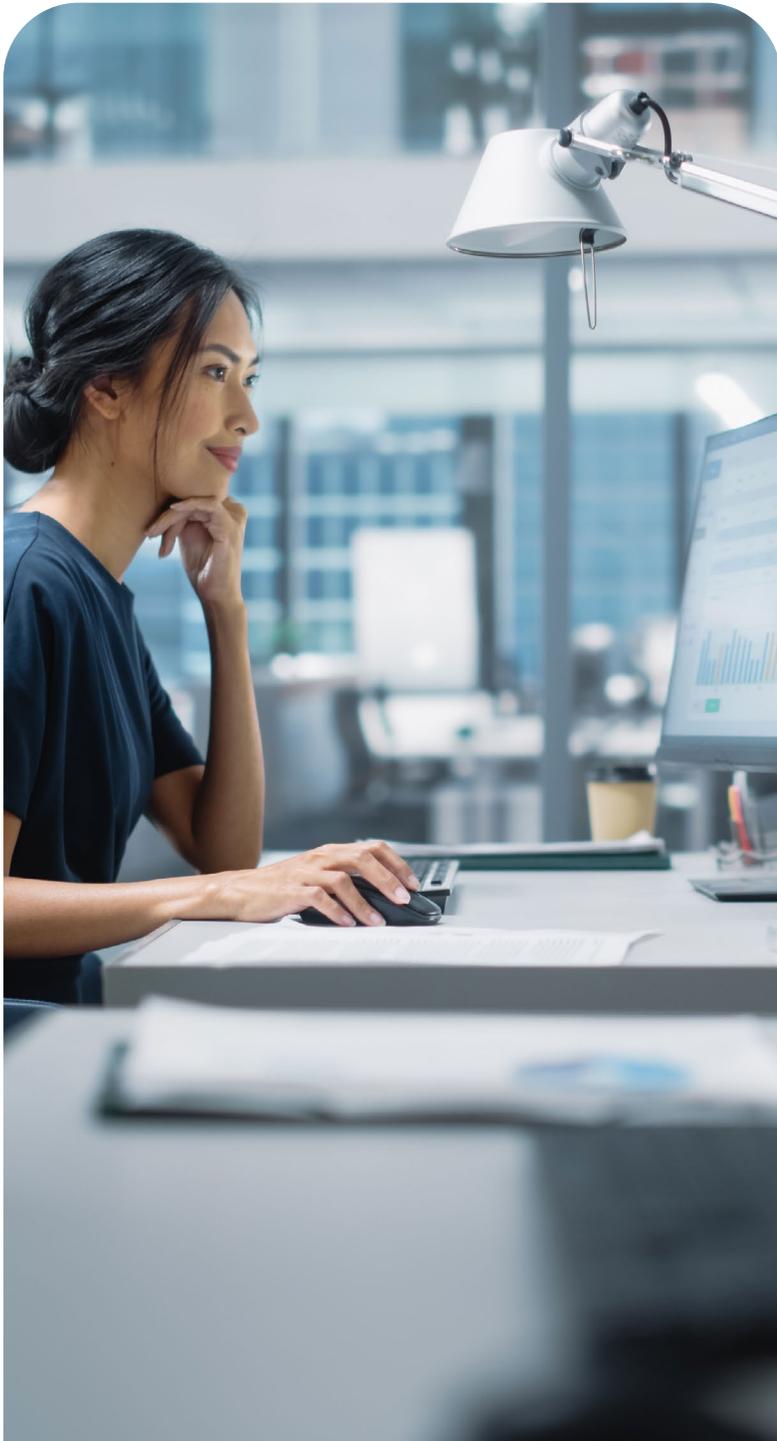




How the Role of the Tax Professional Changes with the Addition of an Online Marketplace

Including 5 Major Challenges and How to Solve Them



It's no secret that online marketplaces are booming. Retail giants like Walmart, Target, Macy's, Bed Bath & Beyond, and more all have their own online marketplace—for good reason. They are the largest and fastest-growing retail channel globally, and according to an Ascential report, by 2027 they will drive 59% of global ecommerce sales. With opportunity like this more and more mid-market companies are also jumping onboard to accelerate their own online growth.

