VERTEX®

How Retailers Can Overcome 7 Common Tax Compliance Challenges

Dynamics 365

Whatever a retailer's size, product offerings, or channel, managing sales and use tax compliance has never been easy. Thousands of U.S. tax jurisdictions, coupled with constantly changing sales tax regulations, already made things difficult, and that was before requirements such as omnichannel, marketplace facilitators and the South Dakota v. Wayfair Supreme Court decision added to the complexity.

Managing all that with in-house resources, or by using multiple sales tax products across channels and divisions, is proving untenable even for the most sophisticated retail tax operations. That's why a growing number of retailers are turning to sales and use tax calculation engines that are seamlessly integrated with retail management software solutions.

An integrated approach enables these retailers to improve accuracy and compliance while significantly streamlining tax management tasks, such as accessing signature-ready returns and audit-ready exemption management. And it helps ensure a seamless customer experience across channels for both purchases and returns.

To help retailers achieve this streamlined approach, Vertex, a Microsoft ISV Connect Partner, created the sales tax extension for Microsoft Dynamics 365 Commerce (renamed from Dynamics 365 Retail) to work alongside Microsoft 365 Finance and Operations . Retailers not only gain expertly managed sales and use tax compliance software, but also benefit from a standardized, professionally maintained integration into their retail management software. Consumers enjoy accurate tax calculation across the business, while IT is free from the burdens of writing, updating and retesting a one-off integration.

Retailers have long been responsible for managing sales and use tax compliance, which was already complex. But today's marketplace brings many more challenges. Here's a look at what's happening now — and how using a tax solution that's pre-integrated into their retail management software delivers multiple benefits for retailers.

The Pace of Tax Change

FACT:

In Wisconsin, mixing ice cream and one or more other food items to form a cake or bar makes the item taxable as a prepared food.

Source: Sales Tax Institute

The United States has 11,000+ taxing jurisdictions, which include anything from an economic development zone to a transit, library or police jurisdiction. Each is constantly tweaking its regulations and documentation requirements, in ways that include changing rates, as well as what's taxable and what's not, and setting up sales tax holidays.

In the midst of a transaction, retailers must be able to quickly verify which of these tax rules and rates apply to the product and location, and correctly calculate the state + country + district tax. These rules require careful interpretation to apply correctly.

For example, at the same time retailers were dealing with COVID-19-related layoffs and furloughs, states were making changes to support their economies that had to be quickly implemented in tax calculation — such as Puerto Rico providing a one month sales tax holiday for masks, hand sanitizer and other necessities.

The Pace of Tax Change

Retail IT departments expend considerable resources to stay up to date with these changing tax rules and rates, ensure consistent tax treatment across multiple financial systems and maintain visibility into tax processes, tax staff productivity and efficiency. The manual or partially automated processes they may use are time-consuming and error-prone, diverting retailers' tax experts from more value-added activities. Errors, in turn, increase the risk of audit penalties. It's difficult to prove the accuracy of a calculation later on if it was prepared without creating an audit trail through the granular detail.

The Integrated Solution

With an integrated solution, retailers access an expertly maintained tax database, including timely emergency changes, to ensure accuracy and compliance.

Vertex's advanced tax extension for Dynamics 365 for Commerce overrides the application's native tax calculation functionality, enabling users to leverage the industry's most robust tax content and infrastructure. Vertex combines industry leading, unmatched tax research and technology with a knowledgeable team of implementation support consultants, to give retail tax departments the tools they need to improve accuracy and consistency every day.

That frees tax staff from the errors and delays of updating spreadsheet-based solutions, or keeping multiple automated tax solutions in sync. Because the solution is integrated, any change made to the tax data is instantly available across channels. Tax data is automatically posted to Vertex, so tax professionals can log in to see tax details at any time.

