Don't Let Tax Compliance Slow Down Your Online Store

Don't Let Tax Compliance Slow Down Your Online Store

Congratulations! You have made the great decision of choosing an online shopping cart. Business is booming and you are growing like crazy — and going global. But now you have to deal with the tax challenges way outside your comfort zone, and fast.

You may still be relying on manual processes that increase compliance risks and possibility of audits. Trying to keep up with taxability codes, ever changing tax laws when selling and shipping through your online store makes any retailer groan.

These issues are particularly acute for online stores for three major reasons:

- **Consequences of Growth:** Expanding into new product offerings can quickly multiply the complexities of sales and use tax management. Taxation rules can vary widely even for similar product types; for example, when an apparel item is identified as a luxury item versus essential, or if food and beverage are sold by an eating establishment instead of a grocery store.

- **State-by-State Nuances:** E-Commerce and the use of third-party warehouse and fulfillment services simplify expansion to new markets but they can quickly complicate tax calculations, making it difficult to clarify exactly where nexus exists.

- **Audit by Automation:** States are more actively pursuing sales tax collections, using big data-style analytics and automated solutions, as well as employing third-party companies that are paid a percentage of taxes and fees collected.

Consisder the following:

In Chicago, sales tax is 10.25%: 6.25% state, 1.25% city, 1.75% county and 1% regional transport authority tax.

In Tennessee, a 7% sales tax exists on the first $1,600, with 2.75% on the next $1,600.

In Texas, certain sales of electronic data are subject to tax, but only on 80% of the price.

In New York, clothing sold for suner $110 is exempt from state sales tax, but subject to local sales tax.

These variations can be confusing, but they're also hugely critical for any business. Because unlike European VAT, which is generally included in the advertised price, US sales tax is highly visible — literally added on at the point of sale. Retailers risk damaging the customer experience (or even losing customers) by making tax or credit errors.

Without technology, the task of manually staying up-to-date and compliant is exceptionally difficult and time-consuming. Put simply, a non-tech solution does not make sense for modern business.

Now that we have identified the many tax pains of selling online, let's figure out your tax complexities.

Rate Your Tax Complexity

Answering these six questions can help ecommerce retailers rate their current level of tax complexity.

Each "yes" answer is worth **5 points**. When you complete the quiz, see whether your business is ripe for tax automation help.

Question	YES	NO
Do you currently collect and remit sales or use tax?	☐	☐
Are you selling into the United States & Canada?	☐	☐
Do you sell more than one type of product or service?	☐	☐
Are you manually researching and updating tax rates?	☐	☐
Have you completed a nexus questionnaire?	☐	☐
Have you previously been audited?	☐	☐

0-10 points: Low Complexity: Your company currently has its sales and use tax requirements under control. Revisit your complexity level every few months to assess your needs.