But what does this mean for you, the tax professional, who works every day to ensure tax is calculated correctly for your organization's products? How does the addition of an online marketplace—with hundreds, thousands, or even millions of new items—affect you and your role? **This eBook will explore everything you need to know including:**

- What **online marketplaces** are and why they are so popular
- What your new **tax responsibilities** will be and five challenges you will likely face
- What you can do now to prepare and ensure your team's **long-term success**

What is an online marketplace?

Online marketplaces are an ecommerce website where the merchant who owns the website allows other merchants to sell their products on it as well. Most people think of online marketplaces as sites like Amazon, Etsy, eBay, and China's Alibaba. However, any retailer could potentially allow third party sellers access to sell on their ecommerce website to expand their product offering.

Online marketplaces are popular for three primary reasons:

1. Retailers have the ability to expand their inventory vastly and substantially without impacting their supply chain.

Let's say a big box retailer wants to sell an interactive dog ball from a small pet store. They give the pet store the ability to list the interactive dog ball on their site and handle the purchase completely. The big box retailer charges the pet store a portion of the sale—in exchange for giving the pet store access to their customers. As a result, the big box retailer can offer a much wider range of products beyond what they could reasonably keep in inventory, reduce their supply chain costs, and significantly reduce the occurrence of products being out of stock. In this example, the big box retailer can offer every color and variety of the pet store's interactive dog ball, including older versions or different sizes for different kinds of pets, without having to purchase and stock them in a warehouse with limited space.

2. Customers have a wider selection of products to choose from, enhancing their shopping experience.

Now instead of buying interactive dog balls directly from the pet store's website, the big box retailer's customers can purchase the exact interactive dog ball they are seeking as well as dog treats, bedding, shampoo, and other products from multiple third-party sellers all in one place. This streamlines their shopping experience because they can go to the big box retailer's website for a one-stop-shop for all their pet's needs and not waste time searching for items on many different sites.

3. Sellers are able to leverage the big name and selling power of a larger retail entity.

While it's true that the pet store sells many products on their website and through their own marketing efforts, their ecommerce site does not get the traffic that the big box retailer does. A third-party seller can use an online marketplace, or more typically, many different online marketplaces, to reach literally millions of new customers they otherwise wouldn't be able to—a game changer for their business.

How Marketplaces Affect You—the Tax Professional

Now that you know what a marketplace is and why your organization would want to implement one into their business model, let's talk about what that means to you as a tax professional. There are multiple challenges to keep in mind that will affect how and why you do your work.

Challenge #1: You have a much larger product inventory to manage

Like any tax department, you have to know your products and you have to know what taxes they are subjected to. With the addition of a marketplace, you are now responsible for knowing not just your products, but every product that is sold on the marketplace—which could be hundreds, thousands, or even millions of new items. Therefore, you will need to work with your organization's team (including IT) responsible for running your marketplace to make sure the sellers submit enough information about every product to make the best decisions about taxability. Together you will manage the sellers' products to make sure that each item has a detailed description, an appropriate image, ingredients, and any other data that might impact taxability so you can make the best determination possible.

Matt Thoman, Product Manager Principal – Retail Solutions Owner at Vertex explains, “the devil is in the details. There are certain places where, if your candy bar has peanuts in it, it counts as a nutrition bar. In other jurisdictions if it has peanut butter and wafers, it counts as a baked good. In both cases the candy bars are taxed differently based on those differences. Having that product detail information when you send it over to the marketplace is essential to getting correct taxation.”

Challenge #2: You have a whole new type of client that you will need to communicate with

Sellers can work with as many or as few marketplaces as they want, which is why it's important to recognize that your tax department plays an important role in creating a positive experience for them. By selling on your marketplace, they are required to report certain data to jurisdictions for their sales which vary from jurisdiction to jurisdiction in both the way they are reported and what data is required. In a marketplace this data must be properly merged with the seller information so reports can be built and sent to the sellers on a recurring basis. Sellers' ability to keep themselves compliant depends on you sending this information to them in a timely fashion every month and not getting it puts them at risk.



