



# Tackling Tax Friction Caused by Consumer, Legislative, and Corporate Changes

Featuring real-world insight from Albertson's Grocery Store





Tax departments at retail organizations work hard to keep their companies compliant while allowing their checkout lines to keep moving and the business to flow smoothly. However, there are three big sources of friction that hinder their efforts.

- 1. Changing Consumer Expectations/Behaviors:** New generations of consumers are more comfortable with technology and frequently demand a more modern way of shopping and interacting with their preferred brands.
- 2. Constantly Changing and Nuanced Legislation:** State, city, and local governments are constantly adding new tax laws and altering jurisdictional boundaries to grow their revenue and regulate business – for example, environmental fees, marketplace rules, and changes to nexus thresholds.
- 3. Corporate Strategic Initiatives:** Corporate growth, whether into new regions, lines of business, or product offerings can drive new revenue, but they also can disrupt existing business processes and create new compliance activity.

In this environment, retailers need to build robust systems and business models that are agile and quickly adapt to these changes, especially when it comes to financial and tax processes.

This eBook dives deeper into these sources of friction, what they mean for your business, and the best practices to overcome them. Read more from our experts Frank Vasi, Tax Manager of Albertsons Inc., Matt Thoman, Retail Solution Owner at Vertex, and Tatyana Martinez, Principal Lead Retail Consultant at Vertex.

## Source of Friction #1: Changing Consumer Expectations/Behaviors

Today's consumers want to get back into the store, however, their expectations of interacting with a brand are completely changing. They're expecting to be able to have an endless aisle of goods. If a product's color, flavor, style, or size isn't available in-store, they expect the retailer to be able to order it, and for it show up on their doorstep in two days – just like they would online. If there is a mobile app that customers are used to interacting with, it's now common that they're going to be in-store looking at the products on the shelf while they're on the mobile app at the same time. Even simple interactions, such as buying online and picking up in the store, or buying online and returning the product in the store, are now baseline expectations, rather than nice-to-have features.

No matter what sales channel your customers purchase from, not having the right tax solution, or having a tax solution that is incomplete or not implemented across all business channels can create friction during the checkout experience. Frank Vasi, Tax Manager of Albertsons Inc. weighs in, "The challenge is that we want to make sure customers get the same tax answer when they check out online as when they check out at the store. Oftentimes, because the POS is a legacy system, it doesn't have the ability to tax the service fee and tax freight correctly or make the tax calculation call. However, the checkout platform on eCommerce can make those complex calculations." As a result, many retailers now must spend resources upgrading their POS system to support tax compliance and new retail features.

**"The challenge is that we want to make sure customers get the same tax answer when they check out online as when they check out at the store. Oftentimes, because the POS is a legacy system, it doesn't have the ability to tax the service fee and tax freight correctly or make the tax calculation call. However, the checkout platform on eCommerce can make those complex calculations."**

Frank Vasi  
Tax Manager of Albertsons Inc.

## Source of Friction #2: Constantly Changing and Nuanced Legislation

The second topic that causes friction for retailers is legislation. “County and local governments across the U.S. all have independent tax authority to generate their own revenue streams. The issue with this is they almost never communicate with each other so tax regulations can vary wildly from town to town. The same hand lotion might have different tax applied in a grocery store someplace versus at the drug store directly across the street”, said Matt Thoman, Retail Solution Owner at Vertex. Legislative changes always happen rapidly and there are thousands of taxing jurisdictions with 40,000+ tax laws that impact the retail industry, only a handful of which are the state tax rate. If you do the math, that’s a lot of taxes implemented at the county and local level, which are often very targeted at specific industries or products. It’s impossible for someone not plugged into the tax world to account for all the changes because these laws are a moving target. It’s increasingly impossible to account for everything without technology like a tax engine in place.

Vasi weighs in from Albertson’s perspective, “One of the legislative changes that has greatly impacted us was the Colorado Retail Delivery Fee. Colorado passed legislation that requires charging a 27-cent delivery fee for any eCommerce order, and it has to be displayed as “Retail Delivery Fee” during checkout. Well, that’s a new category that now impacts the checkout department. The eCommerce team needed to prioritize a project to add “Retail Delivery Fee” to the checkout screen during the ordering process. They had other priorities going on, but there was a hard date to get this done by, which meant reprioritizing corporate projects to balance this legislation change.”