15 to 20 points: Moderate Complexity: You may be spending more time researching rates and submitting returns than needed. Consider some form of automation such as returns filling service.
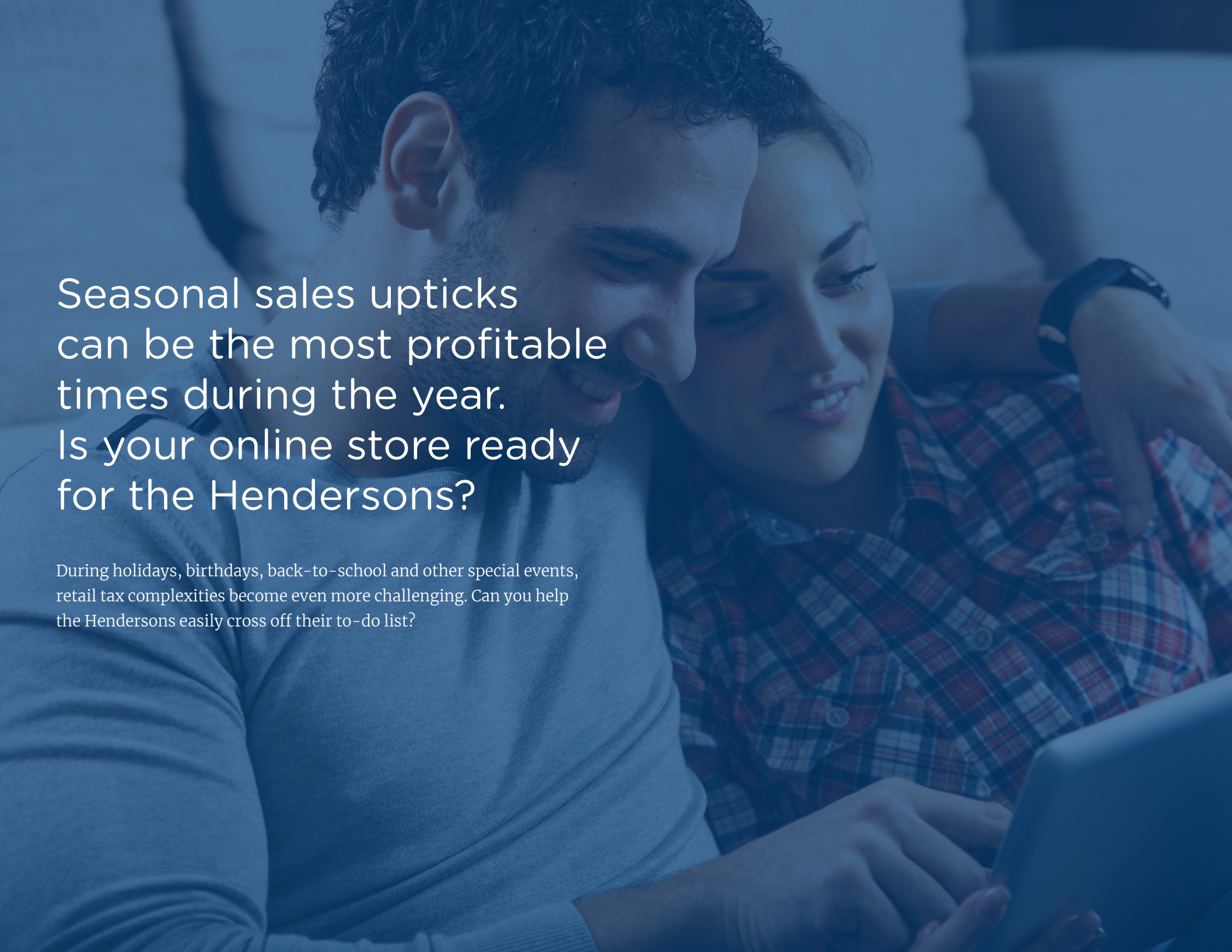
25 to 30 points: High Complexity: Given your requirements, you are now at a point where deploying tax automation makes sense for your business.

5 Signs Your Online Store Needs A Sales And Use Tax Automation Solution

By automating your sales and use tax processes, you will be freed of the tax burden and risk associated with selling online — allowing you to focus on growing your business and satisfying your customers. How do you know when it's time to give up your manual process of calculating sales tax within your online store?

1. **You're selling products and/or services into multiple states where your business does not have tangible physical presence.** In these cases, remote seller nexus rules could apply. These nexus rules have and will likely continue to change regularly. Managing use taxes on sales made by out-of-state sellers to in-state customers manually places a hefty research and maintenance burden on your business processes. An automation solution alleviates that burden.

2. **You're selling different types of products into multiple dates.** Variability in product taxability state-to-state has historically been a headache to manage, and there are no signs that this will change. In some states, product taxability varies state-to-state, based on product type, date sold, ingredients or how the product will be used.

3. **You're running a brick and mortar business along with your online store.** You may have storefronts in a different tax jurisdictions within one state, or even across state lines.

4. **You have storefronts in one state, even in one single tax jurisdiction; however have distribution centers in multiple states.** Or you may have one physical storefront in a single tax jurisdiction, but sell online to tax jurisdictions across the U.S. and beyond.

5. **The mere thought of a tax audit send shivers** down the spines of your CEO, CFO, CTO, VP of finance, accountants and tax professionals.

Seasonal sales upticks can be the most profitable times during the year.
Is your online store ready for the Hendersons?

During holidays, birthdays, back-to-school and other special events, retail tax complexities become even more challenging. Can you help the Hendersons easily cross off their to-do list?

It's a Very Henderson Season

Is Your Online Store Ready?

A GIFT FROM THE HEART

Mr. Henderson needs to buy a gift for his lovely wife. While browsing online, he finds the perfect beaded necklace. It comes in red on one site and blue on another. However, the differences don't end there.

PURCHASE ONLINE FROM A JEWELER WITH STORES IN NEW YORK:

TAX RATE: **8.875%**

PURCHASE ONLINE FROM A SMALL SHOP WITH ONLY A WAREHOUSE IN CALIFORNIA:

TAX RATE: **0%**

DECORATE FOR THE EVENT

For this party, Sally is in charge of decor. She finds the perfect candles and lighting, but the items arrive damaged. While returning the items in-store, she decides to purchase different products. But, while the products are the same price, the switch includes a tax increase.

