VERTEX®

Streamlining Global Tax Compliance for e-Commerce:

The Vertex Solution for Shopify Merchants

Introduction

In today's rapidly evolving e-commerce landscape, businesses are constantly seeking ways to expand their reach, tap into new markets, and provide seamless shopping experiences. Yet, as a business grows so does the complexity of keeping up with tax compliance.

Vertex offers a powerful tax solution that seamlessly integrates with Shopify via the Shopify Tax Platform. This integration enables automated tax determination for Sales and Use Tax (SUT), Goods and Services Tax (GST), and Value Added Tax (VAT), providing a flexible and scalable solution to streamline tax-compliant checkout processes, reduce errors, support both Business-To-Consumer (B2C) and Business-To-Business (B2B) commerce, and help grow the business.

By removing friction from the checkout process—a known pain point leading to the shopping cart abandonment that reduces revenue—Vertex helps merchants provide a smoother customer experience from cart to checkout and beyond—all while maintaining tax compliant processes. The solution supports enterprise-level businesses through their entire growth cycle.

Understanding the Tax Landscape

The Complexity of Sales and Use Tax

The U.S. tax landscape presents unique challenges that can overwhelm even the most sophisticated businesses:

- **Jurisdiction Identification:** With over 12,000 separate taxing jurisdictions in the United States alone, determining the correct taxing jurisdiction is no simple task. These boundaries rarely match zip codes, adding another layer of complexity.

- **Nexus Rules:** The obligation of a business to charge sales tax in a jurisdiction can be based on physical or economic nexus, or both. Each jurisdiction has their own specific nexus rules which sellers must comply with or incur penalties. This requires continual monitoring of nexus rules as well as sales volumes.

- **Taxing Complications:** U.S. sales tax rates vary widely, with state level sales tax often layered upon additional local sales taxes, creating a complex matrix of rates to navigate.

- **U.S. Classifications:** Tax classifications are based on exact locations with constantly shifting boundaries. Rates rise and fall, exemptions come and go, and tax holidays appear temporarily—all requiring vigilant monitoring to ensure the correct tax is charged to stay compliant.

- **High Volume Transactions:** Peak selling days, like Black Friday and Cyber Monday, that exponentially increase the transaction volume put added strain on network connections that are critical to delivering frictionless sales tax calculations in e-commerce transactions.
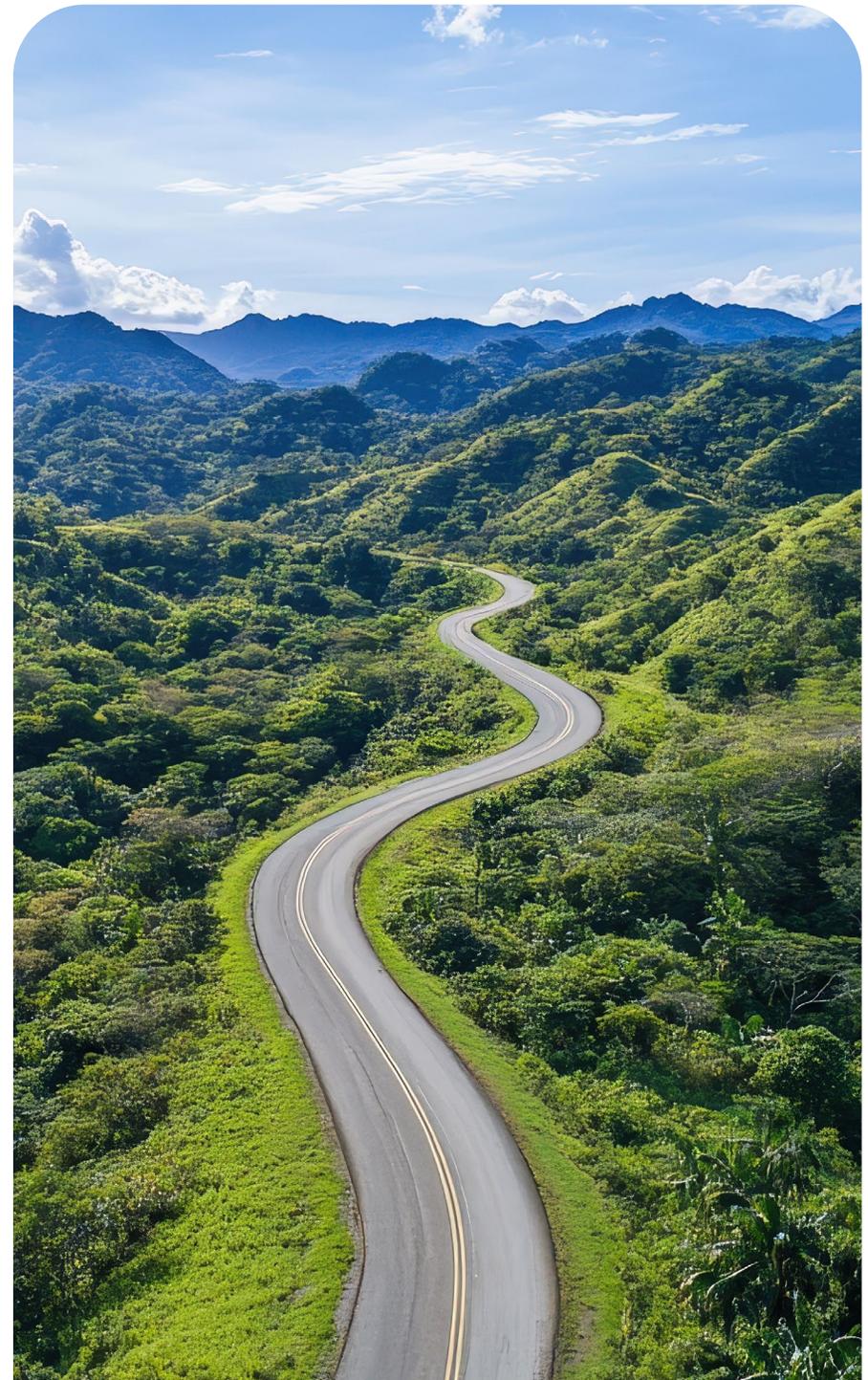
The Complexity of VAT

