



How to Prepare for the Post-Wayfair Impact on Your Online Business



Custom content for Vertex
by Retail Dive's Brand Studio

For most online retail executives, the details of the Supreme Court's final order in 2018's *South Dakota v. Wayfair* is straightforward:

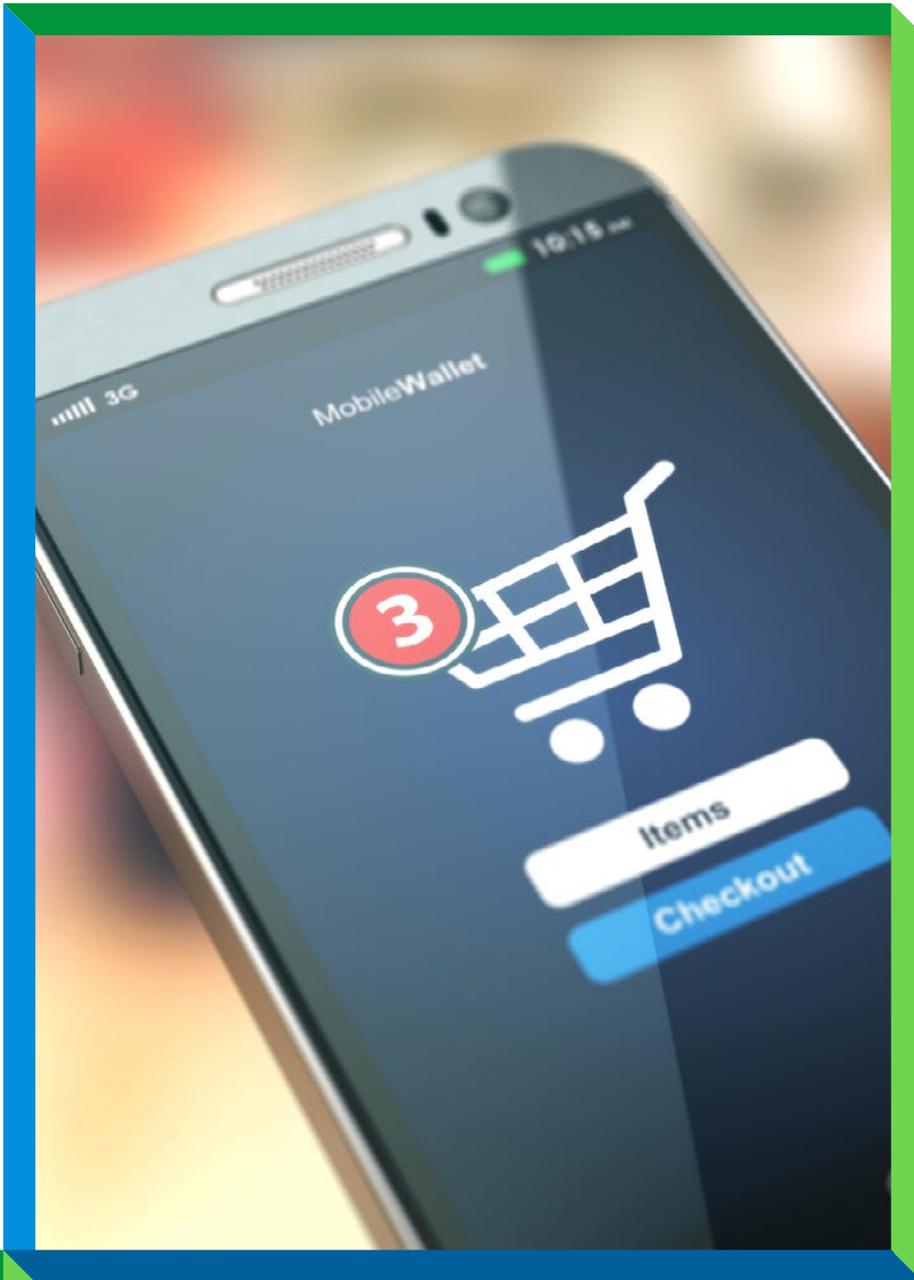
In 2016, South Dakota passed a law requiring businesses selling into the state to register, collect, and remit sales tax if they had more than \$100,000 annual gross revenue or 200 or more separate transactions per year from the sale of tangible property, electronic products, or services delivered into the state.

