



A Guide to Frictionless E-Commerce for Finance and Tax Leaders





Contents

Introduction.....	1
Daunting Challenges for Tax Pros.....	3
Lasing Impact of <i>Wayfair</i> Design.....	5
Frictionless E-Commerce.....	7
Conclusion-Embracing the Opportunities.....	10



Introduction

Consumers worldwide began turning to online shopping in droves during the COVID-19 pandemic, as they looked to make purchases of products and services without having to visit physical locations.

The dramatic rise in e-commerce amid lockdowns and other restrictions induced by COVID-19 increased online retail sales' share of total retail sales from 16% to 19% in 2020, according to estimates in a report by the United Nations Conference on Trade and Development (UNCTAD).

“The breakdown of brick and mortar versus online is definitely swaying more toward online,” says Lindsay Galvin, Principal at PwC.

The explosion in e-commerce transactions is not expected to slow down anytime soon, if at all, as consumers become accustomed to the “new normal” of digital business and have embraced online shopping in new ways.

“It’s not going to go back to the way it was,” Galvin says. “Companies realize that they don’t necessarily have to have as much floor space for their products. They can do deliveries and curbside pickups” based on orders placed online.

“If you go to a major superstore you’ll see these parking spots with permanent signage dedicated to curbside, which tells me that they’re going to continue doing this,” says Pete Olanday, Director of Retail Consulting, at Vertex Inc.



At the same time e-commerce continues to rise, changes in tax rules are bringing additional challenges for many retailers. “COVID-19 hit at a very dynamic time for sales tax, with the economic nexus laws, the *Wayfair* decision and the emergence of marketplace facilitator laws,” Galvin says.

What does all this mean for finance and tax professionals? If you are still managing your online tax liabilities on spreadsheets, it’s time to step up your game. While you may have a person or two following the changes in tax rules across all the areas where you sell online, that will no longer suffice in this rapidly-evolving digital marketplace. E-commerce has made a decade’s worth of advances in just a few years.

Given the dramatic shifts in consumer behavior, finance and tax professionals need to develop appropriate strategies to accurately manage their e-commerce tax obligations to remain compliant. If your customers are charged the wrong tax, or if you don’t charge taxes as required, you can lose customers and much worse. Your business is at risk of being audited and fined if it fails to follow the tax rules in each area where you are conducting online business.

For a global retailer doing business in multiple states and countries, the tax complexities of this environment can be daunting—and failure to charge the right taxes can result in significant financial losses.

Automation can be an answer to delivering a frictionless e-commerce experience for customers and meeting tax requirements. This e-book examines the challenges retailers are facing and describes the steps they need to take to prepare tax teams to help handle the influx of e-commerce business without missing a beat.



Daunting Challenges for Tax Pros

This is certainly an exciting—and perhaps somewhat stressful—time to be a finance and tax professional at a retail organization. Merchandisers are still adapting to the dramatic shift toward e-commerce brought on by the pandemic, while at the same time coping with a variety of regulatory changes that impact tax.

To make things even more interesting, many companies are in the midst of digital transformations, migrating enterprise applications such as enterprise resource planning (ERP) to the cloud, and launching omnichannel strategies to help expand their reach to customers.

Retail supply chains are evolving to meet the demands of international omnichannels, and this often means a change in the geographic footprint of retailers. Their customers are spread across more jurisdictions, which means more territories. Retailers need to understand and meet the customs and VAT/tax obligations everywhere they conduct business.

While offering products and services via multiple channels is good for business, it can also present hurdles for retailers trying to manage tax calculations and eliminate friction.

“It’s a cross-channel experience, where customers can traverse multiple channels in the same transaction,” Olanday says. “They might start their journey in one channel and end up in another,” which can impact tax.

The challenge is keeping tax consistent across those multiple channels. For example, a consumer might use a mobile app to place an order at a chain coffee shop and then go into the store to pick it up. If the tax calculation through the mobile channel is different than it is in-store, a regular customer is going to notice the difference.

There’s also a technical challenge here for retailers. For example, a retailer might have three different toggle switches within the mobile app, one for enabling the customer to pick up the item curbside, another for picking it up and paying for it in the store, and yet another for paying for it through the mobile app and having it delivered to the customer’s house, says Timothy Kirkpatrick, Principal at PwC.



Daunting Challenges for Tax Pros continued

“All of these options, amongst others, need consistent tax applicability applied, taking into account the different tax jurisdictions that might be involved,” Kirkpatrick says. Retailers need to have a technology tool in place that has the ability to handle all of the different scenarios simultaneously, he says.