Challenge #3: You won't always know who pays what tax

In general, marketplace facilitator laws require the marketplace to collect and remit sales tax on sales facilitated on behalf of sellers. But most marketplace facilitator laws only govern state sales tax. In the United States, this is a small percentage of the transaction taxes and fees that may be charged. That's where things get complicated because many of the county and local taxes are not defined from a liability perspective. Additionally, special product taxes (think environmental taxes, prepared food taxes, alcohol taxes and many others) may be left open for interpretation.

As an example, some counties in California have eWaste fees for televisions. That fee/tax may be paid by your third-party seller while the sales tax is paid by you, the marketplace. Many times, a product will have multiple line items depending on the rules of the jurisdictions where the product is being sold. As a result of these nuances, you now have a mix of liability to pay taxes on the same sale.

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There are a few options for how to treat these issues:

Option #1: Collect all taxes on the sale of goods and pay all the taxes on behalf of your sellers. This option is the simplest from a process standpoint, however it means you'll be assuming unnecessary tax liability. In some small local jurisdictions, it may also require direct negotiation to ensure the township doesn't attempt to collect from your sellers on taxes you've already paid.

Option #2: Collect only taxes you are required to pay. This option is also simple, and technically it is compliant with regulations. However, it leaves your sellers twisting in the wind. They now must calculate and pay their required taxes out of pocket this cuts into their profits and frequently causes them to consider raising prices to compensate. This can be a poor customer experience for your sellers.

Option #3: Collect all taxes and provide each seller with the list of taxes they are required to pay. This option is more complex and requires both the tax department to make liability decisions and the IT systems to be programmed to deliver data to sellers based on those decisions. The upside, however, is this is the most compliant option, and it offers a high-quality customer experience without assuming any unnecessary liability.

“County, township, or any type of district... a lot of jurisdictions have written special taxes with no consideration for marketplaces and no language that might indicate how to interpret the question of liability.”

***Matt Thoman, Product Manager
Principal – Retail Solutions
Owner at Vertex***

Challenge #4: You will have to adhere to each state’s strict requirements

Marketplaces and state laws are in a power struggle...with tax professionals like you caught in the middle. Multiple states have implemented new rules that require you to keep an accurate account of your records and respond quickly. For example, Arkansas only gives marketplaces three days to verify that third-party seller information is correct, and three days to verify any updates to that information, before being deemed non-compliant. In Pennsylvania, the PA Department of Revenue decided to collect back taxes on third-party sellers that had inventory stored in Amazon warehouses in the state.

“County, township, or any type of district...a lot of jurisdictions have written special taxes with no consideration for marketplaces and no language that might indicate how to interpret the question of liability. Some telecom taxes, for instance, are written so that the provider of the digital service is responsible for the tax—it doesn’t matter who takes the payment. So, in a marketplace transaction like this, it could be interpreted as having liability belonging to the seller. The decision is written into the language of the law, but many tax rules are just totally vague,” says Thoman.



Challenge #5: You will have to report two invoices for international sales

When it comes to marketplaces in a VAT environment, the complexity lies with reporting. You will be required to provide an invoice for the sale of a product from the seller to the marketplace in addition to an invoice for the sale of the product from the marketplace to the customer. You will want to make sure that you can handle reporting the sales properly for every single country in which your products are sold.

“The complexity of VAT manifests itself very, very differently than sales tax when it comes to a marketplace. The rate itself is much easier to calculate but understanding where your sellers are located and where they are registered now factors into the conversation about liability and in what reporting is required to the governing body”, says Thoman.

What you can do to prepare for an online marketplace

As you can see, marketplaces are ever-changing and evolving, making them a challenge for tax professionals to manage. There are, however, a few things you can do to set you and your team up for success.

Thoman emphasizes, “We have had major Fortune 100 clients that have turned on marketplaces and then turned them back off because they weren’t ready from a compliance standpoint.”

Matt Thoman, Product Manager Principal – Retail Solutions Owner at Vertex

Consult with others who have experience with marketplaces

You can avoid unwanted surprises and take advantage of lessons learned by speaking to others who have opened marketplaces in the same regions. Consider finding expertise from a combination of different places, such as hiring new employees who have been involved with marketplaces before or bringing in external consultants who specialize in this area. Doing this will allow you to get the information you need so that you can be proactive and not reactive to the process.