For e-commerce businesses operating outside the US, VAT and GST present their own set of challenges:

- **VAT Registration:** Almost all non-EU companies must register as non-resident VAT traders in at least one EU country, requiring familiarity with each country's specific registration requirements.

- **VAT Thresholds:** Each EU member country sets its own distance selling registration threshold, creating a patchwork of compliance requirements for sellers or the non-resident business to meet the criteria of a single VAT registration and enable multi-jurisdiction tax declaration schemes referred to as 'One-Stop-Shop' schemes. The former processes would still have to be applied for selling into countries such as the UK, Norway or Switzerland.

- **VAT Determination:** Multiple factors drive VAT determination, including whether a transaction is B2B or B2C, what is the deemed nature of goods or services being supplied as per country-by-country legal interpretation, where the supplier is established versus where the warehouse location and intermediary supplier may be based, where the end customer is based, and where the goods supply is deemed to be have been completed.

- **VAT Invoicing:** Any transaction liable to VAT must be invoiced in a specific format required by the EU's VAT directive, necessitating customized documentation for compliant invoicing. And some countries have additional mandates for e-invoicing submission and approvals such as Italy, Poland Germany and very soon many more countries such as France, Spain and Belgium.

- **VAT Returns:** EU member states have different return form requirements and reporting calendars, creating a complex compliance schedule for businesses operating across multiple countries to submit and ensure timely payments are executed in local currencies.

Common Tax Challenges for Shopify Merchants

Tax Collection Responsibilities

Shopify merchants bear the responsibility to:

- Charge appropriate taxes on sales

- Report and remit those taxes to the appropriate government authorities

- Stay current with frequently changing tax laws and regulations

- Set up tax overrides for default setting to help address unique tax situations

While Shopify can be configured to handle common SUT, GST and VAT calculations, the ultimate responsibility for accurate compliance rests with the seller. The business must be registered with local or federal tax authorities as required in order to help ensure accurate collection and tax remittance.

How Vertex Helps:

Vertex for Shopify removes barriers to business growth by automating global tax determination on every transaction, ultimately reducing compliance risks significantly, and enabling confident scaling for both B2C and B2B merchants. And Vertex O Series helps handle nexus determination—from marketplace to click-through to affiliate.