Unifying Commerce
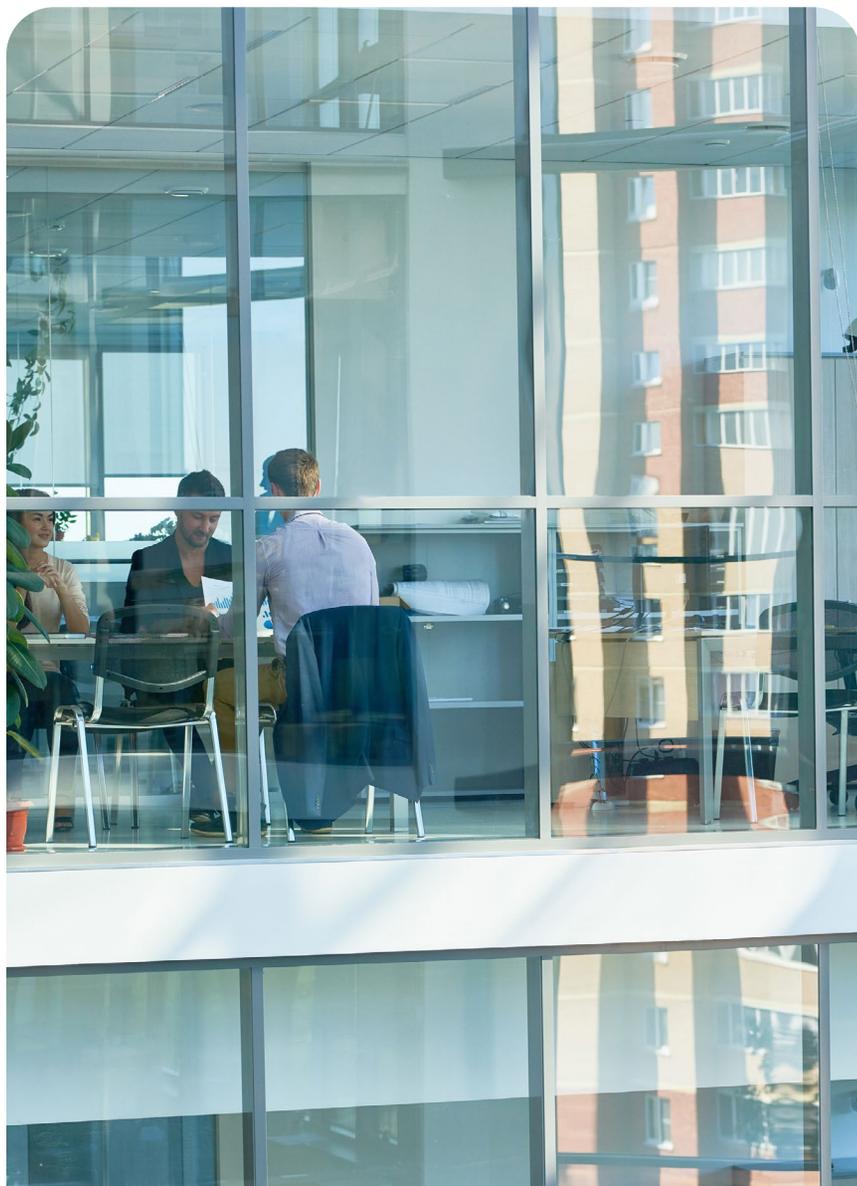
The only constant in retail is change. Mergers, acquisitions, store openings and closures, new channels: It's a lot to keep up with. In many retail organizations, the result of all this activity is a complicated mix of POS systems, commerce platforms and tax solutions across channels and divisions.

All of these factors complicate sales and use tax compliance. Every time there is a change, multiple systems must be brought up to date. And varying interpretations among different tax solutions mean the tax charged may be different for the same item, shipping to the same location, if the customer purchases it in a channel that uses different tax software. That inaccuracy sows confusion for consumers and complicates reporting.

The Integrated Solution

When a tax compliance solution is directly integrated into a retail software management platform, retailers gain access to a single, centralized source of accurate tax calculation. Retail IT and tax departments no longer have to update and maintain retail-specific taxability rules and rates for refunds, delivery charges, rental charges, restocking fees, non-merchandise fees, warranty sales, component/ packaged issues, delivery method taxability, multiple ship-to locations, drop shipments and service charges in multiple places.

That ensures consistency across channels and divisions — POS, store kiosks, e-Commerce sales, catalog sales, call-center sales, mobile device transactions and mobile — ensuring a frictionless customer experience. And sales tax reporting is automated, streamlined and accurate.