The further-reaching implications of states creating and enacting new sales and use tax rules are still unfolding, leaving executives without a clear impression of how the *Wayfair* decision could affect their business, and what it says about the future relationship between tax laws and eCommerce.

Far from an intimidating tax liability, retail executives willing to think big-picture will see this as an opportunity to look beyond the technical details of the ruling, and to what this means for the modern day retail business and its relationship with cross-border commerce – but only if they have the proper tools and support in place to address the changes.

“Customers want to buy whenever, wherever they want. Businesses today can't just rely on the traditional sales channels to meet consumer demand because brick-and-mortar retailers that haven't adapted to omnichannel ways of selling – merging both online and traditional in-store retail – aren't surviving.”

Pete Olanday,
Consulting Retail Practice Leader at Vertex



Wayfair and the Evolving World of eCommerce

South Dakota v. Wayfair is about more than just compliance. It's also a view into how new customer demands are shaping the world of retail and how states and physical companies are reacting to those changes to protect their revenue.

“Customers want to buy whenever, wherever they want,” says Pete Olanday, Consulting Retail Practice Leader at Vertex. “Businesses today can’t just rely on the traditional sales channels to meet consumer demand because brick-and-mortar retailers that haven’t adapted to omnichannel ways of selling – merging both online and traditional in-store retail – aren’t surviving. *Wayfair* is a sign that jurisdictions are recognizing eCommerce channels for selling, and states want to protect their income from stores moving online.”

While *Wayfair* certainly represents a new burden for online retailers to track, report, and file their transactions, it's also a sign that legislation is catching up with the business world's new normal, says George Salis, Principal Economist & Tax Policy Advisor at Vertex: "*Wayfair* was a tax event waiting to happen. This is part of a global trend of all tax types in that cross-border taxation is highly interconnected, whether it is international income taxation of corporations or digital taxation of online retailers."

Salis continues: "In international taxation, it has been recognized for some time that even when you have no brick-and-mortar storefront, you may still have an agent, facilitator, or marketplace office in a cross-border location that may trigger tax nexus. We have similarly gone through different models of legislation that were enacted to encompass and embrace digital transactions, and acknowledge that we are now in a global, digital economy."

“The trigger for any implications of the *Wayfair* decision is clear – it's some sort of dollar value threshold, revenue, or number of transactions. But that awareness of which states a business is selling in and where they are registered still needs to be built up. In the past, businesses didn't need to record it because they didn't need that data for filing purposes. Now they're going to start to need to capture all sales, regardless of whether they've registered in that state, and without knowing if they'll need to report it.”

Pete Olanday,
Consulting Retail Practice Leader at Vertex

Anticipating the Added Complexity of the *Wayfair* Decision

For many companies, calculating state taxes is a recurring but simple enough task. You or your tax professional(s) manage your sales and use tax process with spreadsheets, manually tracking state sales and flagging the one or two states that go over a significant threshold. Because of the low number of states you're tracking, it doesn't take too much time to visit state tax sites once a month to update your sales tax rates and populate your spreadsheet accordingly, or to check a handful of receipts to back-calculate the sales tax on specific items that don't have a state tax rate by line item.

But the *Wayfair* decision makes this process virtually impossible.

While it might be manageable to manually track and file in one or two states, it's a different story when each state has its own thresholds and set of regulations. *Whether your company sells a \$100,000 worth of products or services or none at all, it could feasibly need to report on 50 different states and 50 different requirements.*

If you're not quite prepared for that, it's time to plan—not panic.

Here are four ways executives can prepare their businesses (and reporting processes) for the post-*Wayfair*-era.

1. Understand the risks of non-compliance.

Businesses that do not proactively address their responsibilities regarding state specific thresholds open themselves up to a few significant forms of risk: legal and economic, as well as reputational.

+ **Legal and economic risk:**

The most obvious risk of not complying with a law is the fiscal and legal ramifications in the form of audits and fines. These fines also risk growing through nonpayment and eventually incurring legal and litigation risk.

+ **Reputational risk:**

Businesses that do not comply could also run the risk of hurting their reputation among customers, non-governmental organizations (NGOs), and the media—especially large retail companies that are well known and do not comply. For small and medium enterprises, this can also lead to a disruption to supply and value chains.



