Limiting Liabilities:

3 Risks Retailers Can Avoid by Future-Proofing With Tax Automation

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Coming off an estimated 10 years of accelerated digital transformation over three months, small to midsize retailers have responded to consumer demand and pivoted to support every possible shopping method. From accelerated demand for fulfillment models — such as buy online, pick up in store (BOPIS); curbside pickup; and third-party shopping and delivering apps — to an overall explosive 32.4% year-over-year growth in U.S. e-commerce.

> *Click here to learn more about how Starbucks implemented robust tax automation to reduce audit risk and simplify its tax processes during its global expansion.*

But there's an unsung hero of retail that has empowered retailers to meet consumers where they are that has so far flown under the radar: technology that enables retailers to process and calculate their indirect taxes as their footprint expands into multiple fulfillment models.

"Who could have anticipated the complete shift from brick-and-mortar to online retail sales, and who knows what's going to come tomorrow?" said Peter Olanday, retail practice leader at Vertex. "We could be standing on the brink of sales channels we hadn't even thought of yet, and retailers and brands will want to make sure they're able to pivot very quickly and act on those opportunities when they arise."

BOPIS
Nearly 70% of U.S. shoppers have used BOPIS more than once

Curbside pickup
More than 50% of large retail chains offer curbside pickup

Third-party shopping and delivery apps
Third-party shopping and delivery apps reported record growth in demand and sales throughout the pandemic, such as Instacart (+500%) and Shipt (+300%)

The ability to embrace uncertainty and quickly adjust to new developments is the hallmark of an agile retail business today. And after more than a year of adapting to the "new normal," smart retailers have put systems in place to offset any future disruptions. However, changes keep coming: Some states had as much as a 30% decrease in 2020 sales tax revenue, which may trigger more careful audits to close substantial gaps.

Integrating an automated indirect-tax engine across the enterprise — from the buy-side procure-to-pay process through the omnichannel sell-side — enables retailers to safeguard their agility because tax automation:

- Supports business growth.

- Improves overall accuracy.

- Reduces delays in vendor payments.

- Increases accuracy in reporting to local authorities.

- Achieves cost savings by not overpaying tax and by introducing improved efficiencies.

- Ensures consistency of tax calculation across channels leading to a consistent customer experience in an omnichannel environment.

These benefits bring improved top-line business growth, visibility, consistency, and reduced organizational and audit risk — everything you want to have in place when staring down an unknown landscape of opportunity.

Read on to understand how tax automation helps retailers anticipate future tax burdens and future-proof their businesses by decreasing the risk of experiencing three significant liabilities.

> **"The centralized, automated tax solution allows us to be more flexible and scalable without adding new resources each time there are new business ventures."**
>
> **Ryan Meas**
> Manager of Sales and Use Tax, Starbucks
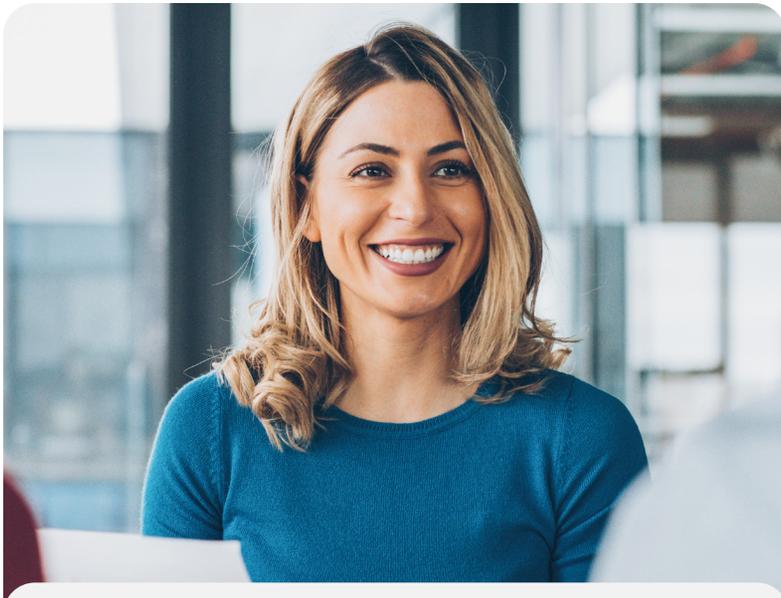
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> **"Tax automation gives you security in the event of an audit because you know all of the details have been captured and you have the transaction data you need. In fact, we see auditors breathe a sigh of relief when they see a retailer uses Vertex because they know the retailer has their bases covered — auditors know a Vertex report by sight and ask for it by name."**
>
> **Pete Olanday**
> Retail Practice Leader at Vertex

