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5 Essential Tax Truths Every Midmarket Retailer Should Know

Introduction

Global expansion is in your plans for the coming year. You've already developed your business strategy, identifying key markets based on consumer demand. You've taken steps to elevate your positioning, doubling down on the factors that make your brand and its products irresistible.

Yet there's one often overlooked area you must also consider: tax compliance.

If you've thought of tax as a necessary evil or simply the final step in the payment experience, in some ways, you're right. But beyond the surface, tax rules and guidelines have a trickle-down effect across the business — especially if you don't have the right solutions and systems to meet compliance requirements.

Ensuring proper tax calculation and compliance is a critical risk mitigation strategy, especially for growing midmarket retailers that want to expand across channels, markets, and countries. After all, when you get tax right, the customer doesn't tend to notice. But if you get it wrong, you run the risk of dissatisfied customers and hefty audit penalties for incorrect tax remittances, among other outcomes that can throw your growth plans off course.

Unlock the knowledge, skills, and technology you need to stay compliant. Read on to challenge your status-quo thinking about tax and commerce, and discover **the five essential tax truths** all retailers should bake into their growth strategies.

5 Growth Levers with Tax Implications

1. **Product and service strategy:** The unique offerings that differentiate you in the market
2. **Customer acquisition:** The channels and tactics you use to bring your brand into new markets and channels
3. **Product discovery and comparison:** The e-commerce content and capabilities that support consumers as they browse your products across platforms
4. **Customer retargeting and re-engagement:** The methods you use onsite and offsite to drive urgency and encourage customers to make a purchase
5. **The purchase experience:** The cart checkout user experience, as well as the delivery and fulfillment options you provide to make the checkout process as seamless as possible

TAX TRUTH #1

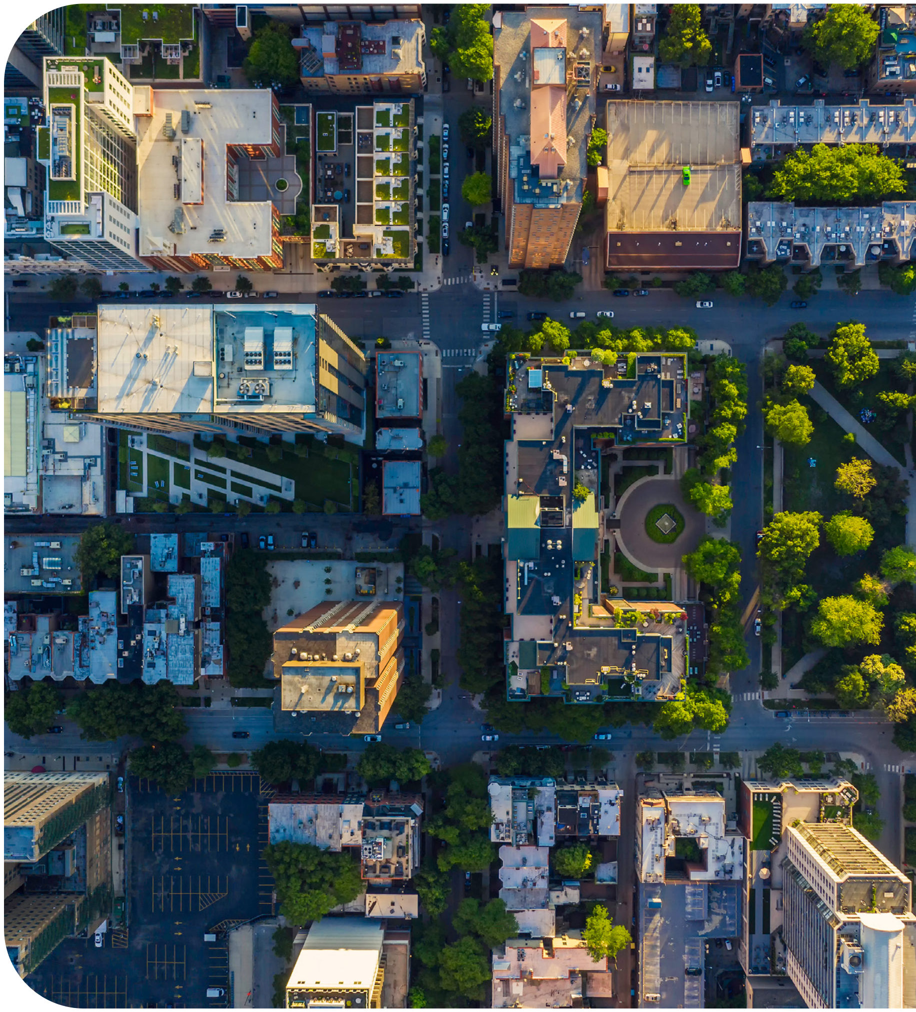
Tax rules change based on where you sell

Challenging the status quo starts with understanding that tax is more than just a simple math problem. Tax may seem like it's as easy as multiplying a product's sales price by a jurisdiction's tax rate. But the reality is far more complicated due to numerous factors.

