VERTEX®

Preparing for Global Expansion

6 Tax Compliance Must-Haves for Online Sellers and Retailers

Introduction

Why does one retailer achieve global growth faster and better than its competitors? The answer often comes down to equal parts strategy and preparation.

The foundation of a successful growth plan starts with a thorough assessment of where you are today. When it comes to your tech stack, the first step is to evaluate and assemble your back-office systems for maximum efficiency and effectiveness. Core elements of a modern and scalable retail tech stack include:

- Finance
- Procurement
- E-commerce platform
- Enterprise resource planning (ERP)
- In-store point of sale (POS)
- Customer relationship management system (CRM)

Next, shore up any adjacent solutions you'll need across marketing, product development, and other functional areas. Then, look for additional tools that will empower you to meet new and sometimes unexpected challenges.

One area well worth pursuing, especially if global expansion is a top priority for your business: processes and tools that can help you ensure compliance with the myriad of national and international tax regulations. Today, **tax compliance is the key to exponential retail growth**. By instituting the right processes and technologies, you'll unlock your business's true potential, gain a competitive edge, and reduce the financial and regulatory risks of noncompliance.

Use this E-book as your guide. Read on and:

- Explore six tax compliance must-haves for retailers.
- Determine your current readiness to handle global tax compliance.
- Discover how automation can take your brand to new heights.

MUST-HAVE #1

Align internally on growth goals

The race for more sales is on, and retailers are looking toward new markets to win. This year:

- **90% of midmarket retail and consumer packaged goods companies** expect sales to remain the same or increase.[1]
- The U.S., Western Europe, and China will account for **61.3% of worldwide retail sales by the end of 2024.**[2]
- Latin America is the **top market for e-commerce growth.**[3]

How will you capitalize? While the answer is different for every retailer, your entire organization must understand and align with your business's unique expansion goals and vision. Then, you and your team can better prepare to manage the associated tax-related complexities. Key questions to consider:

- Are you expanding your product line or adding services and experiences to your current mix?
- Do you plan to sell in new states, countries, or regions?
- Is it time to open your own marketplace? Or should you sell on additional third-party marketplaces?
- Do you seek to increase e-commerce volumes?
- Are more — and perhaps smaller-footprint — brick-and-mortar stores in your plans?
- Do you plan to use your stores to offer omnichannel fulfillment services like buy online, pick up in-store, or buy in-store and ship elsewhere?
- Will you expand into emerging channels such as Internet of Things devices or in-game purchases?

Tax compliance impacts every single one of these considerations. New and different product categories can bring different tax rates. Entering new territories could make you liable for new taxes and fees. Growing e-commerce volumes may mean filing and remitting taxes in different jurisdictions based on delivery type or thresholds set forth by each one. (For the U.S., see the groundbreaking Wayfair v. South Dakota case.) Finally, creating an online marketplace means understanding marketplace facilitator laws that split the tax burdens between retailers and marketplace sellers.

As a result, you must ensure your team is equipped to keep pace with jurisdictional regulations and shifting tax rates. That means structuring and aligning your in-house team to work as efficiently as possible. It also means having all the back-office systems and capabilities you need to ensure compliance.

[1] Yahoo Finance, "Retailers Optimistic About 2024 with Plans to Evolve Supply Chain and Invest in AI," 2024.
[2,3] eMarketer, "As Global Economies Stabilize, So Will Retail and E-Commerce Sales," 2024.

MUST-HAVE #2

Optimize your tax team's structure

When you tackle major growth initiatives, assessing your in-house resources and departmental structure across all functional areas of your business is essential. This is especially true 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.

What's the ideal structure? Having a unified tax department that covers all your sales channels, then pairing your in-house team with software that gives you a single source of truth organization-wide. This type of structure will empower your tax team to track compliance, streamline workflows, and efficiently respond to any tax audits.

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, growth strategies, process changes, and future vision, they gain the insights they need to maintain compliance across all products, channels, and customer experiences.

MUST-HAVE #3

Make tax consistent across all channels and systems

Do you know which systems are responsible for tax calculation in your organization? It's okay to say that you don't. In reality, 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.

Global expansion only exacerbates this problem. As brands move into new countries, they must navigate different tax regulations. This creates additional opportunities for inconsistencies, errors, and noncompliance.

To keep their growth strategies on track, retailers must find ways to apply tax rates and calculations uniformly in their financial systems and streamline data consolidation and filings. Seek partners with cloud-based and edge distribution options, end-to-end tax solutions that can fully integrate with your POS, ERP, e-commerce platform, and other mission-critical software. Also, if you're expanding internationally, look for a partner with expertise in value-added tax (VAT).

MUST-HAVE #4

Keep abreast of new tax rules and rates

Tax rules and rates change continuously across the 19,000+ taxing jurisdictions worldwide, which makes it essential to evaluate and update rate changes efficiently.

Doing so may seem simple in a retailer's earliest stages. It's not uncommon for in-house tax professionals to keep track of the rules and rates manually. They may check state Department of Revenue websites regularly, fact-check those rates against your company's internal data, and make or request updates as needed. But as your company enters new markets, this manual approach becomes overwhelming fast. To keep pace, your tax team needs proven processes for researching and implementing new tax rules and rates as they change.

Selling through marketplaces or selling in new geographic regions also brings added complexities. Tax professionals must navigate tax laws that can differ based on, for example, a European nation's status in the European Union. Additionally, tariffs and fees can change based on the economic or political climate in certain regions.

