A Tax Professional's Playbook to Expanding Internationally

6 Tips to Prepare for Global Compliance

Introduction

In today's global economy, expanding outside of the U.S. is a crucial step for businesses seeking long-term growth and success. Each new market your business enters has untapped potential and a larger customer base, which in turn can lead to increased market share and revenue. However, it's crucial to understand that with international expansion also comes a heightened level of complexity and associated risks, primarily related to cross-border tax compliance. To help your tax and finance departments feel confident you can tackle your new global tax compliance requirements, we suggest you take six steps including:

1. **Become familiar with VAT.**

2. **Get clear on which markets you will enter.**

3. **Understand product and channel growth goals.**

4. **Make tax processes consistent across all channels and systems.**

5. **Optimize your tax team's structure.**

6. **Keep up to date on new tax rules and rates.**

Keep reading to learn more about these steps as well as how tax automation can support your global expansion initiatives.

Step #1: Become familiar with value added tax (VAT)

Many European countries charge value added tax (VAT), which is different from the U.S. sales and use tax system. VAT varies from sales tax in the terminology that is used, what triggers collection/remittance obligations, administrative duties, invoicing requirements, and much more. Here is your quick guide to VAT:

Value Added Tax: VAT is typically a country/federal level consumption tax assessed on the value added in each production stage of a good or service. Every business along the value chain charges VAT and can then qualify to receive VAT credit for the VAT already paid on procurement. The private consumer at the end if the chain does not qualify for VAT recovery, making it ultimately a tax on final consumption.

Here is what makes VAT complex:

- U.S. companies are often required to register as a nonresident VAT trader. Registration requirements vary from country to country and each country is free to set its own distance selling registration threshold.

- When it comes to VAT determination, the VAT rate is driven by basic factors: business-to-business (B2B)/business-to-consumer (B2C), what is supplied, where is the supplier established, where is the customer located, where is the supply consumed. The European 'place of supply' regulations dictate which country has jurisdiction right over any given cross-border transaction.

- Any transaction that is liable for VAT must be invoiced in a specific format required by EU's VAT Directive, however, many countries extend the requirements with their own fields (there is no harmonized standard) such as language, currency, and layout differences.

- Many countries also have e-invoicing requirements which is designed to track sales, ensure payment, and provide real or near-real time accounting records. As a result, U.S. companies expanding to Europe need to meet new and emerging compliance mandates, simplify invoicing processes, reduce costs, and increase efficiency.

- Finally, every country has different tax return/filing form requirements and each sets their own reporting calendar (usually either monthly or quarterly). Many countries only allow online filing such as France, Netherlands, Spain, and U.K., to name a few. Some countries may also require a consolidated annual return.

Did you know VAT legislation is interpreted and applied in practice by each of the 27 EU member states in their own format, resulting in 27 different interpretations?
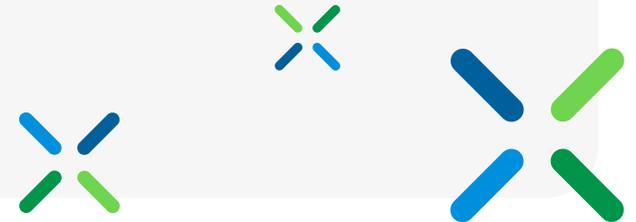
Once you become familiar with VAT, you should take the following steps to better tackle your specific circumstances.

Step #2: Determine which markets you will enter.

When it comes to global expansion, the first question that comes to everyone's mind is, "Where are we going?" Finding out where those markets are directly impacts your day-to-day work and responsibilities. That's why when you receive news of expansion, be sure to nail down the following:

- Get clear on which countries and regions you plan to sell into – and what tax laws and regulations they currently have on the books.

- Determine how you plan to stay updated on any changes in those tax laws and regulations.

- Research any best practices for managing complex cross-border tax obligations.

- Find out if your locations have any tax incentives. Look into if there any government initiatives or mandates for specific tax calculation and reporting software (such as cash accounting methods, or electronic invoicing and reporting requirements).

- Talk to your IT counterparts about meeting local data security and privacy requirements from the new countries.

- Think about how you can leverage automation and efficiency in your tax processes to reduce time and effort.

Keep in mind, which countries you plan to sell into will affect your reporting and remittance requirements, and keeping track of all of the nuanced mandates and requirements could potentially drive the need for more headcount.

To fearlessly step into new countries, look for a global tax determination engine to add to your ERP and other transaction systems. A tax engine can provide comprehensive global coverage by updating and maintaining the latest tax rules and rates, for all tax types (sales and use tax, GST, and VAT) and geographic locations (local, regional, state, and international).

Step #3: Understand product and channel growth goals.

Once you've figured out where your organization is going, it's equally important to know how your organization plans to expand its products and selling channels to meet the needs of these new consumers. Knowing the unique expansion goals and vision can better prepare your team to manage the associated tax-related complexities. Some goals may include:

- Expanding your product line or adding services and experiences to your current mix.

- Opening your own marketplace or selling on additional third-party marketplaces.

- Seeking to increase e-commerce volumes.

- Adding more — and perhaps smaller-footprint — brick-and-mortar stores.

- Using your stores to offer omnichannel fulfillment services like buy-online, pickup in-store or buy in-store and ship elsewhere.

- Expanding into emerging channels such as Internet of Things (IoT) devices or in-game purchases.

Remember, new and different product categories will require you to maintain additional tax rates, entering new countries could make you liable for new taxes and fees, and growing e-commerce volumes may mean you must file and remit taxes in different jurisdictions based on delivery type or thresholds set forth by each one. Also, creating an online marketplace means you will need to understand marketplace facilitator laws that split the tax burdens between retailers and marketplace sellers.