**“County and local governments across the U.S. all have independent tax authority to generate their own revenue streams. The issue with this is they almost never communicate with each other so tax regulations can vary wildly from town to town. The same hand lotion might have different tax applied in a grocery store someplace versus at the drug store directly across the street”**

Matt Thoman  
Retail Solution Owner at Vertex

## Source of Friction #3: Corporate Strategic Initiatives

Every company has their own vision and strategies, whether it's the product offering, target customer base, or the geographic footprint of the company. Changes to any of these, whether organic or through mergers and acquisitions, can cause friction when meeting the consumer and legislative needs. One study saw that 68% of 730 financial decision makers consider frictionless commerce in their decision-making process, but implementing changes properly to minimize friction is a significant challenge. Fifty-one percent rely on native tools in their ERP (Enterprise Resource Planning) system to calculate and apply transaction taxes. However, North American retailers need to calculate tax during the checkout process, something the ERP doesn't help with. Forty-one percent still rely on manual processes and spreadsheets to calculate taxes in at least one system.

“Retail ecosystems typically contain separate pieces of software that perform checkout activities for the same products, depending on how the consumer chooses to interact with your brand. They all need the tax rates. If you're doing something like building out a tax table inside of a native solution, you now must build that 5-6 times instead of once. If you're in spreadsheets, you have to figure out how to get that spreadsheet data down to 5-6 systems with separate processes. That's to say nothing of how many rules there are that you might need to manage and the number of products you need to manage them through, as well”, said Thoman.

One of the big problems with increasing product offerings is the product description data. The quality of that data can significantly drive tax. “One of the most important things for a retailer and the tax department is to make an agreement on the tax category because we sell so many products, each product is in its own category. For example, juice percentage matters. If something is 80% juice, then it's non-taxable in the state of Washington but taxable in the state of Texas. If you work with categories to make a category for 100% juice, 80% juice, and 50% juice, then you can assign categories to product classes (inside the tax engine) – it would make everything much easier. Then, the other effort is that it's a lot of work to maintain those categories. How do you work with the categories to come into an agreement and balance? Category is important for any retailer to ensure the product is properly set up, and the data is being maintained and audited correctly”, said Vasi.

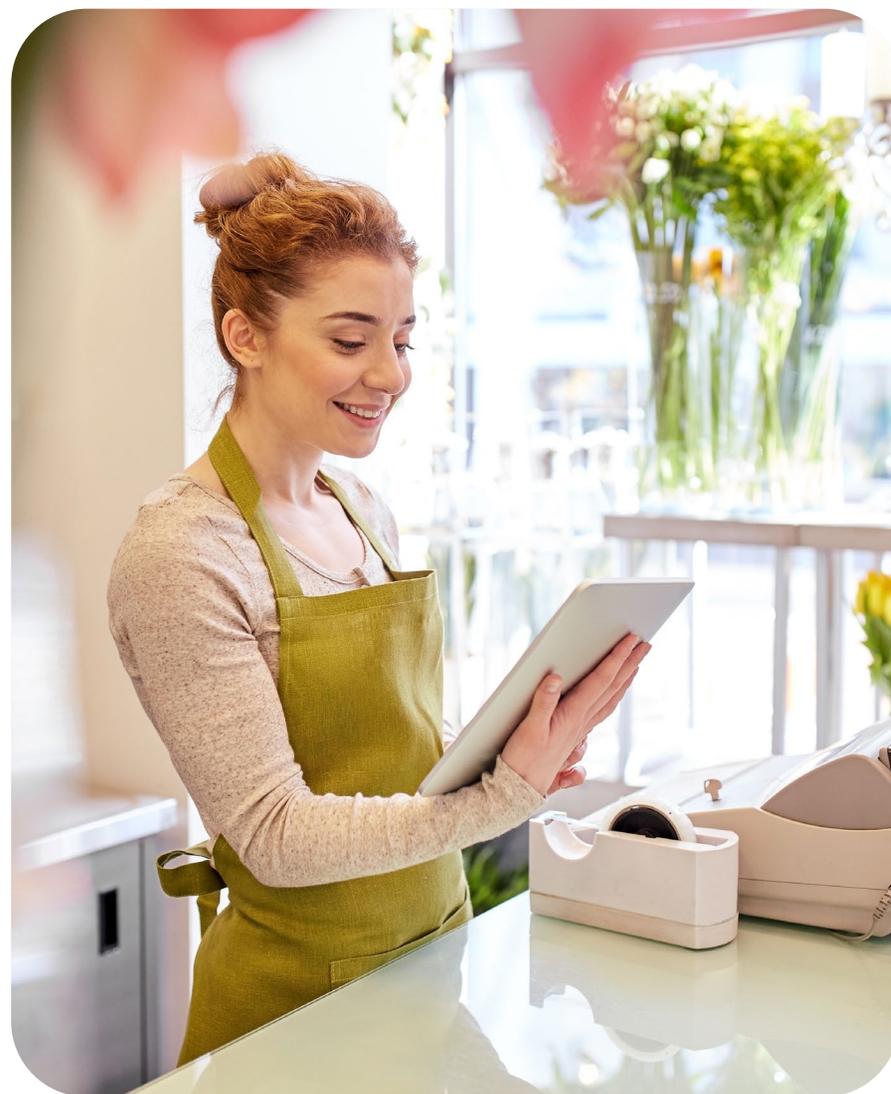
# Tackling Friction: Best Practices and Future Outlook

