Cross borders with confidence

5 ways selling into new states or countries changes tax compliance for retail and ecommerce sellers

Avalara
Tax compliance done right

If *all the world's a stage* as Shakespeare claims, then ecommerce has gone from supporting player to superstar. Last year, consumers spent an estimated $3.46 trillion online. The majority of purchases still happen in-store, but more often than not, the buyer's journey starts online. More than half of all retail sales are influenced by digital and online sales account for 75% of overall retail gains, according to Forrester Research. Sellers and buyers alike are getting more comfortable transacting business virtually from anywhere in the world. A Neilson Global Commerce report found that 57% of online shoppers have made a purchase from an overseas retailer.

While blurred lines between offline and online buying is acceptable, blurred lines with tax is not. Before you go too far down the path of selling into new states or countries, consider how this impacts tax compliance and how you'll handle these changes. Here are five key things to watch for and address before they become a problem.

1. Selling into more states

In the United States, venturing into new sales territory (physical or virtual) undoubtedly leads to nexus – a seller's obligation to collect and remit sales or use tax based on sales activities within a state. Historically, your business had to have a physical presence in the state, such as a store or warehouse, to trigger nexus. Over time, states extended sales tax nexus to common business practices such as employing remote staff, attending trade shows, and using drop shippers or third-party fulfillment services.

In June 2018, the U.S. Supreme Court decision in South Dakota v. Wayfair, Inc. gave states the right to enforce economic nexus, requiring remote sellers to collect and remit sales tax if sales into the state exceed certain sales volume or revenue thresholds. Today, all but two of the 45 states with sales tax have economic nexus laws in effect. And even a small retailer or ecommerce seller can have nexus in multiple states. Studies have shown that once your business has multistate nexus, managing sales tax gets exponentially more complicated and difficult to manage. If you're curious about where your business has established economic nexus, you can check your tax risk here.

Tax tip: *Dedicated tax automation software can make those nuanced decisions for you quickly and more accurately so there's little chance of getting it wrong or overlooking an obligation.*

> *"Every online retailer is in the same boat, trying to comply with nexus rules that are complex and evolving. I can't imagine how many hours it would take a person to sort out all of the applicable taxes for so many cities, counties, and states. We might start selling internationally and expanding our retail footprint in the U.S. When that happens, I'm comfortable having Avalara deal with that stuff for us."*
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> – **Robin Hecht**, Controller, Boll & Branch

2. Going global

When you ship orders overseas, you open the door to a whole new set of customers, as well as compliance challenges. Certain markets like the United Kingdom and the European Union operate under the value-added tax (VAT) system. Other markets like Canada and India have goods and services tax (GST). Some countries have both.

VAT and GST follow different assessment, collection, and payment structures than U.S. sales tax. But, like sales tax, these taxes are equally complex, and vary widely by country, taxing authority, and jurisdiction. International transactions also usually involve customs duties. The cross-border tax compliance process can be complicated and prone to error. This uncertainty and risk often leads companies to hire intermediaries or customs brokers to help them determine the landed cost of the transaction, which can add greatly to business expansion costs.

The U.K. leaving the European Union (Brexit) exacerbates this issue for many sellers. Much like the struggle that ecommerce sellers went through with economic nexus in the U.S, international sellers will no longer enjoy duty-free trade between the U.K. and the EU.

As a result, companies that previously had distribution centers in the U.K. will no longer be able to move stock among countries with the same tax-free freedom. Therefore, some companies are looking to relocate their warehouses outside of the U.K. to other more centrally located countries like the Netherlands to avoid having to pay cross-border fees.

Cross-border compliance doesn't only apply to tangible goods. Digitally delivered products and services, like streaming media, are also subject to international sales and trade laws. For example, in 2014, the EU changed how VAT was applied to broadcasting and electronic services, basing tax on the location of the customer, not the provider. So instead of charging one VAT rate, Netflix and other distributors of digital content now need to apply a different tax rate to each transaction based on where customers consume content.