All of this is occurring while there is still much uncertainty because of the ongoing pandemic and the resulting shift to the hybrid work model, and each of these factors can have an impact on revenue, margin, and cost-to-serve.

Many of these changes represent opportunities for retailers. E-commerce and omnichannel approaches enable them to expand into new markets and reach customers in ways they might not otherwise have been able to do. These new developments can also lead to reduced operating costs and greater profits.

However, many companies are still relying on manual processes to track tax liabilities, which can hinder e-commerce and omnichannel efforts as well as lead to potential compliance problems. Although automated solutions have been around for some time, many still use legacy platforms such as spreadsheets.

There is no easy way to determine how many finance and tax professionals are still managing online tax liabilities with older, manual tools. But it’s a safe bet that a good number have yet to automate all their processes and are still using manual methods for at least some key tasks.

For example, to find and collect tax data such as when rates change and by how much, tax and finance teams might be researching state government websites once a month and combing those sites for any relevant new information. They must search for updates on rate changes or new legislative actions, and then enter this data into a spreadsheet for tracking and reporting purposes.

This can be an enormously time-consuming, labor-intensive, and costly process while also increasing the chance of manual error. That’s especially true for retailers that operate in multiple states and jurisdictions as well as multiple countries.

“Digital shopping is proportionately bigger than it used to be pre-pandemic. Companies that historically didn’t offer frictionless transactions or contactless transactions shifted their models virtually overnight, to accommodate the COVID-19 landscape.”

– Lindsay Galvin,
Principal at PwC





Lasting Impact of *Wayfair* Decision

Keeping up-to-date on rate and rule changes across an increasing number of jurisdictions is difficult and becoming increasingly complex. The *South Dakota v. Wayfair, Inc.* case, in which the U.S. Supreme Court held that a state may compel a remote seller to register and collect sales tax on its behalf when the seller reached some sort of economic nexus threshold, has greatly added to the task of tracking tax rules.

The *Wayfair* decision overturned long-standing physical presence requirements for sales and use tax registration and collection for remote sellers, including out-of-state merchants and global companies selling to U.S.-based customers.

The added compliance burden resulting from economic nexus laws will likely continue to escalate. While many companies have physical nexus in a limited number of jurisdictions, they may have economic nexus in several additional jurisdictions. The resulting

impact of economic nexus laws in the wake of *Wayfair* may compel companies to collect and remit sales tax in a significant number of jurisdictions.

In addition, tax rules are continually changing at the state level and in different countries outside the U.S. These rules can determine things like what types of items are exempt or excluded from taxation in certain states, or which types of customers are exempt from taxes. All of these rules affect the way companies apply taxation rates.

There are also an increasing number of environmental fees (for example, disposable bag fees, recycling fees, etc.) in addition to the traditional tax changes.

Most jurisdictions have since enacted economic nexus laws, which compel remote sellers to register and collect sales tax after reaching a certain number of transactions or sales per year or rolling twelve-month period.



Lasting Impact of *Wayfair* Decision continued

And in the U.S., the complexities go beyond the level of state government. For example, states such as Colorado and Louisiana are home rule states, Galvin says, which means cities can enact a home-rule charter and elect to administer their own local sales and use taxes.

Much is at stake for retailers who don't get tax payments right. Retailers may be assessed tax that they should have collected but did not, plus penalties and interest. Small oversights may lead to sizable assessments. For example, an audit may reveal that certain SKUs were incorrectly identified as nontaxable and resulted in the retailer failing to collect tax. The retailer may be assessed on every single transaction involving the sale of those SKUs during the audit period.

There are other steep consequences as well. Some jurisdictions permit class action lawsuits in the event of tax collection on nontaxable items. And there is also the fear of bad publicity, and other potentially damaging issues. For a national or international retailer, the financial repercussions could be massive.

And if a retailer does a self-audit and learns that it has been under collecting tax on a regular basis, it may need to pay out of its own pocket in order to pay the government the correct amount. That's a hard loss to swallow since it comes right out of bottom-line revenue for that retailer.

Given the current sales tax landscape and the possibility of further changes, using manual methods to consolidate transaction data across various channels—brick-and-mortar, e-commerce, mobile commerce, marketplaces, etc.—is no longer feasible.



Frictionless E-Commerce

Tax professionals need to move beyond manual processes to track tax liabilities and ensure accuracy and compliance with modern tax tools. By doing this, retailers can position themselves for future e-commerce growth.