Sales Tax Nexus

Understanding and managing sales tax nexus—the rules that require a business to collect tax in a jurisdiction—presents significant challenges:

- Every state and local taxing jurisdiction has unique sales tax laws and rates

- Multiple factors can trigger nexus, including physical presence, economic activity, affiliate relationships, or click-through relationships

- Rules vary by state and jurisdiction, requiring constant vigilance

- Non-compliance can result in penalties or legal action

How Vertex Helps:

Vertex provides personalized data intelligence, which makes it possible for you to take a proactive role in monitoring and tracking transaction thresholds in order to determine nexus—and consequently knowing when to register and collect. This solution also makes it possible to lower the chance of incurring audit penalties—while simultaneously managing risk exposure in order to positively impact revenue, reduce audit penalties and protect your brand.

Shipping and Freight Taxability

The taxability of shipping and freight charges varies significantly across jurisdictions:

- Each state has its own statutes and regulations regarding shipping charges

- Most states consider freight and shipping charges part of gross receipts or sales price, making them taxable

- Some states never apply sales tax to shipping charges

- Determining the correct approach for each transaction requires detailed knowledge of local regulations

How Vertex Helps:

Vertex O Series utilizes data on tax rules for the shipping address on the order and the additional rules that are defined for the customer or for item exceptions. The solution then provides the tax amounts for merchandise, freight (order-level or line-level), handling charges, duty, shipper-item charges, and additional freight.

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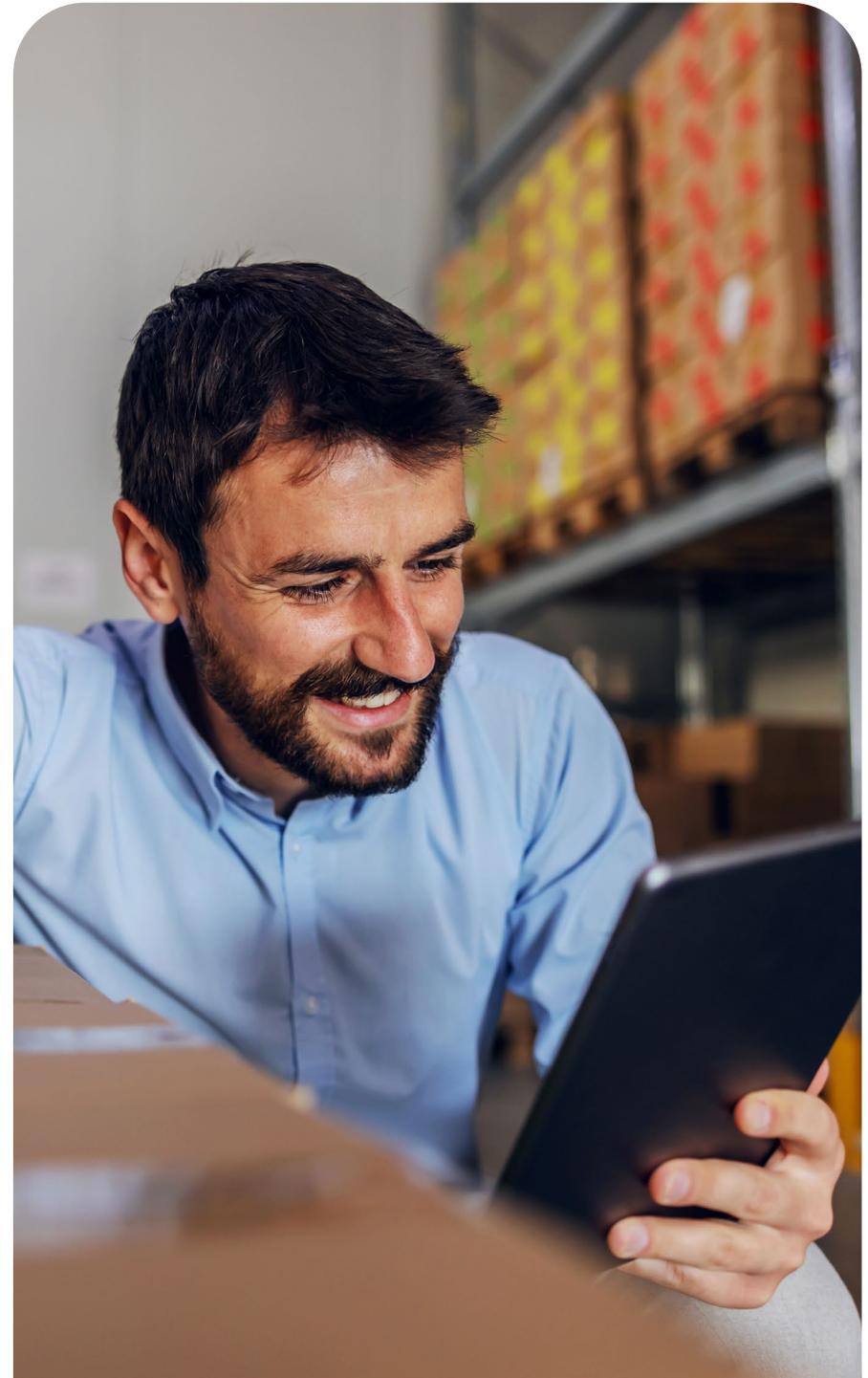
International Expansion

