth Benjamin. Harvard Business Review, January 03, 2017: https://hbr.org/2017/01/a-study-of-46000-shoppers-shows-that-omnichannel-retailing-works.

[2] *State and Local Sales Tax Rates in 201,* Tax Foundation, January 31, 2017: https://taxfoundation.org/state-and-local-sales-tax-rates-in-2017/.

[3] *The Biggest Prize In Mobile Commerce Is Influencing Offline Sales: Mobile-Phone-Only Highlights From The Forrester Data: Mobile Phone And Tablet Commerce Forecast, 2016 To 2021 (US)*, February 13, 2017: https://www.forrester.com/report/The+Biggest+Prize+In+Mobile+Commerce+Is+Influencing+Offline+Sales/-/E-RES136483.

[4] *PwC Deals US Consumer Markets Deals Insights Q1 2017,* PwC: http://www.pwc.com/us/en/industry/consumer-markets/publications/quarterly-deals-insights.html.

[5] *2017 Retail, Wholesale and Distribution Outlook*, Deloitte: https://www2.deloitte.com/us/en/pages/consumer-business/articles/retail-distribution-industry-outlook.html.

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Founded in 1978, Vertex Inc. is the leading provider of corporate tax software and services to automate, integrate, streamline or outsource tax processes for companies of all sizes, from small to medium-sized businesses to global multinationals. Vertex provides solutions for all tax types with industry-specific solutions for retail, communications, hospitality and leasing industries.

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