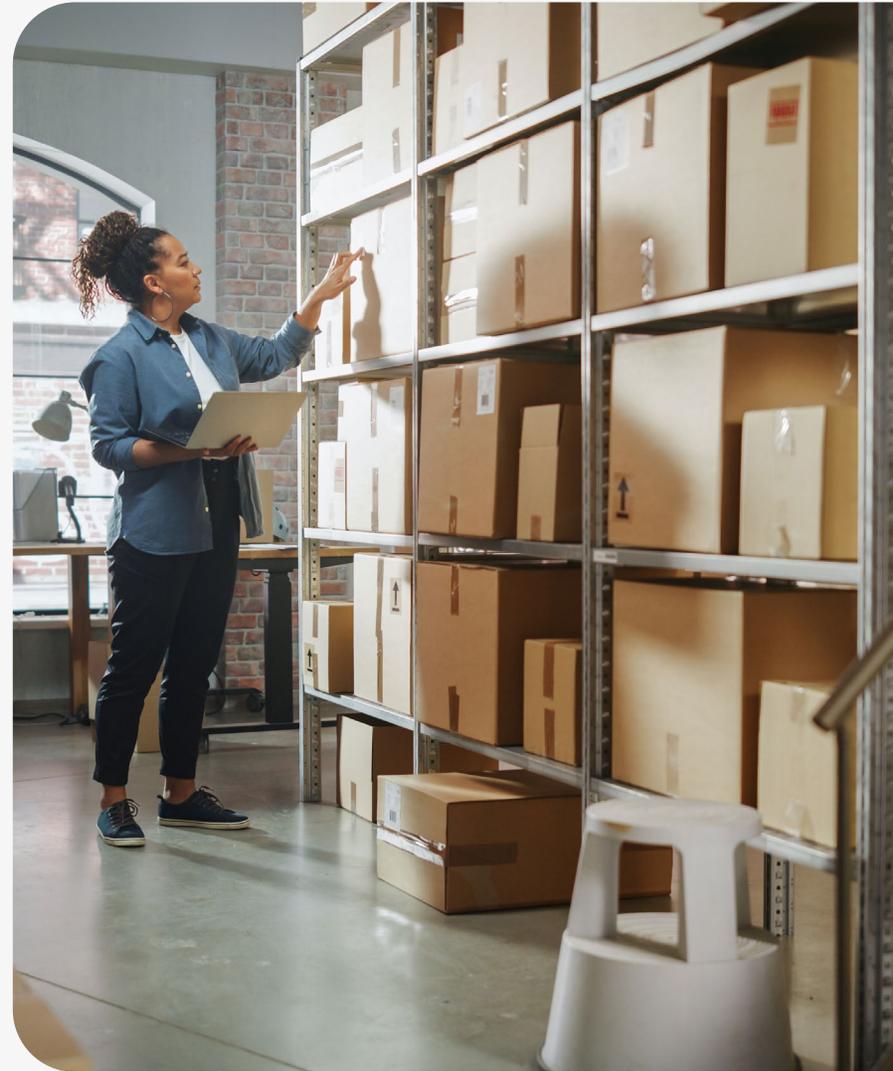# VERTEX®

Scaling Your E-commerce Business:

A Guide to Navigating Multi-State Sales Tax

Growing an e-commerce business is exciting. However, with this growth comes a significant increase in the complexity of managing sales tax. If your customers were previously limited to just a few states, tracking sales tax rates and filing returns might have been relatively straightforward. But as customers from more jurisdictions place orders, or you start offering new products, your tax responsibilities multiply. At some point, manual processes become unsustainable, and the risk of audit penalties looms large.

This guide explores how adding automated tools can help you tame the tax complexity of your multi-state business.

When to Automate Tax Determination

Selling coast-to-coast means dealing with a staggering level of tax rate complexity—there are over 12,000 tax jurisdictions in the U.S., with hundreds of changes occurring every year. As your business footprint expands, so does the challenge of keeping your transaction systems, like ERP and e-commerce platforms, updated with the correct rates.

The key to managing this growing complexity is integrating a tax engine into your transaction systems. A tax engine automatically maintains up-to-date tax rules and rates for every jurisdiction where you do business, today and in the future. It's the most powerful tool at your disposal to support the tax aspects of your company's growth.

While there's no magic formula to determine when to add a tax engine, several factors will help you make this decision:

- **Sales and Procurement Footprint:** Where are your customers located now, and where will they be tomorrow? How many jurisdictions do you need to consider for your suppliers, since procurement also requires sales and use tax management?

- **Staffing in Tax and IT:** Do you have enough resources to handle the increased tax research needed to support more jurisdictions? Is it the best use of your team's time to continually update tax rates in your sales and procurement systems, or could they be deployed in higher-value tasks?

- **Sales Channels:** If you're considering launching an online marketplace, be aware that sales tax complexity increases. Liability for charging and remitting sales tax from marketplaces can vary widely from one jurisdiction to another.

Tax consistency across your tech stack

Are you confident that tax determination is consistent across all channels and systems? Integrating a single tax engine across the enterprise can bring tax consistency to these systems and reduce risk:

- ERP systems
- POS systems
- E-commerce platforms
- Marketplace platforms
- Procurement systems

Handling Sales Tax Exemptions

The more your business expands, the more sales tax exemptions you'll need to manage. Each jurisdiction has its own exemption rules and required certificates. As you grow, accommodating these varying rules and maintaining correct exemption certificates becomes more challenging.

- You'll need to keep up with the latest exemption rules wherever you calculate sales tax.

- You'll need to collect an exemption certificate for every tax-exempt transaction.

- But collecting and maintaining exemption certificates aren't a one-time concern; you must track expiration dates and keep them up to date to avoid audit penalties.

Vertex: Makes it easier to manage exemption certificates

"The main benefit is improved control. We now have a central location to store and track nearly 125,000 exemption certificates from across the country."

Lauren Marks
Central Administration Manager
Graybar Electric

Is it Time to Automate (or Outsource) Monthly Compliance?

Just as multi-state sales tax calculation becomes more complex, so does monthly compliance. Each new jurisdiction brings its own set of requirements for sales tax returns, e-filing portals, and remittance processes. As the number of returns you must file increases, so does the administrative burden.

This brings you back to your Tax and IT staff. Do you have enough resources to handle the increased workload? And even if you do, is that where you want them spending their time?

At some point, automation—or even outsourcing—becomes the best option:

- If you choose to keep the monthly compliance process in-house, investing in returns generation software is essential. This tool will automate returns preparation and provide workflows to streamline the process.

- Alternatively, you may decide to outsource the monthly filings and redeploy your staff to focus on higher-value tasks.

The right decision will depend on your company's specific needs and circumstances.

Vertex: A tax partner who speaks your language

"The greatest strength of Vertex is that they're all tax professionals. They know how to prepare returns, they know how they should look. They speak the same language that we do in the tax department."

Lisa Dominguez
Director Sales and Property Tax
Toyota Financial Services

Scale Your Business with Vertex Solutions

Managing the intricacies of sales tax can become overwhelming in a growing business. Vertex offers a portfolio of solutions designed to support tax teams through every stage of the sales and use tax lifecycle—from determination to exemptions and compliance. Our solutions help you to:

- **Improve tax accuracy** by managing tax research and automating updates.
- **Manage exemptions and the related certificates** to improve audit performance
- **Manage monthly returns** with automated tools or outsourcing services.
- **Reduce tax management burden** on your tax and IT teams.

To learn more visit
vertexinc.com/solutions/ecommerce-tax-software.

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