If you don't have a tried-and-true process for researching and tracking tax rules and rates, you'll fall behind the competition quickly. To get ahead, assess how manual your current processes are and whether it's possible to scale them. Then, instead of adding headcount, seek automated tools that can help you streamline these processes to achieve higher levels of consistency and compliance.

MUST-HAVE #5

Update tax rates automatically

Manual research processes aren't the only workflows that stop retail growth plans dead in their tracks. Outdated methods for updating tax rates within a retailer's tech stack cause additional concerns.

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 in Singapore.
- Your tax team has to submit a ticket to the IT department to make the change in the various transactional systems.
- You may have to submit multiple tickets to upgrade multiple different 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 posture 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.

If you identify these potential IT black holes during your assessment, it's time to find a trusted solution 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. The right solutions will make life easier for your tax team, reduce the overall burden on your IT team, and keep your tax-related risks in check.

MUST-HAVE #6

Understand the long tail of tax-related risks

While accurate tax calculation comes down to dollars and euros, the negative effects of noncompliance extend far beyond a retailer's bottom line. Reporting errors, miscalculations, and shortfalls bring a cascade of both short- and long-term implications, including:

Financial risk

- **Audit penalties and fees**, including interest, could add up exponentially.
- **Lost interest can add up** if your cash is tied up in overpayment of taxes.

Legal risk

- **Civil and criminal litigation.** Underpayment can lead jurisdictions to take civil action against retailers. In an extreme scenario, jurisdictions could even file criminal charges for tax evasion or tax fraud.
- **Class-action lawsuits** could be filed by customers seeking damages from companies that routinely over-charge tax.

Brand reputational risk

- **Erosion of customer trust.** Consumers may not buy from retailers that are known to make tax miscalculations.
- **Social media blowback.** If customers begin trading stories about chronic overcharges or unexpected fees from your brand, it could create the type of viral social media movement that no brand wants to ever experience.

Once you understand your complete risk profile, you can proactively embed tax compliance into your growth strategy. A smart step is to seek solutions that give you complete visibility into your tax data and insights so you can improve accuracy and boost compliance.

Make tax automation your competitive edge

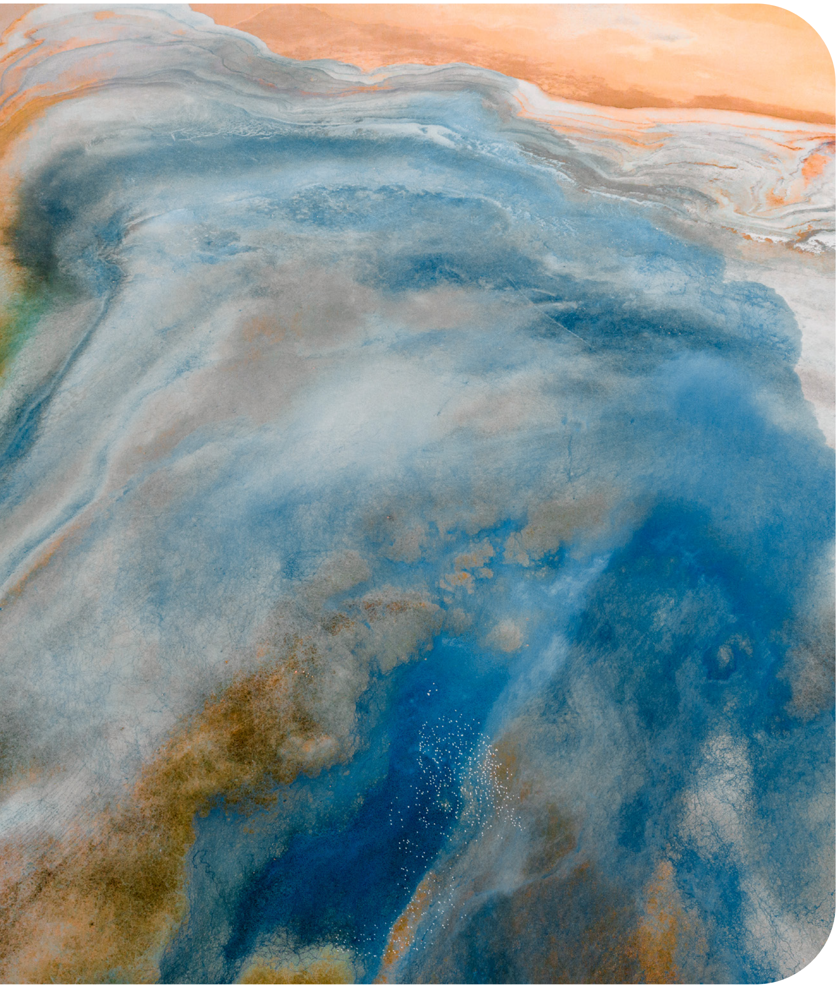
The potential rewards of expansion are tremendous. So, too, are the risks. The right solutions can help you mitigate your tax-related risks and grow with confidence.

When you partner with Vertex, you can automate tax management and compliance, empowering your team to:

- Improve the accuracy and consistency of sales, use, and VAT calculations across all financial systems.
- Reduce manual processes yet remain up-to-date on rate changes across jurisdictions, states, and countries.
- Add new products, services, and markets seamlessly as your business evolves.
- Maintain compliance across all channels and territories where you sell.

You'll gain additional business benefits too, including:

- **Increased organizational efficiency** with the ability to update tax rate changes at scale
- **Higher revenue** by reducing the reserves required to cover potential audit penalties
- **Unprecedented scale** by growing your product lines and expanding into new territories



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 automation solutions built specifically for online sellers and retail organizations.

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