Expanding globally offers tremendous opportunities—while also introducing significant complexities:

- Each new market represents untapped potential and a larger customer base

- International expansion brings heightened tax complexity and risk related to cross-border tax compliance

- Different countries have vastly different VAT systems requiring specialized knowledge for both tax determination and reporting.

How Vertex Helps:

Vertex's end-to-end solutions assist U.S. tax teams in international expansion by automating VAT and GST determination and compliance to reduce the burden on internal resources.
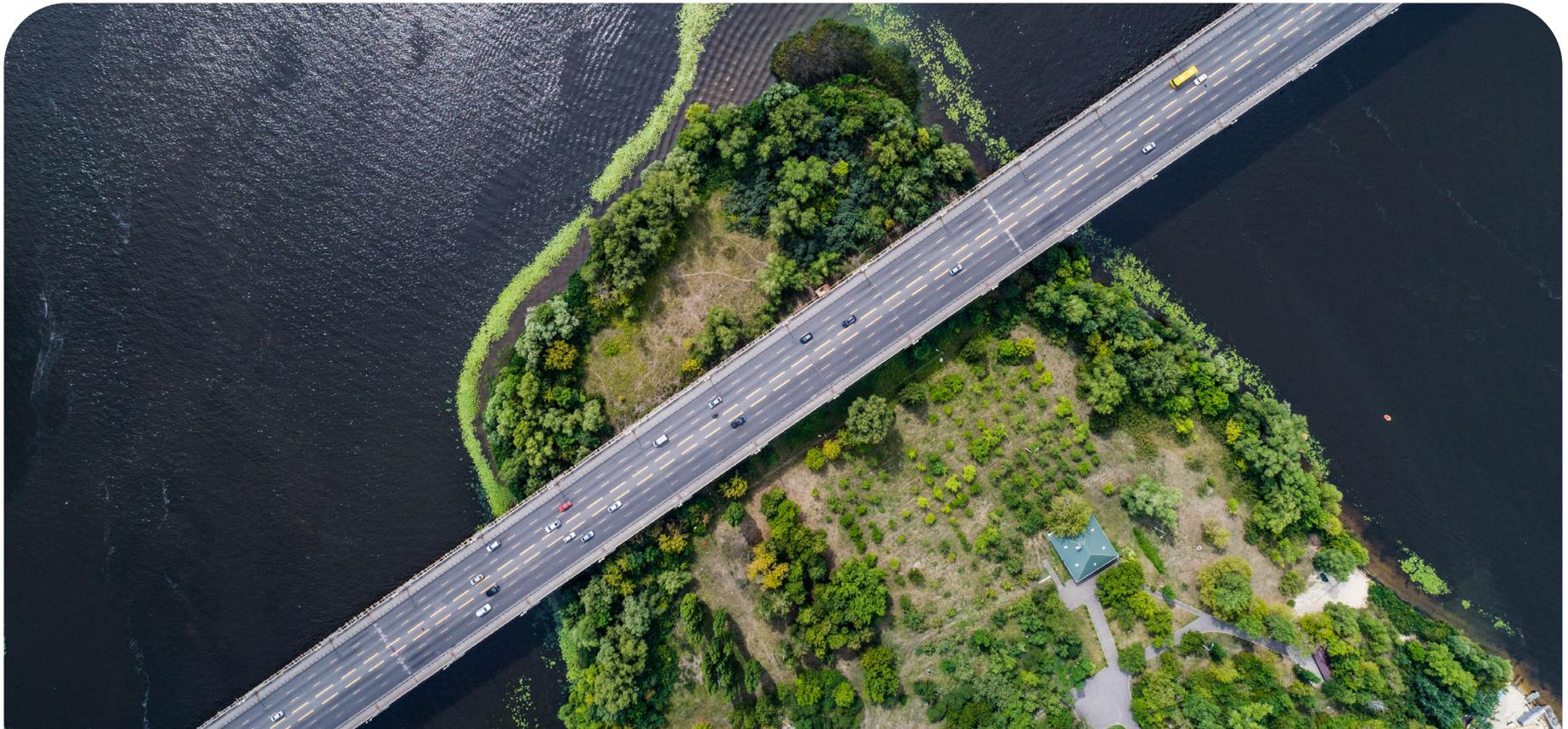
Reducing Cart Abandonment