2. Identify state thresholds and reporting requirements.

The most complex aspect of the *Wayfair* decision is that each state will determine and regularly update their thresholds for reporting. And in some states, even if a company hasn't made any sales, it must file a report of zero taxes due.

"States typically update tax rates on their websites on the first of the month, but they don't have to," says Olanday. "Some states are notorious for passing laws at any time throughout the month and your business has 48 hours to comply. So many businesses are completely blind to rate changes, which is why it can be so helpful to have a tax automation partner who researches those tax changes and keeps the rates up-to-date for you."

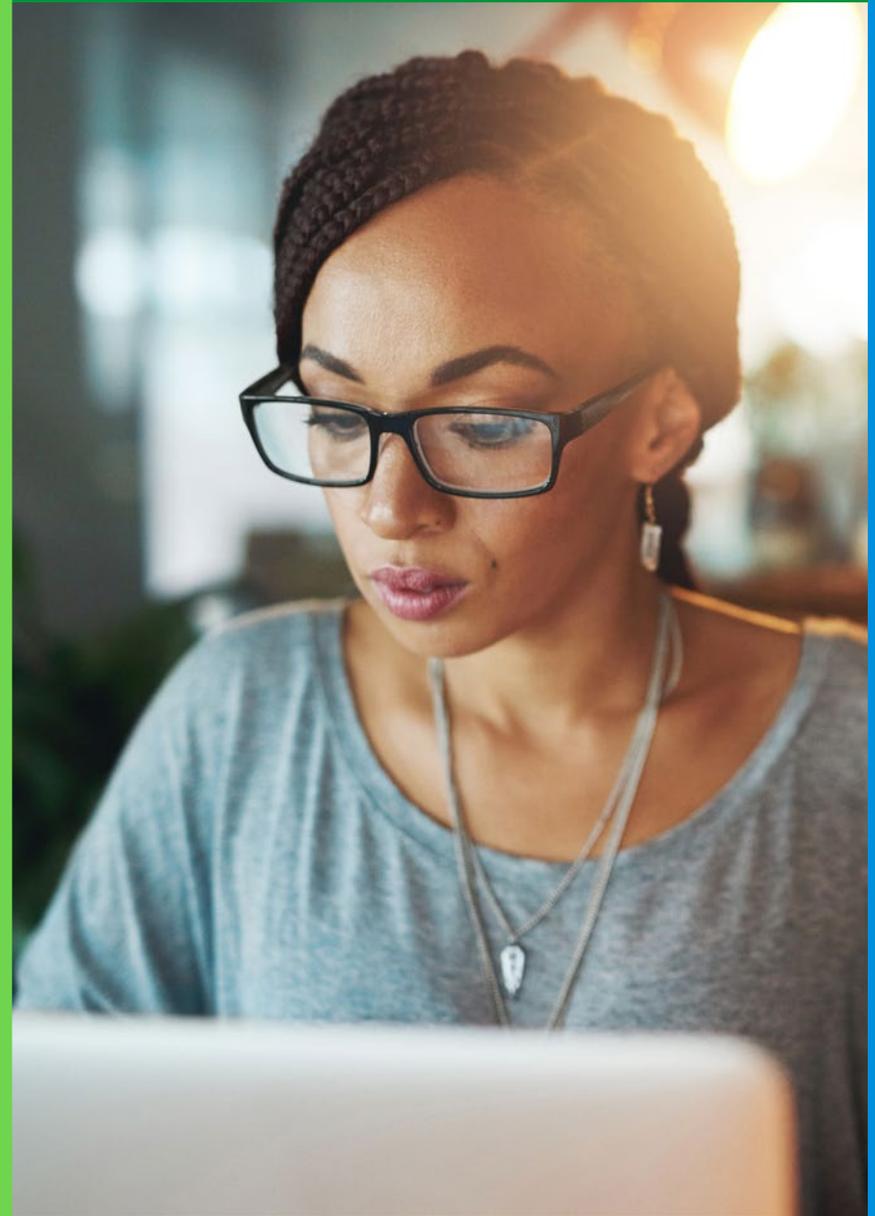
“ There's a sense of confidence small businesses have when they have software in place that simplifies tax rules, rates, exemptions, calculations, and compliance. These executives don't have to be tax experts – they can let their technology handle the complexities, and then when things change they can rely on the proficiency of a tax automation solution like Vertex to stay on top of what's going on and push those necessary updates through.”