For one, the tax rate you pay isn't only dictated by the location of your brand's brick-and-mortar stores. It's also impacted by the jurisdictions where your current and potential customers live, among other factors. Tax rates also extend beyond the nuances present at the country or state level. Each of the 12,000+ U.S. taxing jurisdictions has its own unique tax laws, and these can even extend into hyper-local geographies.

There are locations within the U.S., for example, where two sides of the same street may have different sales tax rates because they sit in different taxing jurisdictions. Here, retailers must be especially careful. The residents of these areas are well aware of their local tax laws, and if they are charged a higher tax rate on their purchase, they will voice their displeasure.

International tax laws also bring various intricacies. Retailers may believe that all European nations follow the same tax calculations only to find that value-added tax (VAT) rules and rates vary for every country. When you know all of the potential pitfalls, you can build a tax strategy that overcomes them.



TAX TRUTH #2

Tax rules change based on the products and services you sell and the point of title transfer

Your growth plans likely include adding new products, assortments, and perhaps even experiences to your current offerings. Every addition you make could shift your tax liabilities. Without the internal knowledge or capabilities to apply these nuances, your growth strategy could hit a roadblock.

Tax rates vary based on product type, which can create barriers for growing retailers. Let's say you want to add golf clubs to your brand's existing line of golf shoes. To do so, you'll need to navigate different tax rates for apparel sales vs. sporting goods transactions in certain jurisdictions.

Additionally, certain product categories have their own unique tax implications. An apparel brand adding high-end cosmetics to its product line may be liable for luxury taxes on any and all makeup purchases.

Brands selling recyclable products will often face additional taxes and fees, too. Several states charge tire recycling fees. Jurisdictions in New England now require all mattress retailers to collect a mattress recycling fee. In the Carolinas, retailers that sell appliances and other "white goods" are subject to a disposal tax. In the European Union (EU), environmental taxes vary across each individual EU member state.

Even product delivery methods can impact your tax burden significantly. The laws in some jurisdictions charge different taxes for products delivered electronically — such as software and video games — vs. those delivered physically.

Seeking to extend your brand by adding experiences to your products? You'll need to know how to navigate those potential tax implications, too.

Consider a sporting goods company that begins offering guided hiking tours and excursions. While the adventure itself may not be taxable, you may need to collect and remit sales tax on equipment rental fees and other parts of the experience.

TAX TRUTH #3

Tax rules change based on how you sell across channels and platforms

Expanding into new channels, including e-commerce and online marketplaces, can unlock spectacular growth for retailers of all sizes and across categories. Creating consistent branding across all channels is the first step to success. But you can't achieve true omnichannel excellence without a unified tax team that can ensure tax compliance and consistency across your entire retail ecosystem.

While brick-and-mortar retailers collect and remit taxes in the state where their stores are located, omnichannel taxation is far more nuanced. The landmark 2018 U.S. Supreme Court ruling South Dakota v. Wayfair makes it mandatory for online retailers to collect and remit tax based on the amount of sales they generate in each jurisdiction annually, regardless of their physical location. Different jurisdictions have different thresholds that trigger their Wayfair-related laws, which raises the complexities of tax compliance.

Choosing to sell your brand's products on a third-party marketplace brings additional complexities. Many countries, states, and local jurisdictions now have marketplace facilitator laws that divide the tax burden between the seller and the marketplace operator. Additionally, the definition of what is — and isn't — a marketplace may shift based on your jurisdiction. Delivery services like Uber Eats, DoorDash, and Instacart are now taxed as third-party marketplaces in some regions on par with traditional marketplaces such as Amazon, Etsy, and eBay.

Omnichannel retailers with global expansion plans also must be mindful of tariffs or duties placed on certain international sales. Some of these rules are based on the ship-from location, while others are based on the ship-to destination.

TAX TRUTH #4

Tax rules create more manual work for tax and IT teams

The commercial world is ever-evolving. New opportunities to connect with and sell to consumers emerge constantly. Similarly, tax rates and rules across the 19,000+ global taxing jurisdictions change continually. As a result, sales, use, and VAT rates aren't something that retailers can simply set and forget.

This reality creates unique challenges for your business. You must find new ways to keep tax rates updated and consistent in your systems, while also operating in an efficient and agile way.