Tax tip: *Tax shouldn't be a deterrent to taking your business global, but it's important to know your compliance obligations for international sales. An automated cross-border tax compliance solution may well be worth considering if your growth plans extend internationally.*

> *"Tax compliance software companies with expertise and technology to manage cross-border transaction compliance are well positioned to provide businesses with an edge in the global market."*
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> – **Kevin Permenter,** IDC

3. Getting the word out (and your products)

Marketplace selling is a great way to get your products in front of more buyers. According to Forrester, 66% of adults in the U.S. familiar with online marketplaces have made purchases through marketplaces. More than half of all Amazon sales now come from third-party sellers and Etsy's 2.1 million sellers saw $1 billion in sales in the first quarter of 2019 alone. Much like economic nexus, new marketplace facilitator laws put the onus on the site facilitator to collect sales tax on behalf of its third-party sellers if certain conditions are met. Currently, 36 states have these laws in effect.

Social selling solutions like Soldsie and Like2Buy that encourage click-to-buy through social sites like Instagram and Facebook can also trigger nexus. More than 30 states have affiliate and/or click-through nexus aimed at capturing sales tax from internet sales and online marketing activities.

The use of drop shippers or third-party fulfillment services can also cause sales tax confusion. Depending on state policies, collecting tax can be the responsibility of the seller, the supplier, or the shipper. Several states, including California, Connecticut, Florida, and Hawaii, hold the supplier responsible for sales tax if the seller doesn't have nexus in that state, but the supplier does. View our state-by-state guide to sales tax shipping rules for more clarity.

Tax tip: *If you do advertise, sell, or fulfill orders through affiliates, make sure you understand your obligations and who is responsible for collecting and remitting sales or use tax on any sales that result from these activities.*

4. Losing sight of the customer

Customer experience (CX) is more than a trendy acronym; it's what will help you attract and retain loyal buyers. Some sobering facts: 84% of shoppers say customer experience is more important than the product and 66% place it above price.

Amazon disrupted delivery to the point that fast, free shipping is rote for many web shoppers. Savvy online buyers expect to find what they want online quickly and check out and receive their items with equal efficiency. It's your job as the seller to ensure shopping cart items transfer across devices; pricing and promotions are consistent across channels; and check out is fast, easy, and accurate. That means no slowdowns and no surprises at checkout.

Unexpected costs, including shipping, customs duties, and taxes, continue to be the primary driver of ecommerce shopping cart abandonment. Estimating these costs is no longer "good enough." With today's technology, there's no excuse for your shopping cart or point-of-sale system to not instantly and accurately calculate discounts, shipping, and taxes at the time of purchase. And that includes customs duties on international sales, too.

Cross-border transactions are a far bigger headache for the seller, but consumers don't care. They expect the same fast, easy, and transparent checkout experience online whether they're buying clothes from the shop across town or from a Paris boutique. It may be tempting to simply pass the pain of customs duty and tax onto your customers, but be prepared to lose the sale. At the very least, be upfront about all costs at the time of sale. Even better, treat all your online buyers equally by factoring the costs of international sales into your business. **[See examples below]**

Example A

- Shipping charges apply
- Sales tax and import duties are not calculated in the shopping cart
- Customer is surprised with a $52 COD (cash on delivery) charge

Red Sweater	$45
Black wool skirt	$85
Sneakers - canvas	$60
Subtotal	**$190**
Tax*	-----
Shipping	$30
Order total	**$220**
*Total may change. Import duties and taxes not included. Additional fees on delivery.	
Invoice total	**$220**

Example B

- Shipping charges apply
- Sales tax is calculated in shopping cart
- Import duties and taxes are calculated in the cart

Red Sweater	$45
Black wool skirt	$85
Sneakers - canvas	$60
Subtotal	**$190**
Tax*	$52
Shipping	$30
Order total	**$272**
*U.S. sales tax and import duties and tax for delivery to 98110.	
Invoice total	**$272**

Example B

- Free shipping with minimum purchase
- Sales tax is calculated in shopping cart
- Import duties and taxes are included in item cost and not passed on to customer

Red Sweater	$55
Black wool skirt	$95
Sneakers - canvas	$75
Subtotal	**$225**
Tax*	$19
Shipping	Free
Order total	**$244**
Free shipping on $100 or more. No additional fees on delivery. Import duties and taxes included.	
Invoice total	**$244**

Tax tip: Delivering a seamless online experience is key whether you're selling to buyers across town or around the globe. While omnichannel selling creates less friction for customers, it can create more friction for you, the seller, if you aren't up to date on tax compliance rules and best practices.