Matthew Wasley,
Product Marketing Manager at Adobe/
Magento

3. Prepare for surprises.

Some online retailers may not expect to see much of a change in reporting and filing due to *Wayfair* because of the company's predictable, but limited success in a specific state or geographic area. These companies need to monitor for changes in customer demand and sales so that if a product were to suddenly become popular, they are prepared for the reporting that would ensue.

"It happens all the time that a mid-size retailer suddenly has an item featured by a Hollywood star and it becomes extremely well-known," says Salis. "Suddenly, the orders are coming in and you are responsible for tracking and reporting on it, but you didn't foresee it. Your cross-border sales have exponentially increased, and what should be a celebrated business event becomes a transactional and taxational nightmare."



4. Get granular with a tax automation solution.

Filing with each state manually is a cumbersome process that can leave your team tracking a painstaking amount of detail that changes for every state. Tax automation software plays a critical role in allowing you to see all of your sales at a transactional level, down to where you're selling and where you're shipping.

"Having access to granular-level data enables retailers to feel confident that they know what they're selling and to whom," says Olanday. "As customers order on the website, it's recorded in a database so you can see exactly how much you sold in New York and how much tax was collected on each item. That level of detail is automated in the software so you aren't stuck manually tracking it, and as your business grows, the technology can scale with it so you won't have additional work to do."

“ Most executives understand that the Wayfair decision will affect them if they sell to multiple states and across state borders. But they may not understand how the thresholds are measured, where to file and not file, and what they can do to limit their reporting.”