Many midmarket retailers pride themselves on having small, scrappy teams that empower them to move fast and innovate quickly. Tax teams are no exception. Many e-commerce brands tend to have one- or two-person tax teams. They focus on researching new tax laws and updating rates in the retailer's enterprise resource planning (ERP), point-of-sale (POS), or other e-commerce systems.

The problem is that many of these processes are still manual for most organizations or, if automated, not consistently applied. Tax professionals must remember to visit a country's or state's website, check the tax rate, and then update the company's systems. As your business grows nationally and internationally, this becomes unwieldy and nearly impossible, especially with tax regulations in a constant state of flux.

In 2023 alone, businesses faced 444 sales tax rate changes spanning state, county, city, and district jurisdictions, marking a 17% rise from the year prior.[1]

[1] Vertex, Inc., 2023 End-of-Year Sales Tax Rates and Rules Report, 2023.

When your tax professionals spend most of their time chasing down these changing rates and logging IT tickets, they have less time to focus on more strategic, big-picture tasks. What's more, each time your tax pros have to submit an IT ticket, it creates delays that could lead to inaccurate tax calculations in the short term. A reliance on IT also increases the risk of manual errors.

A solution to this conundrum exists. By choosing the right partner, you can benefit from specialized tax expertise and technology without adding headcount. This approach can empower you to update your tax rates regularly, create an environment of continuous compliance, and free up time for your in-house tax professionals.

TAX TRUTH #5

Tax rules can hinder a positive brand experience

Customer experience (CX) is what separates retail leaders from laggards. Top midmarket retailers often focus on creating personalized, seamless omnichannel journeys to win customers' hearts and minds. But they may not realize that tax compliance also plays a vital role in an optimized CX.

Improper alignment and integration of tax content can lead to significant CX hiccups, including:

- **Inaccuracy:** If you miscalculate fees, you could inadvertently force your customers to pay more in taxes.
- **Lack of transparency:** Customers — especially at the international level — expect full visibility into every stage of their buying journey. That means having tax transparency for each item in their shopping cart. If they lack this transparency, they may feel as if they're being misled and forced to pay exorbitant fees.
- **Inconsistency:** If multiple teams manage tax content across several platforms, it increases the risk of inconsistencies, which may leave some customers with incorrect tax calculations.

These three hiccups don't just create CX missteps. They can also lead to serious public relations nightmares and even class action lawsuits.

Consider a hypothetical scenario where a customer in Brussels is on a brand's TikTok Shop when they find the perfect pair of sunglasses. They buy the shades and immediately boast about how #TikTokMadeMeBuyIt. But seconds later, their euphoria turns to anger. They scan their email receipt and see a tax charge they believe is exorbitant.

Frustrated, they take a screenshot and post it to their personal TikTok feed. Their friends quickly chime in and share their own receipts that show far less taxation for the same purchase from another seller. Suddenly, the brand's reputation starts to erode, and the brand's international growth strategy suffers a serious setback.

Don't wait for this scenario to happen. Instead, ensure you're giving your customers the accurate tax information they need to get the products they want, when and how they want them.

Make tax an integral part of your growth strategy

The complexities of local, state, and national tax laws shouldn't hinder your global expansion plans. By choosing a trusted partner like Vertex, you can reduce your tax liability risks by automating tax management and compliance.

With Vertex, you get:

- **A comprehensive tax calculation engine.** By integrating Vertex tax compliance solutions with your ERP, POS, and other e-commerce systems, you can automate and centralize sales, use, and VAT calculations across all channels and products.
- **Content updated across all channels.** Vertex automatically and regularly updates tax rules and rates to the cloud, freeing your team from the hassle of manually checking Department of Revenue websites and keeping abreast of changes.
- **One-click access to new products and territories.** Expanding into the EU? With Vertex, you can add new product categories and regions easily, ensuring tax compliance wherever, whenever, and however you sell.
- **A consistent brand experience.** Present your tax information accurately and consistently to build brand trust and give your customers peace of mind.

How Vertex can help

Vertex is a global tax technology provider with solutions that support a tax control framework across each step of the tax lifecycle, including:

- **Product categorization** to streamline the product mapping process
- **Address cleansing** to improve tax calculation accuracy
- **Complex tax determination** for sales and purchasing
- **Liability determination** to support accurate compliance on complex transactions
- **Exemption management** including tax calculation functionality and document management tools
- **Invoicing and billing** to meet local regulations
- **E-invoicing** to support emerging local mandates around the world
- **Periodic returns** to streamline monthly compliance
- **Audit defense reporting** to reduce workload and improve audit performance
- **Tax data and analytics** to support compliance and inform business decisions

We also offer flexible deployment models to fit your needs (on-premise, hosted, or public cloud all with hybrid Cloud-Edge extensions).

Visit our website to learn more about our tax compliance and automation solutions and to connect with our team of experts.

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