LIABILITY #1:
Audit Risk And Estimated Tax Burden

Global jurisdictions and governments are looking closer at maximizing tax revenues. A great example of increased legislation includes the South Dakota v. Wayfair case, where the Supreme Court determined that states can require retailers to register, collect and remit sales tax if they meet criteria set out by the state, such as a certain amount of annual gross revenue or number of transactions, including sales made through marketplaces such as Amazon.

However, a small or midsize retailer may not have the resources to accurately track its tax liability manually, exposing it to the risk of an inaccurately calculated tax burden (either withholding too much or too little) and complicating the audit process should the retailer be audited.

"Retailers that are manually oriented may not be capturing all the granular data elements they need to support a rigorous audit," Olanday said. "For example, a mom and pop retailer in Pennsylvania may not be tracking sales in California because it's not relevant to their business — but suddenly they hit that threshold and find they should have been recording those transactions all along because they need that data."

> **"It's simply not scalable to manage your tax liability manually anymore."**
>
> **Pete Olanday**
> Retail Practice Leader at Vertex

LIABILITY #2:
Spending Too Many Resources On Tax

Small and midsize retailers that opt to tackle their tax liability without tax automation in place quickly find that the resources, time and attention required to do so accurately adds up quickly. Not only is a small team more at risk for errors in calculations, but states can also change their state tax rate or reporting requirements at any time, which requires constant vigilance. The tax team also ends up requiring more time from IT, which could be best spent on other, more strategic projects.

"The Wayfair ruling requires states to remit and collect taxes even without a physical presence in the state," Olanday said. "We've seen retailers go from needing to manage the tax burden for 13 states with a team of two to needing to manage 39 states almost overnight, which is practically impossible to keep up to date without extra help or automation."

Spending too many resources on managing tax liabilities is also a problem in an ever-changing retail environment. Just consider that when consumers shift from brick-and-mortar shopping to e-commerce shopping or curbside pickup, the number of merchandise returns can increase as much as 20 percentage points. Merchandise returns introduce complex calculations about tax burden and require retailers to recalculate the tax.

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Click here to learn more about how Patagonia created a seamless customer experience with tax automation.

Negatively Affecting The Customer Experience

Increased competition in the retail space during the pandemic has placed a spotlight on the customer experience, and consistency plays a more important role in a positive customer experience than ever before. Inconsistent or disjointed customer experiences, such as a changing price tag or a different checkout experience, can damage your customers' affinity for your brand — something retailers should avoid at all costs.

Patagonia, a market leader in outdoor apparel, recently adjusted its tax automation to improve its customer experience and quickly saw results. The retailer was using several systems across its sales channels for e-commerce, retail and wholesale, which caused major issues for the customer experience. For example, a customer coming to a Patagonia retail store to pick up an online order would have a disconnected experience where the retail associate had no way of finding any information about the original online purchase. Integrating these systems into one tax-automation tool allowed Patagonia to capture significant customer experience improvements, as well as efficiency, reduced risk and saved cost.

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"According to your customer, the price should be the price, whether they buy it in store or online," Olanday said. "But when retailers have different tax solutions for different channels, it leads to a disjointed customer experience, where something might have one price if they order online and have it delivered at home and another price when they order online and pick it up in store."

When amplified across the hundreds of thousands of transactions that might take place per year, differences as little as a penny can be very significant. Tax-automation software allows you to plug in different purchase channels and get consistent tax calculations across channels — even more important today when the lines between channels continue to blur between the in-store point of sale, online e-commerce checkout and mobile app shopping experience.

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Tax Automation To Limit Risk — And Make the Most of Every Opportunity

Retail today moves quickly, and the taxes associated with those moves are not going to get any less complex as time goes on. Retailers limited by manual tax calculations, or who choose to move forward without a full understanding of the tax implications, will not operate with confidence. Tax automation provides much-needed security and reduction in liability that empowers retailers to pivot toward new opportunities quickly and without hesitation — supported by improved top-line business growth, visibility, consistency, and reduced organizational and audit risk.

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