By deploying automated tax solutions for e-commerce, companies can see benefits such as scalability; for example, registering in a new jurisdiction is as simple as checking another box. They can receive automatic updates of rates, and seamlessly consolidate transaction data across channels for audit defense and filing.

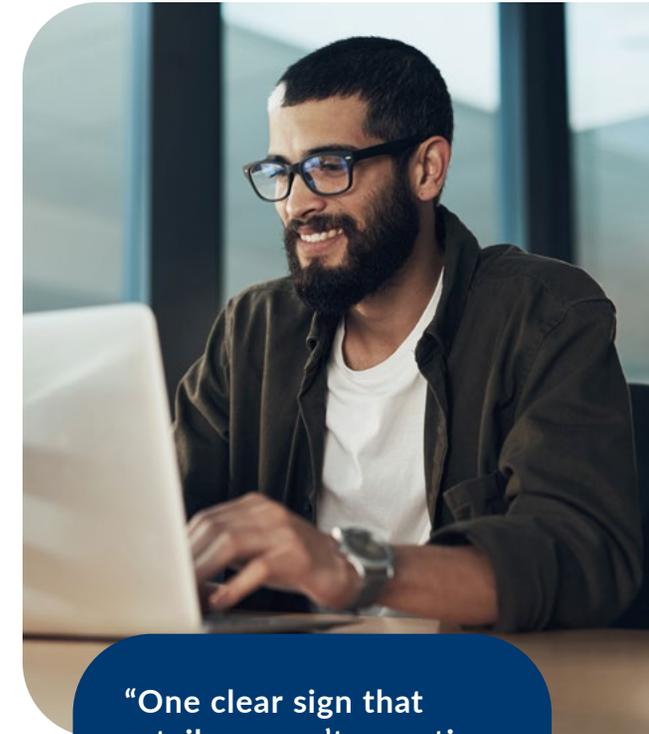
Automation helps eliminate the need for people to spend hours searching for tax rule changes and updates. They can use this time more productively in areas such as improving the customer experience. Additionally, automation can also help eliminate tax miscalculations due to human error, potentially saving the company considerable money.

These digital automation tools can also address issues such as tax holidays—temporary reductions or eliminations of a tax. For example, retailers don't have to make manual changes in tax calculations prior to and following weekend tax holidays, because it's done automatically.

Any automated tax technology that a company deploys should be ready to accommodate new calculation and real-time reporting requirements stemming from economic nexus laws and other market developments. It should also integrate with a number of key business platforms including ERP, customer relationship management (CRM), procurement, billing, point-of-sale, and e-commerce tax.

So when investing in emerging solutions, retailers should always look for those that will drive efficiencies, control costs, and support new customer behaviors while seamlessly integrating with ERPs and other business platforms.

Getting the most out of any automated tax technology requires having a good understanding of transaction data.



“One clear sign that retailers aren’t reverting back to pre-pandemic methods anytime soon is the considerable parking lot space retailers are now devoting to curbside pickup.”

– Pete Olanday, Director of Retail Consulting, Vertex Inc.

Frictionless E-Commerce continued



“Understand what is happening from a transactional standpoint with the flow of information. Where is it originating? Is it coming from a tablet? Is it coming from the point-of-sale terminal? Is it coming from a website? If you do proper planning, you can account for most all of these situations in the marketplace. But without planning, it’s a shotgun approach,” says Kirkpatrick.

Retailers also should have a good understanding of their processes, Olanday adds. “Understand how you do things today, and with that understanding where the pain points are or where there are some efficiencies to be gained,” Olanday says. “What areas could see the best return on investment from automating? You have to understand how you’re doing business today. Then you can make educated decisions about not only what to automate, but in what order.”



“The biggest key to this is planning and understanding your data.”

**– Timothy Kirkpatrick,
Principal at PwC**

Frictionless E-Commerce continued

In addition to deploying technology solutions, there are three key practices retailers should put in place to prepare for emerging opportunities in e-commerce:

1. Upgrade the e-commerce and omnichannel strategy.

The retailers that had strong e-commerce and omnichannel strategies have tended to fare better during the pandemic.

Although consumers increasingly will venture into brick-and-mortar stores to purchase goods as health and safety standards allow, a majority of them will likely continue their online shopping habits. As business consulting firm McKinsey & Co. noted in a December 2021 report on U.S. consumer sentiment and behaviors during the pandemic, “Omnichannel shopping is ascendant,” with most consumers researching and purchasing both in-store and online across categories.

“Not surprisingly, social media influence is heaviest among younger consumers but influences all age groups, most commonly in categories including jewelry, accessories, fitness/sports, and cosmetics,” the report said.