When removing the friction from tax, there are four important components and best practices to consider:

- 1. Multiple channels.** Customers are interacting with multiple channels, so be consistent in taxability across those channels. That doesn't necessarily mean that the tax outcome is identical because if you're shipping from one location to a different location, that changes the tax outcome. Ensuring consistent outcomes when calculating with consistent inputs is critical.
- 2. Capturing quality data, particularly about products.** Make sure your product data can inform your tax technology and link into the tax content to get the proper tax outcomes based on that quality data. This includes item descriptions, ingredients, and key product data that drives tax, such as the SPF (sun protection) of a lotion or the screen size of a television.
- 3. Enabling the tax department to make informed decisions.** Make sure the tax department is brought in early on when making strategic decisions and that any tax implications to those decisions are known and considered. "The big deal with enabling the tax department is when there are strategic and corporate objectives, and new technology is being implemented, the tax department is given enough time to do their job in advance. Responding to these initiatives, from a tax perspective, can oftentimes be complicated and take time, which equates to money. If you get audited, and an auditor finds that you have not been taxing things properly, that is going to get a lot more expensive than potentially delaying a project", said Tatyana Martinez, Principal Lead Retail Consultant at Vertex. Getting the tax department engaged early in that process is critical to enabling them to protect you and keep the organization compliant.
- 4. Moving tax calculation to the point of need.** Your point-of-sale software should be resistant to internet outages and bandwidth disruption when in-store. To keep checkout lines moving, you need a tax solution close to the point-of-need that is embedded in your point-of-sale system instead of a store to web call. This is achievable through a few methods, but modern point-of-sale systems frequently approach this issue by enabling containerized edge computing solutions that allow for local software to be automatically deployed and managed from a central cloud location.

Looking forward, composable architecture is becoming more and more prominent. That means the big, monolithic systems that cover all the things end-to-end are going away. “That’s a good thing because retailers often say that if they want to offer a specific feature, they need to re-platform, which will take five years. That’s not the case anymore. They can implement a composable technology stack, which allows them to have ERP on the back end that is API-accessible to the eCommerce front-end, or POS system. Then, if the POS system doesn’t have the specific feature they want to implement, they’re able to use a piece of third-party checkout software that can be embedded in the POS system and be up and running in a fraction of the time”, said Thoman.

This means the rate at which retailers can adapt to new technology and features into their processes is accelerating. For a tax department, that could cause a bit of panic because integrating tax can take time. Having a flexible tax solution that supports integration to many different systems can ease this burden by minimizing the amount of new setup a tax department needs to do to integrate new systems. This ultimately enables more features for consumers and helps retailers to keep up with the speed of technology so they can provide the best experience for customers.





## About Vertex

To remove the friction from the checkout process, tax needs to be accurately calculated across all business channels. Vertex Inc., a leading global provider of indirect (sales, use, and value-added) tax software and solutions, helps retailers worldwide transact, comply, and grow with confidence. Vertex combines innovative technology, deep experience, ecosystem partnerships, and award-winning support to enable omnichannel sales to help future-proof tax management as you grow. Whether your business is clicks, bricks, or a mix, we can help to accelerate commerce growth by improving tax accuracy and consistency across channels.

To learn more about our solutions, visit [vertexinc.com/solutions/tax-solution-retail](https://vertexinc.com/solutions/tax-solution-retail).

North America

Latin America

Europe

Asia Pacific



[VertexInc.com](https://VertexInc.com)

Copyright © 2023 Vertex, Inc. All rights reserved. The information contained herein is intended for information purposes only, may change at any time in the future, and is not legal or tax advice.