Wayfair & Marketplace Facilitators

FACT:

As of January 1, 2020, 46 states and the District of Columbia have marketplace facilitator collection provisions.

Source: National Conference of State Legislatures

The vast majority of states have passed economic nexus laws in the wake of the 2018 Supreme Court ruling, South Dakota vs. Wayfair, which granted the states the authority to impose sales tax on out-of-state transactions if certain economic nexus thresholds are met.

A similar set of laws are emerging around marketplace facilitators — online marketplaces such as Amazon, Etsy or Walmart that market and sell goods on a retailer's behalf. These laws address the obligation to collect and remit sales tax from either the retailer or the marketplace facilitator that makes that sale possible.

Wayfair & Marketplace Facilitators

Like other sales and use tax laws, marketplace facilitator laws vary widely by jurisdiction. For example, a seller in Pennsylvania may be obligated to collect state sales tax when selling to a buyer in California on Amazon, but may not need to collect local Los Angeles sales tax. Right now, marketplaces vary widely in how much they assist sellers in sales tax collection, remittance and reporting; some handle these items for retailers, while others take a hands-off approach.

Both Wayfair and Marketplace Facilitator laws may obligate retail tax departments to greatly expand their activity and expertise beyond their traditional areas of nexus. It's tremendously challenging to suddenly ramp up from, say, three states to 39 states when it comes to managing sales tax calculation and reporting.

The Integrated Solution

Vertex sales tax compliance experts stay on top of every development in Wayfair and marketplace facilitator tax law changes and alter tax calculation engines accordingly, helping retailers stay compliant without requiring that vigilance and expertise. The automated calculation and reporting that comes with adoption of the Vertex sales tax extension for Microsoft Dynamics 365 Commerce enables retailers to quickly ramp up their ability to comply with these new regulations without expanding internal resources.

Processing Returns Sales Tax

FACT:

For 2021 overall, the return rate was about 16.6% of total U.S. retail sales, or $761 billion in returned goods

Source: CNBC

Capabilities such as buy online, return in-store are essential in the omnichannel era. But they create complexities for tax departments, particularly if a customer returns the item in a different tax jurisdiction. Tax rules and rates must follow the rules of the original purchase, but it's easy to get it wrong.

For example, a shirt purchased in Ohio would include sales tax at the appropriate local rate. But say the customer returns the shirt to a Pennsylvania store, where apparel is not taxable. Often that transaction gets included in the retailer's Pennsylvania sales tax filing to obtain a refund, when in reality it should be filed in Ohio. The presence of a tax refund filing for apparel on the Pennsylvania return is a red flag. An auditor may likely assume this is not a one-off error but a retail business practice across its entire order volume, and penalize accordingly. Returns compliance reporting is a complex, largely manual process at many retailers that is growing even more burdensome in the wake of Wayfair.

The Integrated Solution

An integrated solution collects and stores granular-level details about transactions, then rolls up and summarizes the terabytes of data this can entail. This not only reduces errors, but also does some of the heavy lifting when preparing returns for every jurisdiction where the retailer is obligated to file. This has a huge impact on increasing tax filing productivity while reducing audit risk. Should an audit occur, detailed tax data is available at the tax department's fingertips.

RETAIL CHALLENGE #5

Managing Exemptions

Managing sales tax exemption certificates for customers such as non-profit charities, diplomats or resellers is fairly straightforward in online channels, where such customers can register and process future transactions without sales tax. But brick-and-mortar exemption practices tend to be much more manual and paper-driven, typically requiring customers to present certificates at the POS to be manager approved, photocopied and kept in each store's backroom. Often internal reporting on exemption certificate use does not include specific transaction detail such as certificate numbers.

Similar issues emerge around government-imposed fees on certain products, such as tires or electronics. For example, California's eWaste fee must be implemented whenever a consumer purchases a covered electronic device. Fees can vary depending on location, product and the status of the purchaser. Retailers must also maintain documentation around fees, including exemptions. A manual approach to these processes not only adds friction to the customer experience, but makes audit reporting complex and error-prone.