One question retailers need to consider when upgrading their strategy is, what are the gaps in the current e-commerce and omnichannel strategy? For example, do order, pricing, and payment systems function seamlessly across all channels? Does the inventory platform integrate data from distribution centers and local stores for full visibility? Is the company compliant with data privacy regulations in existing and planned markets?

Another important consideration is how the company can create a consistent, seamless customer experience across all channels. Every interaction with customers, whether it's via the website, in-store, mobile app, delivery services, curbside pickup, in-store pickup, or third-party location pickup, should reflect well on the brand experience.



Frictionless E-Commerce continued



2. Revamp tax strategies to scale for growth.

Retailers need to prepare for an increasingly complex tax landscape and additional requirements around remittance and reporting.

Tax and finance executives should be collaborating with IT to implement the right tax technology that will enable the company to meet customers' needs while also remaining operationally efficient and compliant with the latest tax rules.

An important question for retailers as they revamp their tax strategy is how will physical and online growth affect tax obligations? How will they be able to deal with growing complexities such as exclusions and exemptions?

New jurisdictions will require remitting and reporting, regardless of a retailer's operational base. International retailers will need to add VAT components to the mix.



3. Increase operational efficiency with technology.

The operational strategies that worked well in the past are no longer adequate for retailers in the new age of e-commerce and omnichannel. They need to transform operations so they can deliver results in a highly-dynamic business environment.

Part of this new approach includes shifting investments from physical store openings and refurbishments to technology tools and supply chain improvements that will help them thrive in the new environment by removing operational bottlenecks and resource constraints.

These investments, which help eliminate friction and streamline processes through automation, can lead to cost savings, enhanced customer experience, and increased business. New cloud-based tools can help deliver the real-time visibility into product inventory, staffing, sales, and other areas that retailers need to succeed. Technology solutions also enable retailers to quickly adapt to market trends—including disruptions and opportunities.

Conclusion – Embracing the Opportunities

Change is a fact of life with tax laws and regulations; they will constantly be updated as government requirements shift. However, retailers don't have to let tax create friction in their e-commerce business. With the right automation solutions and processes, finance and tax leaders can help their organizations thrive in the growing digital marketplace.

Before forging ahead with automation solutions and preparing their tax teams to handle the influx of e-commerce business without experiencing any downtime, companies need to understand their baseline current processes, and where the biggest pain points are. Then, they can use that knowledge to focus accordingly on which solution is right for their organization.

This requires a comprehensive self-assessment of current operations, and for a global retailer, that's no easy task. It's well worth the effort, however, because by doing this companies can find out specifically where automated process improvements could yield the most benefit, while streamlining and optimizing workflow.

These are the areas where automation can help provide fast returns and reduce friction. Prioritization is important because retailers can't expect to automate everything at once. Like any broad digital transformation effort, the process must take place in planned phases, with a concrete end goal of automating all processes at some point in the future.



Conclusion – Embracing the Opportunities continued

It's also important to remember that deploying automation and creating frictionless e-commerce requires cohesive collaboration with various stakeholders. Regardless of whether the initiative is driven by the CIO and IT team, the CFO and finance team, the tax department, or some other area of the organization, there should be close coordination among all the interested parties.

For example, how can IT know which solutions to implement without input from the tax team about where improvements are needed? Or how can the finance team know if the automation effort is working as planned without input from the e-commerce team about the customer experience? Implementing an automated tax solution in conjunction with a new or existing ERP platform is a company-wide undertaking that requires the elimination of silos to ensure full operational alignment.

Retailers today are facing unprecedented challenges, whether it's changing tax rules, emerging legislation, new sources of competition, increased customer demands, or other hurdles. But they are also being presented with opportunities for business growth, which can be optimized through e-commerce and omnichannel approaches.

The rapid shift to e-commerce brought on by the pandemic forced many retailers to rethink their business models, and this has been made even more complex by the numerous changes on the tax front. But by planning out a new strategy and deploying the right tools, retailers can thrive in this evolving marketplace.

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“For companies in the beginning stages of digital transformation, it's key to ensure that the tax department is looped in upfront to clearly communicate their requirements and data needs. Failure to involve tax professionals early on in transformation projects can result in costly and time-consuming downstream fixes, which ultimately delays implementation.”

– Timothy Kirkpatrick,
Principal at PwC



About Vertex

Vertex Inc., is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,300 professionals and serves companies across the globe.

To learn more about how to achieve frictionless e-commerce, visit: <https://www.vertexinc.com/solutions/ecommerce-tax-software>.



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