

E-BOOK

# Ready for Anything: 3 Ways Tax Automation Software Prepares Retailers for New World of E-Commerce



# Introduction

Managing a company’s tax responsibility has always been complex – even before it was common for brick and mortar retailers to have an e-commerce channel. But as e-commerce has grown, consistently capturing double-digit consumer penetration over the past decade,<sup>1</sup> retailers have had to adapt, respond and plan for new layers of complexity within their tax reporting structures.

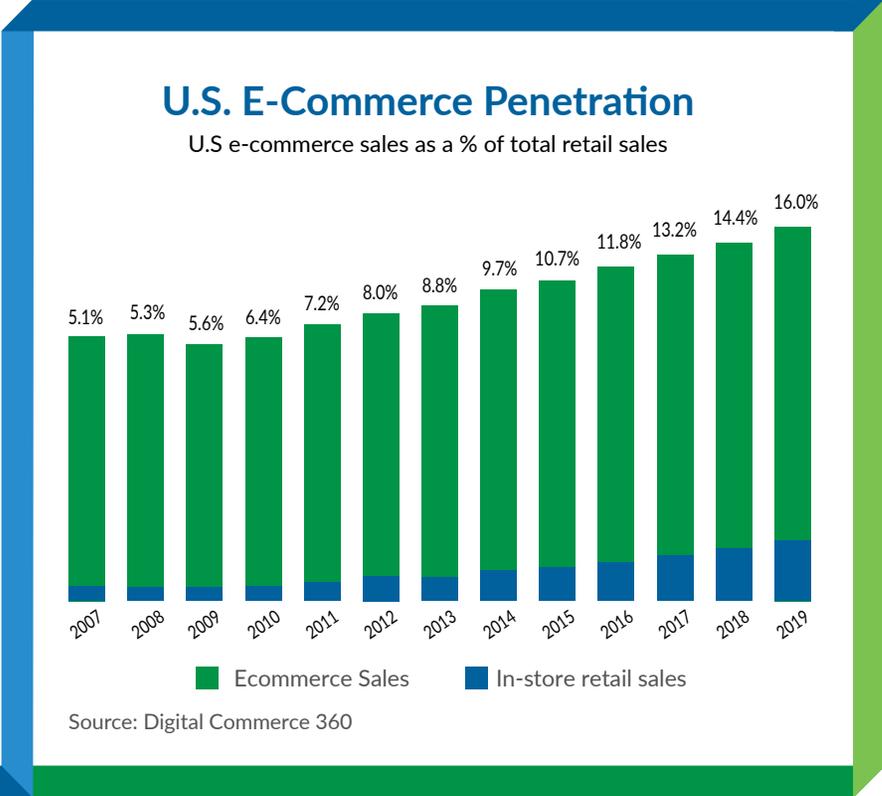
As countless new ways to serve customers have emerged, retailers have pivoted and re-strategized their channels only to discover these changes have created an informal double tax on their online retail channel – the actual taxes they pay and the added costs of compliance to navigate the uncertainty of e-commerce taxes.

In fact, there’s such a significant impact that a manual approach to managing their tax responsibility is no longer practical or efficient. Instead, retailers must rely on a holistic and flexible approach empowered by tax automation software.

“Managing taxes across different channels and platforms is incredibly complicated, and there’s great pressure for those taxes to be calculated consistently,” said Pete Olanday, retail practice leader at Vertex. “Price sensitive customers are paying close attention to their purchases, PR nightmares wait just around the corner, and of course, tax authorities take compliance very seriously. Being able to implement a tax solution across

all channels at one time, confidently capturing a holistic sense of your business’s obligations, is essential, and that’s what tax automation enables companies to do.”

This e-book looks at how a tax automation solution allows retailers to successfully navigate the three most common points of change.