A frictionless checkout experience is crucial for sales conversion:

- Customers expect a user-friendly purchasing experience

- One-click purchasing requires significant business process, technology, and integration work

- Unexpected or incorrect tax costs at checkout can drive abandonment with customers getting frustrated and walking away from the sale.

How Vertex Helps:

Vertex O Series helps make it possible to decrease cart abandonment by delivering more accurate tax calculations in real time without delay.

How Vertex Benefits Shopify Merchants

Benefits for Finance Teams

Finance departments face constant pressure to support growth while maintaining control. Vertex helps by:

1. Enabling growth with a scalable tax solution designed to drive consistent results across all sales *and* purchase operations, including automating critical parts of the order process. It also helps reduce errors, accelerates transactions, and helps businesses get paid faster

2. Supporting increasing transaction volumes, new market entries, and overall business growth with a system that grows with you.

Benefits for Tax Departments

Tax professionals need tools that ensure tax accuracy while increasing efficiency. Vertex delivers by:

1. Automating processes throughout the buying, selling, billing, and compliance lifecycles, including enabling tax-compliant estimates before checkout, and accurate tax calculations at checkout.

2. Creating standardization for an agile tax function that can support market changes and new market entry while proactively reducing risk and lowering costs.

3. Providing reporting capabilities and data tools that offer detailed transaction-level data, tax summaries, and filing reports to help better manage risk.

Benefits for IT Departments

IT teams need solutions that integrate seamlessly and reduce technical debt. Vertex offers:

1. A seamless integration with Shopify via the Shopify Tax Platform, making it efficient for enterprise retailers on Shopify to use Vertex to automate indirect taxes including, sales and seller's use tax (SUT), goods and services tax (GST), and valued added tax (VAT) for business-to-consumer (B2C) and business-to-business (B2B) sales.

2. Continuous tax rates and rules updates in Vertex O Series Cloud without having to launch new projects—helping to ensure that tax is applied accurately and consistently regardless of how, when, or where the transaction occurs.

Conclusion

In today's complex global e-commerce marketplace, tax compliance shouldn't be a barrier to growth. With 45+ years in tax and serving 60% of the Fortune 500, Vertex has the experience and insight to be a true partner. We support a diverse spectrum of e-commerce customers, including some of the industry's largest global marketplaces, while seamlessly scaling across revenue tiers and operating in over 195 countries.

Vertex has been Shopify's trusted, global indirect tax partner since November 2023 and is the first global tax technology partner to join the Shopify Tax Partner Platform. Vertex for Shopify provides a seamless connector between the Vertex tax engine and Shopify. By automating tax calculations in Shopify, Vertex helps reduce risk, increase efficiency, and create smoother customer experiences. Whether it's a small business just starting out or an established enterprise with an international presence, Vertex offers the scalability and expertise you need to navigate the complexities of global tax compliance for online sales.

Collaboratively, Vertex and Shopify expand the value brought to merchants—making it possible for Shopify merchants to transact and grow with confidence, knowing that support for tax processes is in place and ready to help ensure these processes are accurate, efficient, and compliant with ever-changing regulations worldwide.

North America | **Latin America** | **Europe** | **Asia Pacific**

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