George L. Salis,
Principal Economist & Tax Policy Advisor
at Vertex



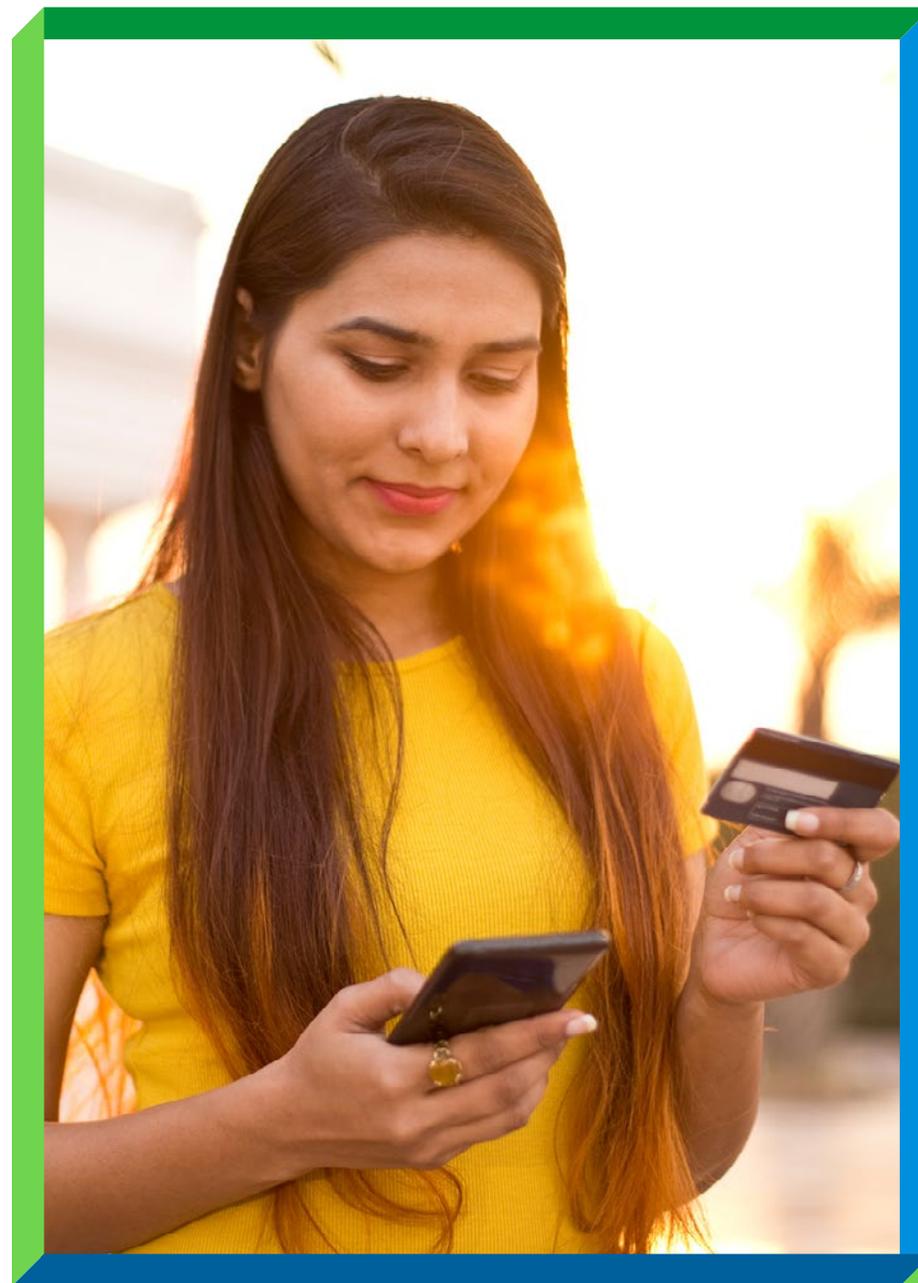
Adobe's Magento Tax Automation Success

“In small eCommerce businesses, there can be this sense of being constantly outmatched by larger online retailers,” says Matthew Wasley, Product Marketing Manager at Adobe/Magento. “Any technology that makes complicated and at times intimidating areas of their business, such as taxes easier, allows them to level the playing field and apply more of their time and energy to strategic initiatives that can differentiate their small or mid-sized business.”

Wasley points to innovation in the fulfillment space as an example of how larger companies are better equipped to outperform smaller ones. Small and medium-sized businesses find it difficult to compete with the competitive shipping practices of large retailers like Amazon that make 2- and even 1-day delivery practically standard. The *Wayfair* decision offers a similarly limiting advancement, in that smaller businesses don't always have the built-in tax resources to handle those calculations and filings, which are set to become more time-intensive and complex.

“At the end of the day, it’s more and more important to help smaller online retailers understand the impact of rulings like *Wayfair* on their business and to make these behind-the-scenes requirements less of a burden,” says Wasley. “The technology partnership between Magento and Vertex makes that possible by taking taxes out of the equation. Businesses are free to grow, unrestricted by the regions or states they can do business in. We don’t want businesses to see or feel confined by state lines when they’re focused on growing their addressable market.”

Vertex is a core bundled extension in Magento 2 and above, and a Magento Premier Technology Partner. Magento Commerce with Magento Business Intelligence (MBI) gives merchants a single platform to store advanced tax data alongside other vital commerce data, providing a convenient way to gain transparency around the overall impact that tax has on their business and KPIs.



Moving Forward with *Wayfair*

Whether or not the *Wayfair* decision impacts your business this year, it's only a matter of time before you must make changes to be compliant, and those changes will have a far-reaching impact on your financial processes and the way you do business. The *Wayfair* decision is an opportunity to upgrade your approach to tax compliance, recapturing valuable time and resources that can be reallocated to higher value business activities like strategic planning.





Vertex Inc. is a leading tax software and services provider that empowers global commerce. Vertex connects customers and partners across all industries to deliver the world's most trusted tax solutions for businesses to grow with confidence. Vertex provides cloud-based and on-premise solutions that can be tailored to specific industries for every major line of indirect tax, including sales and consumer use, value added and payroll. Headquartered in Pennsylvania, and with offices worldwide, Vertex is a privately held company that employs over 1,000 professionals and serves companies across the globe.

For more information follow Vertex on [Twitter](#) and [LinkedIn](#).

LEARN MORE



BRANDSTUDIO

Custom Content. Targeted Results.

Industry Dive's Brand Studio collaborates with clients to create impactful and insightful custom content. Our clients benefit from aligning with the highly-regarded editorial voice of our industry expert writers coupled with the credibility our editorial brands deliver. When we connect your brand to our sophisticated and engaged audience while associating them with the leading trends and respected editorial experts, **we get results.**

LEARN MORE