# Trigger #1: Changes in Regulatory and Governing Bodies

As e-commerce becomes a more important source of revenue for retailers, both temporarily in response to COVID-19 and incrementally over the long-term, states and other governing bodies are taking note of the potential missed revenue. Because this revenue applies to other sales channels, such as marketplaces, governing bodies do not want to leave those taxes on the table and look for a way to collect the taxes and cover all transactions irrespective of the sales channels.

Significant rulings like the June 2018 South Dakota v. Wayfair Supreme Court case<sup>2</sup> and 2019 marketplace facilitator laws<sup>3</sup> have emerged to give more insight into how retailers can adapt the way they collect and remit taxes — but it's still not a perfect process. The outcome of these rulings appear to be simple, requiring businesses without a physical presence in a state that meet a certain threshold to collect and remit taxes to the state; but, the implementation is actually quite burdensome.

“The COVID-19 pandemic was a catalyst for e-commerce retailers and marketplaces to grow at a much faster rate than before. But retailers selling cross-state or globally increase their risk of audit exposure. Tax automation solutions take the burden of understanding this complexity off the retailers so they can focus on what they do best: delivering on their promise to their customers.”

Satish Pabhakar  
Strategic Product Leader at Vertex

“The question of who’s responsible for calculating, collecting and paying taxes has a different answer in different states and localities, which is even more complicated in the case of e-commerce marketplaces that facilitate cross-state or cross-border sales,” said Satish Pabhakar, strategic product leader at Vertex. “There is no consistent approach on how these laws are enacted or implemented. Broad and narrow definitions of the law exist across states. Retailers are required to track transactions in states where the law is in effect. That’s a burdensome way to spend time when the process is not automated.”

Tax automation solutions remove the complexity for retailers and help them to efficiently respond to regulatory changes in a timely manner. Especially as states strive to recoup lost revenue from the COVID-19 pandemic,<sup>4</sup> carefully tracking and having confidence in the figures they report for online retailers and marketplaces alike will be critical in maintaining compliance.