The Integrated Solution

An integrated solution enables retailers to not only digitize and automate the collection, updating, and storage of tax exemption certificates, but also integrate that exemption data into the tax calculation process. Retailers can easily bulk-upload exemption certificates or upload them one at a time, set effective and expiration dates, store the certificates and manage customer exemptions.
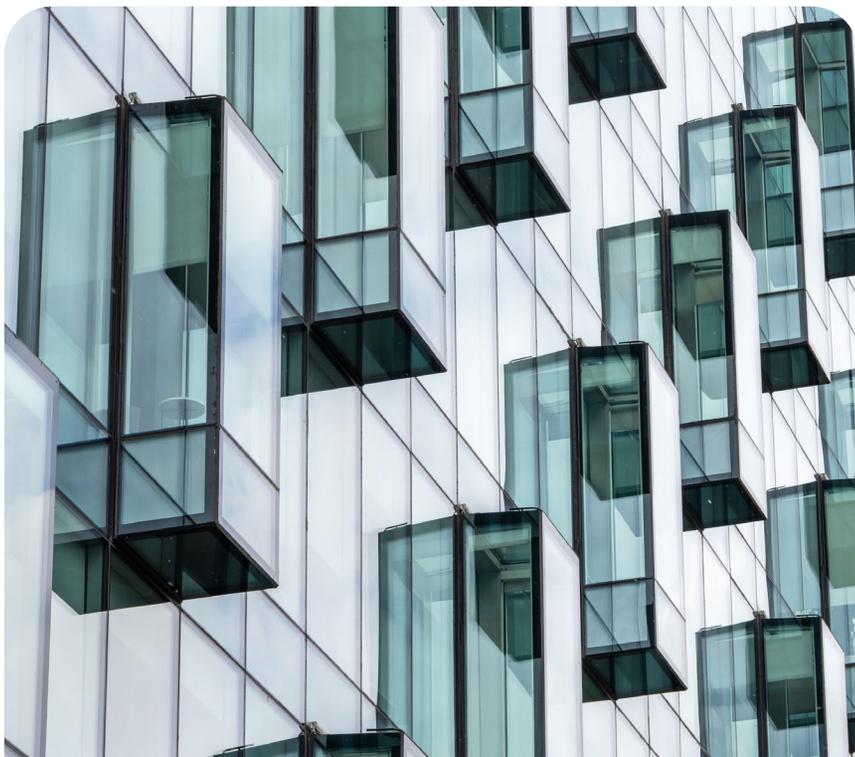
Sales Tax IT Support

FACT:

As of January 1, 2020, 45 states and the District of Columbia require remote sales tax collection.

Source: National Conference of State Legislatures

Manual or partially automated sales and use tax maintenance processes often require considerable use of IT resources to continually update financial systems. As the retail business grows, IT must also ensure tax solutions are integrated with additional financial systems from several different vendors.

Many retailers are in the midst of a digital transformation, moving infrastructure into the cloud. With each step of this transition, IT is often tasked with making changes to integrations, including those involving tax calculation.

Some retailers choose to take on integrating a tax solution like Vertex into their retail commerce platforms on their own. This custom approach requires considerable resources as well as in-depth knowledge of the commerce software, tax requirements and Vertex requirements, and takes about six months to complete. Then, every time one of these applications changes, the connector must be reverified and retested to prevent it from breaking. Obtaining support for problems that emerge requires coordination between the two vendors.

Sales Tax IT Support

The Integrated Solution

An integrated solution removes many of these burdens from retail IT departments. Because Vertex is managing all tax updates, retail IT is no longer tasked with facilitating them. Instead, retailers can access a single, expert source of sales and use tax calculation and reporting across all sales channels.

With a standard integration, IT is also freed from maintaining a custom integration between tax and commerce solutions. Vertex and Microsoft handle all upgrades, testing, future proofing and support.

Microsoft Dynamics 365 Commerce with the Vertex sales tax extension is built on a scalable, web-based, service-oriented architecture to provide the flexibility to reside on premise or in the cloud, accommodating retailers no matter where they are in their digital transformation.

Retailers enjoy lower operating costs and fast time-to-value with cloud integration, and being cloud-based means the solution can be installed and configured quickly. Using intuitive online tools, retailers can configure the system to meet current market needs, and easily build on that system as they make changes to their businesses.