To help you achieve your organization's growth goals, consider adding a global tax determination engine that can enable you to easily adapt to the changes in your business such as new products and sales channels (BOPIS: buy online, pick-up instore, BORIS: buy online, return in-store, and curbside pickup). It should offer robust global tax content and be capable of handling high-volume tax calculations efficiently and quickly.

Step #4: Make tax processes consistent across all channels and systems.

Tax workflows exist across multiple parts of your brand's tech stack. Depending on your size and structure, your tax data, content, calculations, and compliance could live within your:

ERP systems, some of which feature built-in tax calculation.

POS systems, which calculate taxation at physical checkouts in brick-and-mortar stores.

E-commerce platforms, which store jurisdictional tax rates and auto-collect taxes at online checkouts.

Marketplace platforms, which may or may not include tax collection and calculation capabilities for both the marketplace operator and the seller.

Procurement systems, which streamline purchasing but often require integration with other systems to perform tax calculations.

The problem is that this fragmented approach can create major tax compliance headaches. If tax rates are updated in your POS but not in your e-commerce platforms, you could be incorrectly charging customers. If the error isn't found, you could be hit with costly penalties or unhappy customers. International expansion only exacerbates this problem. As you move into new countries, you must navigate different tax regulations. This creates additional opportunities for inconsistencies, errors, and noncompliance.

To keep your growth strategies on track, you must find ways to apply tax rates and calculations uniformly across all transaction systems, and streamline data consolidation and filings. Look for a cloud-based tax engine with numerous deployment options that can fully integrate with your POS, ERP, e-commerce platform, and other mission-critical software. Also, look for a tax technology partner with expertise in indirect tax globally and end-to-end solutions to automate tax determination, compliance, and reporting.

Step #5: Optimize your tax team's structure.

Assessing your in-house resources and departmental structure across all functional areas of your business is essential, especially when it comes to tax compliance.

In-house retail tax teams typically take several forms. Earlier-stage midmarket retailers may have a small team, with one or two resources dedicated to checking rate changes, updating transaction systems, and filing returns to ensure compliance. Larger midmarket and enterprise retailers may split up tax responsibilities across multiple departments. They may, for example, have one set of tax experts embedded in their e-commerce business, another set dedicated to their brick-and-mortar locations, and even a third set focused on marketplaces or split by line of business or legal entity.

To optimize your tax team structure, ensure your tax department covers all your sales channels, then pair your in-house team with a tax engine that gives you a single source of truth with a centralized control framework. This type of structure will empower your tax team to track taxes charged, streamline workflows, and respond to any tax audits efficiently. Another smart move is to develop tight connections between your tax team and the rest of the business. When your tax professionals understand the company's overall direction, its growth strategies, process changes and future vision, they gain the insights they need to maintain compliance across all products, channels, and customer experiences.

Step #6: Keep up to date on new tax rules and rates.

Tax rules and rates change continuously across the 20,000-plus taxing jurisdictions worldwide. It's not uncommon for in-house tax professionals to keep track of the rules and rates and update their ERP and other transaction systems manually. They may check local tax authority websites regularly, fact-check those rates against your company's internal data and make or request updates as needed. **Consider this all-too-common scenario:**

Your tax professionals identify a change in the tax laws that impacts all non-resident businesses (including yours) selling goods into Singapore, for example.

Your tax team has to submit a ticket to the IT department to make the change in the various transactional systems that facilitate sales into Singapore, in the above example.

You may have to submit multiple IT tickets to update rules and rates in multiple systems.
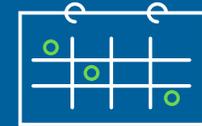
Simultaneously, your IT team is swamped with ticket requests and other urgent tasks. It may be days or weeks — or, in a worst-case scenario, even longer — before changes are made.

Every day that you "wait for IT" impacts your tax position negatively. You may be collecting incorrect tax amounts — or not collecting tax at all — in affected regions. When it comes time to file, the amount you report and remit may not be accurate anymore. Accordingly, your business, financial, and regulatory risks skyrocket. Multiply this delay by hundreds of tax rate updates across dozens of regions, and noncompliance is almost a certainty.

To keep pace with all of these changes, your tax team needs proven processes for researching and implementing new tax rules and rates as they change. Integrating a tax engine with your ERP and other transaction systems removes the burden of tax research from in-house teams entirely since the tax engine provider maintains the latest tax content for the tax engine. Not only does a tax engine improve tax accuracy, but it eliminates the laborious processes of tax research and ERP updates. It also provides the option to customize tax rules, rates, exemptions, and thresholds to align with your unique business, industry, jurisdiction, and circumstances.

Find a trusted tax engine provider to automate and streamline your tax research and calculation processes so you can keep pace with the velocity of tax rate changes across territories, products, and services. Look for a true tax technology partner that offers a dedicated support team to address technical issues, assists with implementation and configuration, and provides timely updates and enhancements.

Conclusion

How Vertex's end-to-end solutions can help U.S. tax teams expand internationally.

Our global solutions, can help you automate tax management and cross-border compliance, which empowers your team to:

- **Expand confidently into new regions.** Utilize scalable, global tax compliance solutions, making cross-border transactions more manageable.

- **Improve global tax accuracy.** Improve tax accuracy on sales and purchase transactions with precise, automated global tax determination for sales tax, GST, and VAT.

- **Help ensure global tax compliant operation.** Stay up to date with ever-changing tax laws and regulations, helping to ensure global tax rates are applied in a compliant way and reduce the risk of errors.

Why Vertex?

- Market leadership with over four decades of tax technology experience.

- Global indirect tax technology solutions supporting all major ERP and financial source systems.

- Best in class tax content.

- Award-winning product support.

- A range of expert services to keep tax systems operating at peak performance with minimal Tax and IT team involvement.

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