Have a “seat at the table” when your organization makes decisions

When it comes to standing up a marketplace, tax and finance departments are often not at the table —a massive mistake. The earlier in the process tax gets pulled in, the more successful an organization will be. You will want to always advocate for a “seat at the table” by showing how the organization can benefit from your expertise.

Thoman emphasizes, “We have had major Fortune 100 clients that have turned on marketplaces and then turned them back off because they weren’t ready from a compliance standpoint to figure out and answer critical questions. A problem that could have been avoided if the tax department was involved from the beginning.”

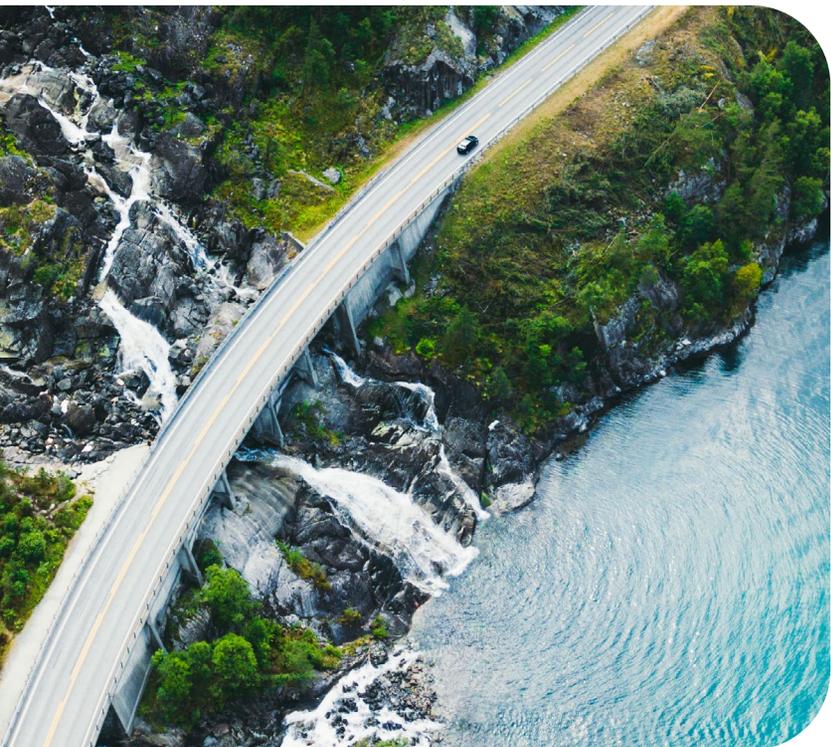
Define a process that meets your—and your sellers—needs

Sellers evaluate multiple factors (margins, fees, etc.) when determining whether or not to sell on your marketplace. If your onboarding process is too much of a hassle they may go elsewhere, affecting your marketplace's reputation and ability to sell a good mix of products. Therefore, you will want to establish a well-defined process for interactions with your sellers. Your onboarding program should include providing sellers with quality transaction data on a recurring basis so they can stay compliant. Even if you are paying taxes, the sellers are still required to report those taxes as paid in many jurisdictions.

“We’ve seen in recent years how Etsy has had trouble with sellers leaving their platform because of fees and things like that. Little things are becoming amplified now because the competition is really beefing up. Retailers need to be thinking about not only the customer experience, but also the sellers’ experience,” elaborates Thoman.

Leverage a tax technology solution

Once your organization has made the decision to build a marketplace, consider leveraging a tax technology solution as part of your implementation. It will take a lot of pressure off your internal and consulting teams. Through automation, you will be equipped with the tools needed to incorporate accurate, up-to-date rates and rules for each transaction, determine who is responsible for paying, and automate your reporting output with no manual effort on your end. Tax technology automation can help you and your team to focus on value-add initiatives and spend less time on maintenance and just keeping the lights on.



For more information, contact Vertex today at vertexinc.com.

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.

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