Seamless Customer Experience
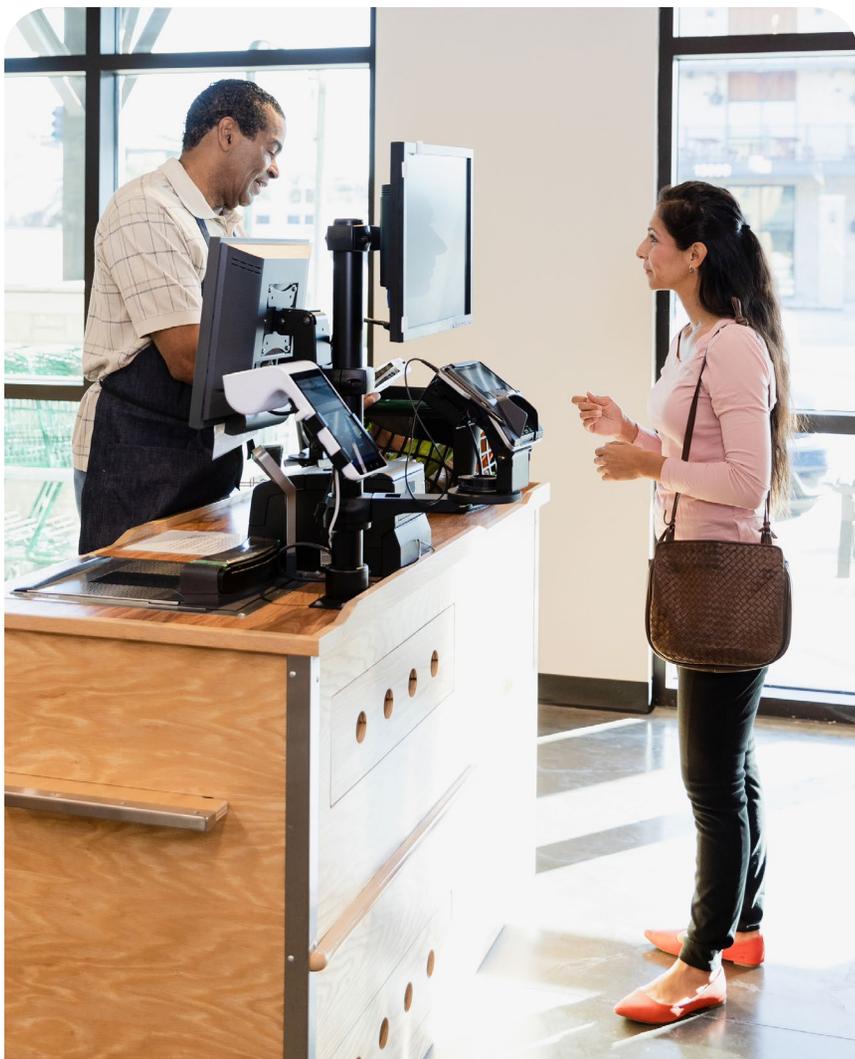
Consumers gravitate toward frictionless, error-free transactions. But tax compliance can make that difficult, especially when different tax solutions are used in different channels. Customers expect a fast, accurate and consistent sales tax calculation, and if they're using a sales tax or fee exemption certificate, they want that fast and easy, too. But current processes often introduce unwanted delays and confusion.

Those expectations don't go away even if the store network goes down. But for many retailers, an outage stops transactions and tax calculation in their tracks.

The Integrated Solution

An integrated solution enables consistent, accurate tax processes no matter where and how customers make a purchase. Whether they're making a standard purchase, taking advantage of an exemption or making a return, consumers can feel comfortable that it's all being handled correctly. In fact, the Vertex sales tax extension for Microsoft Dynamics 365 Commerce makes sales calculation so quick and invisible, most consumers won't even realize it's happening at all. That's the sort of fast, seamless customer experience retailers want to deliver.

The Vertex sales tax extension for Microsoft Dynamics 365 Commerce can also be configured to download up-to-date local sales tax tables to POS terminals at each retail location, so they can continue to calculate the correct tax and maintain accurate reporting even if network connectivity is lost.