ONLINE PURCHASE RETURN:

Price: **$10.00**
Tax: **$0.74**
REFUND: **$10.74**

NEW NYC IN-STORE PURCHASE:

Price: **$10.00**
Tax: **$0.89**
TAX RATE ADJUSTMENT: **$10.89**

SALLY OWES: **$0.15**

It's a Very Henderson Season

Is Your Online Store Ready?

IT'S THE THOUGHT THAT COUNTS

Johnny saved up to buy nice gifts for his dad and sister. He selects a tie for Dad and a hat for Sally. He does the math before heading to the register to ensure he has enough. When they ring him up, his calculation was wrong. One item is taxed, one is not.

NYC HAS A $110 CLOTHING PURCHASE TAX THRESHOLD:

Dad's Tie: **$108.99**
(TAX EXEMPT)

Sally's Hat: **$120.00**
(8.875% TAX)

'TIS THE SEASON FOR SAVINGS

Mrs. Henderson loves Cyber Monday, but just before hitting "Submit" she realizes that the packages arriving at the house will certainly be seen by the kids. She quickly decides to ship the gifts to her husband's office in CT. Boy is she surprised when she sees that secrecy also means savings.

TOTAL WHEN SHIPPED
HOME TO NEW YORK, NY:

Gifts Price: **$100.00**
Tax: **$8.87**
TOTAL COST: **$108.87**

TOTAL WHEN SHIPPED TO
DAD'S OFFICE IN GREENWICH, CT:

Gifts Price: **$100.00**
Tax: **$6.35**
TOTAL COST: **$106.35**

How Tax Automation Cleared Up This Online Merchant's Tax Headache

Event Network, a company that operates more than 100 retail gift stores and online sites for independent organizations with nationwide customer bases has witnessed firsthand the time and effort that is saved by automating their sales tax processes through Vertex.

Event Network has learned that deploying an effective sales tax management system can make the difference between processing tax quickly and dealing with a drawn-out process for filing monthly sales tax returns.

But like any other network of retail sites and stores, it has its challenges. Before Event Network deployed a new sales tax management system last year, for instance, it would take a long time each month to reconcile all of the sales transactions with sales tax records for all of the e-Commerce sites and stores Event Network operates.

"With the old system, it would take me the first three weeks of every month to reconcile sales and tax data. Now I'm done by the 10th of every month."

That has freed their Sales Tax Manager up to do more work on various projects in Event Network's accounting department that help the company operate more efficiently and profitably. Tax is calculated and shown based off of the product type and ship to address.

Key Takeaways

We have now identified your company's tax complexities, learned how sales and use tax automation can help your online store, and have witnessed how an online merchant has saved time and eliminated the tax risks of selling online. While some of us love to talk about the details of tax, others' heads may be spinning. Let's recap what we have covered in this guide so you're armed with the key takeaways.

Tax Is Complex

- Each jurisdiction has different rates

- Rates are constantly changing

- All products are not created equally in the tax world — all are taxed differently

- States are looking for new revenue sources and hiring more auditors

A Sales And Use Tax Automation Solution Can:

- Streamline your entire sales tax process within your online store — from collection through reporting

- Save time — you will be freed of manually looking up product tax codes across jurisdictions

- Stay compliant — relieve the stress of an audit

- Assure compliance with state and local tax holidays

- Access every product code in every jurisdiction

- Validate taxes for each ship-to address

- Sell more products and reach more customers

Learn More

VERTEX

Vertex Inc., has been a leading provider of tax technology and services, enabling companies of all sizes to realize the full strategic potential of the tax function by automating and integrating tax processes, while leveraging advanced and predictive analytics of tax data. Vertex provides cloud-based, on-premise, and hosted solutions that can be tailored to specific industries for every major line of tax, including income, sales and consumer use, value added and payroll. Headquartered in Pennsylvania, Vertex is a privately held company that employs over 900 professionals and serves companies across the globe.

www.vertexinc.com

retail TouchPoints

Retail TouchPoints is an online publishing network for retail executives, with content focused on optimizing the customer experience across all channels. The *Retail TouchPoints* network is comprised of three weekly newsletters, insightful editorial blog, special reports, web seminars, exclusive benchmark research, and a content-rich web site featuring daily news updates and multi-media interviews at www.retailtouchpoints.com. The *Retail TouchPoints* team also interacts with social media communities via Facebook, Twitter and LinkedIn.

www.retailtouchpoints.com