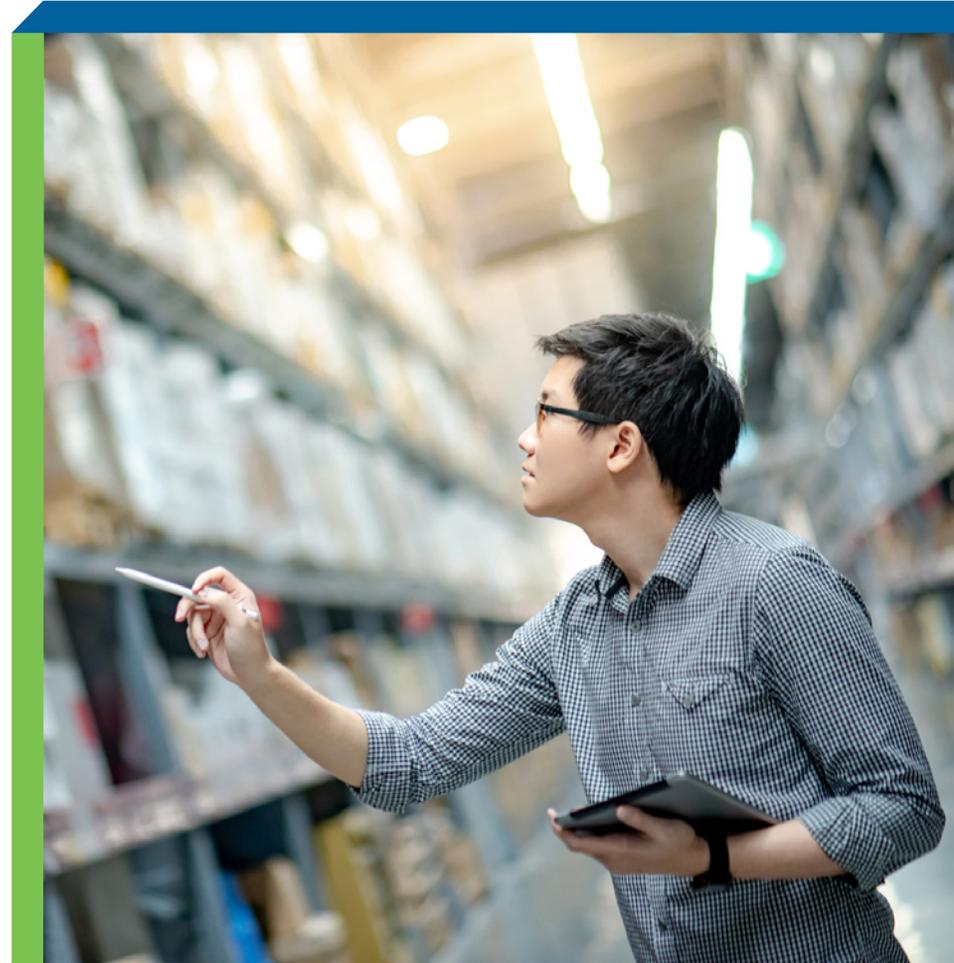


# Trigger #2: Changes in Business Activity and Performance

There has been plenty of change in brick and mortar retail in the past decade, and even more in the wake of the coronavirus.<sup>5</sup> But for as much as brick and mortar retail was pushed into layoffs and bankruptcies, retailers that were able to scale their e-commerce channels into a healthy revenue faced an unexpected problem: navigating the tax responsibilities that come with a sudden spike in variety and volume of transactions.

For example, due to the physical shutdown of brick and mortar locations, many consumer businesses kept customers engaged with alternative delivery platforms like Grubhub, Instacart, Door Dash, and more.<sup>5</sup> They may have also expanded their reach from local customers into a state-wide, country-wide, or global reach, increasing revenue by an order of magnitude. Only retailers with a tax automation solution in place can navigate this kind of growth seamlessly.

“A retailer facing sudden growth online may find that economic nexus or thresholds can suddenly become an urgent cause of concern,” said Pabhakar. “Tax automation brings important consistency to the complicated combinations of sellers growing their businesses with consumers, directly and through marketplaces.”





“Retailers must ask themselves if their current processes can handle the volume of a sudden surge in revenue at peak times of the year, from Black Friday and Cyber Monday through the current experience of COVID-19. New fees and nonconventional taxes pop up every year, and you have to have the ability to modify or customize your solution to adapt.”

*Pete Olanday  
Retail Practice Leader at Vertex*



## Trigger #3: Changes in Technology and Access

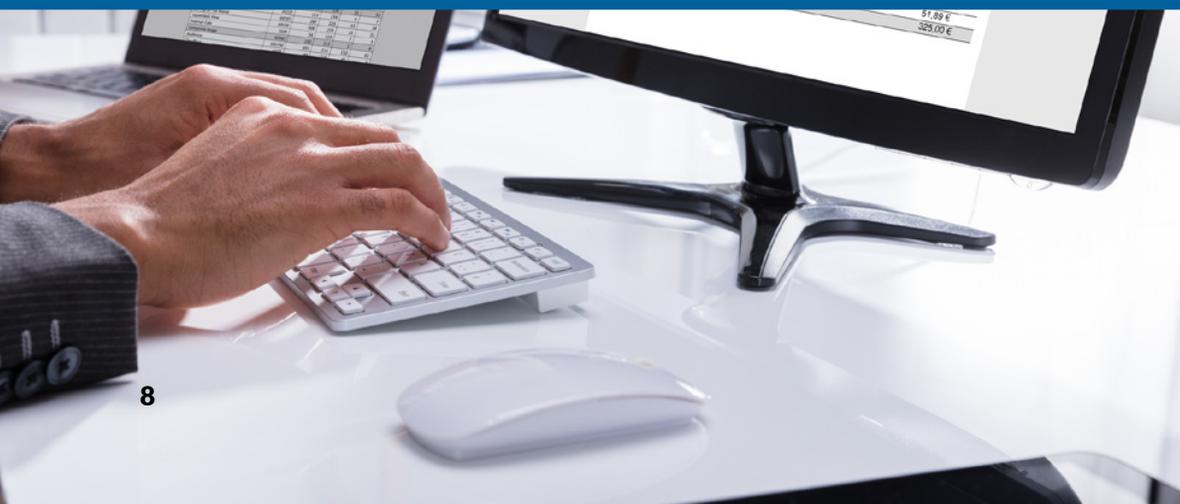
Changes in retail technology also play a role in an organization's approach to tax compliance. As an organization upgrades or changes its enterprise resource planning (ERP) and point of sale (POS) systems, the sales tax engine connected to those systems must be able to keep pace, and keep it at scale. Retailers are seeing this up close as they navigate fluctuations in consumer activity related to COVID-19, which IBM Retail indicates has accelerated the move from brick-and-mortar shopping by approximately five years.<sup>7</sup> These fluctuations include higher volumes of shopping online from existing customers and new customers alike<sup>8</sup>— which can come with higher return rates<sup>9</sup>— as well as different tax responsibilities depending on the location of the seller and buyer.