Patagonia Streamlines Tax Compliance with Microsoft and Vertex

The multiple systems that Patagonia was using across its sales channels made managing tax compliance a real challenge. That caused headaches for the tax and IT departments as well as Patagonia's customers: If a customer returned an online purchase in-store, sales associates had no way to find that order and refund the correct tax.

To unify those disparate systems, Patagonia implemented a complete on-demand platform including Microsoft Dynamics 365 Finance and Operations, alongside Salesforce e-Commerce, Microsoft order management and Microsoft Dynamics 365 Commerce integrated with Vertex. This established a single tax compliance system across Patagonia's wholesale, retail and e-Commerce channels, eliminated costs and increased efficiencies in internal tax maintenance processes.

"There are many positive impacts of Patagonia's implementation of Vertex, including significant time and cost savings on IT and standardized updates and processes for our entire business," said Shelley Chase, Senior Director of Tax, Patagonia. "The biggest benefit is providing a seamless omnichannel experience for our customers, where they can buy in one channel and return in another. This was impossible before utilizing one tax solution from Vertex."

Streamlining Tax Compliance with an Integrated Solution

Managing tax compliance in a multi-channel environment presents multiple challenges. Retailers face increasingly complex jurisdictional tax laws, accommodation of special tax rates and rules, and unique compliance requirements. Couple this with growth and expansion, mergers and acquisitions, technology upgrades and increasing consumer demands, and retail tax management becomes a daunting task.

The Vertex sales tax extension for Microsoft Dynamics 365 Commerce enables retailers to:

- Greatly reduce the time and effort to perform sales and use tax calculations;
- Gain greater accuracy of returns and compliance data;
- Expedite user adoption with anytime, anywhere accessibility;
- Improve scalability to meet changing sales and use tax requirements;
- Lower operating costs; and
- Achieve fast time-to-value with cloud integration through Microsoft.

When tax calculation issues are seamlessly and expertly addressed, customers, tax and IT professionals all benefit.

Get the Vertex tax integration to Microsoft D365
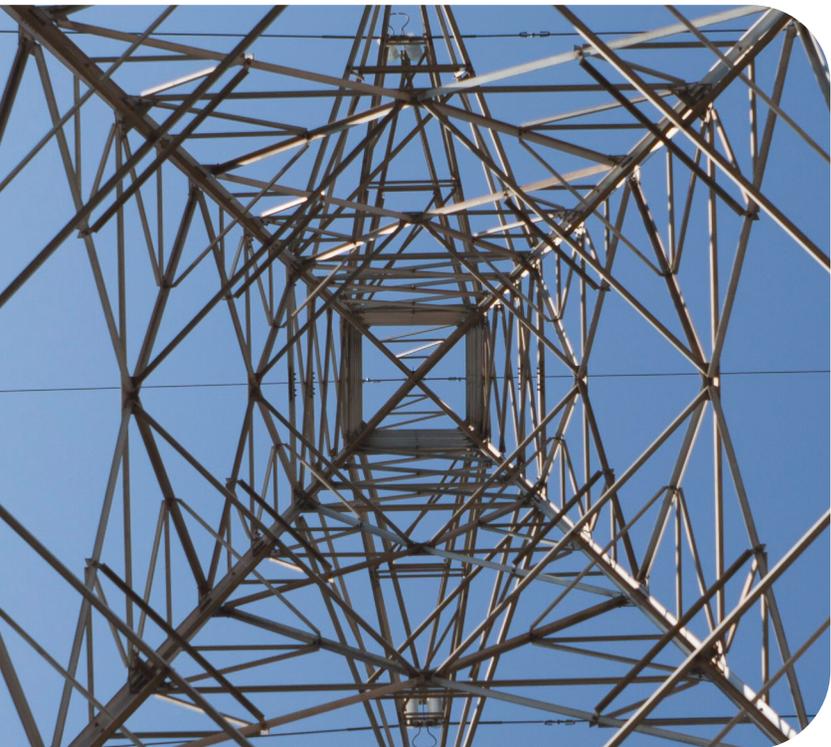
About Vertex

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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