7 Surprising Tax Facts That Will Impact Your DTC Strategy

Pretty soon, businesses can start dropping “E” from the term ecommerce. With COVID-19 pushing more and more shopping into digital channels over the last two years, retail has predominantly moved online. Brands are working furiously to adjust their business models to meet these shifting touch points.

The direct-to-consumer (DTC) evolution is further forcing brands to integrate their multiple channels like never before. Retailers must embrace shopper journeys that seamlessly bring together online, mobile, social, voice and physical touch points into one exceptional shopping experience.

Along with the logistical challenges, the rise of omnichannel shopping also creates greater tax complexity for brands, exposing them to issues they may never have had to tackle before. Each channel carries its own unique tax challenges. Weaving them together raises the complexity exponentially.

As even the largest brands embrace DTC models, these seven surprising tax facts can make sure you meet tax challenges head-on:

- Get ready for an explosion of nexus
- Touch points should drive your tax strategy
- Accounting and tax departments can help you stay compliant
- The rise of marketplaces and delivery services will increase tax complexity
- Brands should build their tech stacks to last forever
- Pick a solid tax provider
- Taxes are only going to become more complicated

Fact 1: Get ready for an explosion of nexus.

Brands that were traditionally B2B companies—or those that didn't have a prior DTC strategy—face new tax challenges when it comes to nexus. In a post-South Dakota v. Wayfair world, a retailer's physical location no longer determines nexus. Instead, 43 states and the District of Columbia now use an economic activity threshold to determine nexus. This has created a "nexus explosion," and brands that sell DTC regionally or nationally must determine nexus in multiple jurisdictions.

Fact 2: Touch points should drive your tax strategy.

The top-down approach brands used to follow when deciding which touch points to explore isn't nimble enough for retail in today's world. Now, it's customers who decide how they want to shop, and they rely on brands to create experiences that optimize their shopping experience.

It is up to brands to figure out how customers want to shop and then build their tax integrations around their behaviors. For example, selling on a marketplace as opposed to strictly DTC will determine some of the nuances of the integrations that organizations need for indirect tax automation. Meanwhile, marketplaces require a multi-tenant solution that accounts for nexus and tax responsibility across buyer and seller for consideration of freight tax.

It is vital that brands' tax strategies be guided by customer behaviors and that the solution they implement be seamless and invisible to shoppers.

Fact 3: Accounting and tax departments can help you stay compliant.

Despite their best efforts, most organizations still work in silos, and departments responsible for ecommerce don't always have a good handle on tax compliance. It can be easy to overlook tax when building out a DTC strategy that's typically viewed as a back-office function. But taxes stare everyone in the face at checkout time.

That's why it's best practice to create open channels of communication between ecommerce and IT teams, and the tax office, to ensure full compliance. Retailers may not even know the indirect tax provider for their site and what capabilities that provider has. And when issues arise, ecommerce and IT may not know that the provider offers solutions like Vertex for Salesforce Commerce Cloud.

By working with accounting and tax, retailers can bring those issues into alignment and sidestep compliance challenges.

Fact 4: The rise of marketplaces and delivery services will increase tax complexity.

Consumers shop on marketplaces like Amazon and eBay because they enjoy the ability to see and review numerous brands and products at once. Retailers partner with marketplaces to expand categories and raise brand awareness. And delivery services like Instacart give brands yet another viable ecommerce channel.

But marketplaces and delivery services make tax more complicated. For starters, most states have marketplace facilitator laws, requiring the marketplace to collect and remit sales tax on behalf of third-party sellers. Although that responsibility doesn't fall on sellers, they must still file returns in many states even if they aren't collecting and remitting the sales tax.

Even more complicated is that some states include marketplace sales in the economic nexus threshold, thanks to the Wayfair decision. Other states don't do that and only count direct sales in determining whether retailers meet the threshold.

Fact 5: Brands should build their tech stacks to last forever.

Gone are the days of building a tech stack and swapping out partners within it when a better, more agile alternative comes along. Such switches bring both hard costs (software) and soft costs (relearning of skills and processes).

Instead, retailers today should choose vendors that can evolve with their business. You should think of your tax solution provider much the same way you approach enterprise resource planning (ERP) or materials requirements planning (MRP)—as a solution that's pivotal to your business and one that can't be easily removed and replaced from your tech stack.

With taxes a through-line in all retail, the choice of a tax provider is even more consequential in helping you ensure compliance, avoid risk and create a tech stack that can grow along with you.

Fact 6: Pick a solid tax provider.

Tax laws change quickly, and it is hard for organizations to keep up on their own, particularly when they must keep tabs on an ever-growing number of jurisdictions.

Manual tax collection and remittance is a time-consuming and error-prone process. Indirect tax automation helps retailers interpret tax laws accurately and mitigate noncompliance risks. Work with a provider that knows tax in and out to develop the integration you need so that the backend works seamlessly within different jurisdictions.

Fact 7: Taxes are only going to become more complicated.

We are living in an age of constant digital revolution. Each new technological development is accompanied by new tax laws that seek to generate revenue off those activities. The Wayfair decision is a perfect example. For years, retailers got used to not collecting sales tax on ecommerce transactions, but now they must keep tabs on tax laws nationwide.

As new channels arise and consumers adopt new methods to transact, you can expect to see state and local governments come up with more ways to tax these transactions. In addition, local budgets are still strained due to COVID-19 mitigation efforts and reduced revenues. In some states, sales tax makes up more than 42% of total budgets,[1] so tax collectors are under increasing pressure to locate every last dollar owed to their state. The imperative to stay vigilant on tax has never been greater.

With the digital retail revolution only accelerating, tax issues continue to multiply. Keeping up with all the changes with manual processes is nearly impossible. Indirect tax automation can help keep you compliant and let you focus on the opportunities ahead.

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[1]Tax Foundation

About Vertex

Vertex Inc., is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,200 professionals and serves companies across the globe.

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