“Customers aren’t just buying products online; they’re also returning them,” said Olanday. “The interaction of multiple channels as customers buy online and return in store, or buy online, pick up in store and return by mail, is hard to track, but must be consistent when a retailer is audited. And because many retailers would rather make a customer whole and pay penalties on the compliance side, they can be stuck paying the price of any inconsistencies themselves.”

An integrated omnichannel approach to calculating and tracking the taxes related to these transactions is critical in correctly calculating tax liability both for the original purchase and for refunding the correct amount in the case of a product return – an extremely complicated, error-prone and time-consuming task to take on manually.

“It is important for a tax automation solution to accurately calculate a retailer’s tax liability – equally important is for the solution to be flexible and customizable in order to arrive at an accurate tax on any given transaction. This enables the unique needs of the market in an evolving regulatory landscape”

Satish Pabhakar  
*Strategic Product Leader at Vertex*



# Be Prepared With Tax Automation

The proliferation of new and more complex revenue sources has placed an intense demand on the tax function within an organization, and an automated approach to taxes is no longer optional. Retailers operating an e-commerce channel must continuously monitor whether they're collecting and filing the correct taxes. Tax automation solutions make it easy to customize who is responsible for paying and collecting the tax and then shift those responsibilities as technology, regulations and businesses change.

With the support of a tax automation solution, retail organizations can customize their approach to tax collecting and reporting, as well as confidently navigate pivotal moments of change to meet the needs of the day and scale to meet the needs of tomorrow.





## Sources:

- <sup>1</sup> ["A decade in review: Ecommerce sales vs. retail sales 2007-2019,"](#) DigitalCommerce360
- <sup>2</sup> ["Nearly Two Years Post-Wayfair, Tax Complexity and Uncertainty Reign,"](#) Vertex
- <sup>3</sup> ["Concerns about New Marketplace Facilitator Laws,"](#) Vertex
- <sup>4</sup> ["Why State Budget Officials Worry About COVID-19's Impact on Sales Taxes,"](#)  
The PEW Charitable Trusts
- <sup>5</sup> ["The Pandemic Is Rewriting the Rules of Retail,"](#) Harvard Business Review
- <sup>6</sup> ["Delivery Apps Need to Start Treating Suppliers as Partners,"](#) Harvard Business Review
- <sup>7</sup> ["Meet the 2020 consumers driving change,"](#) IBM U.S. Retail
- <sup>8</sup> ["Ecommerce & Consumer Trends During Coronavirus,"](#) SEM Rush
- <sup>9</sup> ["The Ticking Time Bomb Of E-commerce Returns,"](#) Forbes



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