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The Hidden Risks of Multichannel Expansion

Meeting New Tax Challenges

Introduction

As your retail business expands, you quickly learn the meaning of the phrase "growing pains." Whether growth takes the form of selling on different channels such as marketplaces, selling across geographies, offering new product lines or opening your first brick-and-mortar store, it requires investments of money and time as well as a whole series of learning curves.

One too-often-overlooked type of growing pain is managing tax compliance, an area where even the simplest of business expansions can add layers of complexity. For example:

- Opening stores in a new geographic area, or in some cases simply selling online to customers in different locations, can create sales tax obligations **depending upon the number of transactions or revenue generated**, which triggers the need to calculate, file and pay sales taxes to the state and/or locality.

- Each of the major marketplaces has different structures for managing sales tax, and even if those marketplaces manage some aspects of tax compliance, retailers need a **central source of aggregated data** to understand both their tax liabilities and key purchase patterns.

- Products are subject to different tax rates in different areas, so **expanding assortments requires understanding the intricacies of tax codes in multiple jurisdictions** — including the thousands in the U.S. alone.

This white paper will identify how easy it is for tax management complexity to mount alongside growth. It will also explore the modern technology and tools that can help ecommerce retailers navigate today's hidden risks, automate processes to free up staff for higher-value work, and simplify and streamline everything from calculations to reporting to revenue analysis.
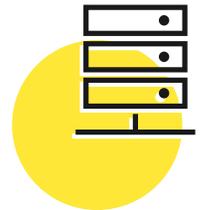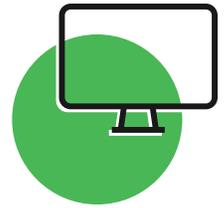
Table of Contents

Lack of Agility Hurts Your Competitiveness

The push toward new ecommerce channels — from mobile apps and marketplaces to social selling — is just one factor creating a need for greater agility. Retailers are also embracing other transaction points, such as short-term pop-up locations and shared stores with complementary brands. But managing tax compliance across all these selling environments is impossible if data from individual channels is locked inside disparate systems. Timeframes to extend traditional technology across new storefronts can also be worryingly long, leaving you to play catch-up and potentially miss revenue while building out new markets.

A **cloud-based sales tax solution** allows you to implement an automated, consistent and repeatable process as you grow. Knowing you can quickly extend your tax management capabilities across every new sales channel and location provides confidence to move your business forward. With your sales tax solution in the cloud, you can utilize a single tax engine for every channel, location and transaction, allowing you to:

- Maintain accurate and consistent tax calculations across all sales channels;

- Be confident that product taxability is always correct and current for each jurisdiction;

- Aggregate all transactional data for accurate reporting, filing and remittance; and

- Ensure shoppers enjoy a quick and seamless buying experience regardless of their preferred transaction point.
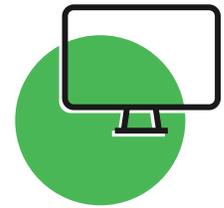
57%
of consumers said they shopped a lot or exclusively on marketplaces in 2021, up from 42% in 2019.
Source: Mirakl

Powering your tax management program with cloud technology frees your business from legacy systems that are difficult to scale and too rigid to fully support the dynamic flow of modern ecommerce environments. Migrating tax compliance to the cloud gives you the agility to respond to changing market conditions, giving you the ability to:

- Pivot into new markets and regions without the prohibitive CapEx costs;

- Pounce on emerging opportunities through new sales channels; and

- Adjust product assortments to meet customers' evolving expectations.

As your business grows, a highly adaptable and easily deployed cloud-based platform empowers you to move quickly while maintaining compliance across every sales channel and region.

Siloed Data Masks Your True Tax Obligations

Sifting through multiple data repositories makes it difficult to develop an accurate reflection of revenue and transaction levels across your entire footprint. Without a system that can gather and aggregate data, you can't get a comprehensive view of your tax obligations, reporting and remitting activity per jurisdiction, nor can you get insight into where revenue and cost savings opportunities exist.

Implementing an **automated solution** that delivers **aggregated transaction data** and **manages reporting activities** provides critical awareness into your tax obligations, and releases your team from error-prone and time-consuming manual tasks.

Rather than piecing together disparate datasets from multiple systems, spreadsheets and other individually created reports, the right tax management technology handles all of that for you, no matter how many new sales channels and transaction locations you add to your portfolio. You can rely on consistency at every level — no more concerns that one system applies a flat rate for each state while another drills down to ZIP-code-based calculations.