> *"We want to make sure our customers are taxed or not taxed correctly. But it was really a guessing game for our small team. We decided to fine-tune the process and to automate it as much as possible. No more guessing – we are absolutely more confident with Avalara."*
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> – **Ben Norton**, Director of Retail Technology, McCaffrey's Food Markets

5. Being disconnected from your data

As consumers become more cloud-centric, so must retailers. Mobile pay options and EMV chip mandates are putting pressure on merchants to update payment terminals. Mobile-friendly sites, social media storefronts, and in-app purchasing are standard practices. And a connected back end is critical to gain competitive insights into consumer behavior and optimize inventory and order management.

To grow your business, you need to be able to see your business. To get a unified picture of customers and their buying behaviors, it's important to manage physical store and online sales information from the same platform. Yet, only 63% of retailers say they have ecommerce and in-store transaction history together in one database. That's changing. According to IDG, 73% of companies are using cloud applications to realize greater efficiencies in their businesses.

For retailers especially, cloud solutions are growth enablers. Sellers used to balk at making changes or upgrades to their systems for fear of disrupting business as usual. Today, many ERPs and ecommerce systems are either cloud-enabled or fully in the cloud and highly compatible with third-party software and SaaS solutions. Many of the activities that previously required dedicated resources can now be automated. As a result, more retailers are shifting various activities to the cloud and automating where they can. This includes sales and use tax compliance.

Tax tip: Managing sales tax in the cloud with software integrated into your existing business systems is more efficient, but also more effective. The data is more meaningful because it's highly accurate, verified, and readily available. This simplifies reporting and analysis, reduces invoicing or shipping errors, and lowers audit risk – all competitive advantages for growing retailers and ecommerce sellers.

> *"Every time an auditor came in, we'd have two people completely dedicated to that for at least three weeks. To make matters even more challenging, our systems didn't talk to each other – GL, inventory, and POS systems were completely disconnected. The implementation of Avalara's solution was seamless and user-friendly. We answer with such confidence and authority now; the auditors have moved on to someone else."*
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> – **Lois Brown**, VP Finance, Dylan's Candy Bar

Sell yourself on a better tax compliance solution

Even when customers pay the tax, as the seller, you're on the hook for making sure the right amount is charged and collected, and held liable if it isn't done right. It's a big task. And as your business grows, your tax liability grows too.

Relying on people or on-premises solutions is risky. They simply can't keep up. The tedious nature of updating tax rate tables alone can cripple a growing company, especially retail, where uptime is critical and even the smallest delay or error in calculation can lose the sale (or worse, the customer). You can't be a tax expert in every state and every country. You shouldn't even try. A better alternative is to be proactive in how you handle transactional tax in your business – and automate it.

A global tax management solution like Avalara provides the ultimate protection for retailers and ecommerce sellers who want to venture into new markets without running into tax compliance problems along the way. It starts with our platform-friendly cloud software that integrates easily into your existing systems. Turn it on and tax rates and rules are instantly applied to every sale, every time, everywhere. Our platform supports U.S. sales tax, GST, and VAT in more than 113 countries and territories.

Need more help? No problem. We also automate consumer use tax, customs duty and import tax, HS code classification, returns filing, and tax document management and exemption certificates. This end-to-end approach to tax compliance is why Avalara is a Worldwide Leader in Cloud Sales Tax and VAT Automation and European Tax Technology Firm of the Year. More importantly, it's why 25,000 global companies including top retail brands like Adidas, Tumi, Walmart, Quicksilver, and Master Lock trust Avalara to manage their tax compliance.

> *"Avalara is the Cadillac of its category, and has been for years. It's what you should be using if you just want tax handled. We have some very audacious growth plans. The kind of volume we're planning will rely 100% on Avalara's ability to help us scale. I can honestly say that having Avalara will enable that kind of growth, because we know we're covered."*
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> – **Emily Pfeiffer**, VP of Marketing & Digital, Berkshire Blanket and Home Co.

To learn more about Avalara's products, visit:

avalara.com

or call

877-780-4848

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, excise, communications, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Canada, the U.K., Belgium, Brazil, and India.