A modern sales tax management solution means that when auditors request data or your executive staff wants to review the company's financial performance, you can create reports on demand with the latest highly accurate data. A solution with fully integrated data capabilities can even file returns automatically in states where your transactions meet nexus thresholds, thereby removing additional unnecessary tasks from your team's workflow.
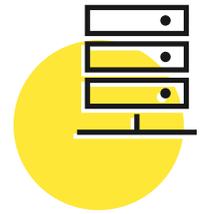
18% – 40% error probability with small spreadsheets. The larger the spreadsheets, the greater the error risk.
Source: University of Hawaii

Migration Pains Disrupt the Ecommerce Evolution

Businesses are often hesitant to implement or change software due to worries about clunky cutovers, jumbled data, wasted time and productivity hits. This is especially true when working through highly regulated processes, where mistakes can mean hefty penalties and ongoing compliance headaches. Dealing with seasonality and cyclical spikes in traffic, where retailers may need to prepare and optimize workflows for a holiday surge at least six months in advance, can pose additional challenges. But reliance on outdated systems only hampers your ability to capitalize on these types of ecommerce opportunities.

Fortunately, a cloud-based tax management solution eliminates the traditional migration pain points and keeps your business compliant from start to finish. Today, the right technology partner can **make your move to a more modern platform quick, simple and successful**.

A solution provider that offers comprehensive support and a well-established onboarding process is the key to success. Your partner should have the expertise to help you assess your current environment and identify the most efficient and seamless transition strategy.

This vital step can safeguard implementation success and give you confidence that you're using the solution correctly. You may find, for example, that you don't need to charge sales tax in every state if your transaction levels don't exceed jurisdictional thresholds. Instead, you can work with your solution provider to develop a project plan built around your existing sales activity with an understanding of your future strategy and forecasts. This type of expert guidance reduces implementation time and cuts the risks of moving ahead with potentially flawed processes.

$375.3 billion

Revenue generated from state retail sales taxes in fiscal year 2021
Source: Tax Foundation

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The rollout is just the first step. Receiving dedicated support from your technology provider is just as important on Day Two and every day after. As your organization's selling environment changes, seasoned experts can help you understand your obligations and opportunities as you:

- Expand into new states;

- Add and adjust your product categories;

- Launch new sales channels; and

- Develop new brand partnerships.

As your business strategy matures, you need someone to help you navigate the changing liability landscape. The right technology partner can use it's expertise to track the nuances of your selling environments, your sales tax obligations in each channel, and changes in sales tax rates and regulations for each jurisdiction.

Case Study: Every Man Jack

Every Man Jack is an innovative men's grooming brand that uses as many plant-based ingredients as possible in its products.

Challenge: As it began selling products on marketplaces and increased traffic on its own ecommerce platform, Every Man Jack soon had tax responsibilities in almost every U.S. state. Its small in-house accounting team wanted a tax solution that could help it scale without needing to devote a full-time position to manage tax compliance.

Solution: TaxJar

Results: After thorough customer support created a smooth onboarding, Every Man Jack quickly saw results. It used TaxJar to auto-register and auto-file in every state where it was required. The company also leveraged TaxJar to create new exemption codes. Without the easy-to-use dashboard, self-service resources and expert guidance TaxJar provides, Every Man Jack says it would "probably have an entire department" dedicated to sales tax. Now, its **finance team saves hours of work** while keeping pace with the company's rapid growth.

Unexpected Budget Surprises Tarnish Your Growth Opportunities

From onboarding costs to activation fees, connection charges and sandbox expenses, the array of services that could unexpectedly cost you money are nearly endless. Unfortunately, some platforms don't provide enough clarity around upcharges, what they cover, when they apply and how much they'll be. With margins shrinking due to factors outside your control — fuel prices, inflation, rising commercial rents — you don't want to be blindsided by unexpected costs that could diminish your ecommerce revenue forecasts.

Partnering with the right technology provider eliminates those worries, giving you confidence not only in the service and support you receive but also in the knowledge that **your invoices will be predictable and consistent**. You'll have access to transparent and easy-to-understand pricing structures, and you'll know ahead of time how scaling your business will affect your budget.

The right provider can tailor services to suit your preferences. It will also stand behind its solution, offering an accuracy guarantee and taking on responsibility to rectify any errors that may occur. In addition, a solution provider should give you additional assurances, such as a timely filing guarantee and uptime commitments. These protections reduce your company's financial risk and give you confidence your operations are always working properly and are fully compliant.

71%
of executives surveyed say automation helps their companies save time

63%
say it improves productivity

59%
say it saves money
Source: UiPath

Achieve Your Growth Plan and Maintain Tax Compliance

Whether your organization manages sales tax compliance internally, you've passed the tasks to an accountant or your current solution simply isn't a good match for your needs, it's time to align your sales tax management strategy with your ecommerce growth plans. The right sales tax management platform blends flexibility to pursue your goals, powerful automation to free up your internal staff and reduce the risk of errors, optional services to suit your unique business environment and human expertise to guide you from implementation to everyday use.

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Want to take a deeper dive into sales tax compliance for multichannel retail? Learn more [here](#).

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TaxJar is reimagining how businesses manage sales tax compliance. Our cloud-based platform automates the entire sales tax life cycle across all of your sales channels — from calculations and nexus tracking to reporting and filing. With innovative technology and award-winning support, we simplify sales tax compliance for more than 24,000 customers.

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