HOW SELLING THROUGH MULTIPLE CHANNELS IMPACTS YOUR SALES TAX OBLIGATIONS

Avalara
Tax compliance done right

WHITEPAPER

IF 2020 TAUGHT US ANYTHING, IT'S RESILIENCE.

The pandemic consumed most of the year, keeping people home and reliant on the internet to work, learn, connect socially, and shop. Both buyers and sellers had to get creative to meet needs, with digital channels filling the gaps for more traditional activities like in-store shopping and in-person events.

Fast-forward to now and digital channels continue to dominate. FIS Global found that 58% of consumers surveyed are buying more online as a result of COVID-19. Events have gone virtual and remote working is still par for the course for many. Both direct-to-consumer (D2C) and business-to-business (B2B) ecommerce sales are at all-time highs. International ecommerce sales are growing at double the rate of domestic ecommerce sales. A study by Sapio Research and ClearSale found that more than half of consumers make online purchases from international sellers on a regular basis.

DISCLAIMER

While we hope you find this information valuable, it is not a substitute for tax advice from a certified tax professional. If you're unsure of your tax liabilities, please contact a tax expert.

The tipping point for our new 'new normal'

One lasting impact of the pandemic may be the acceleration of multichannel selling. More businesses are realizing they need to align their channel strategy with how customers want to research and buy products today. It's paying off: Businesses that sell through multiple channels generate **190% more revenue** than those that sell through a single channel.

And it's not just retail. B2B and D2C sellers have growth opportunity here too. According to **Forrester research**, 73% of B2B buyers find buying through ecommerce, web direct, or marketplaces convenient. A **McKinsey study** yielded similar results. Furthermore, **Forrester found** that 68% of B2B buyers start their journey digitally before speaking with a salesperson and 71% do this before selecting a vendor. Gartner predicts that by 2023, **75% of B2B procurement** spending will be via online marketplaces.

Many private label manufacturers are also pivoting to multichannel selling. The **Harvard Business Review** found that some brands like PepsiCo are starting to sell directly to consumers while others like L.L. Bean are expanding into indirect channels through partnerships with retailers and marketplaces. **Influencer channels** such as social, affiliates, and partners are more prevalent as well; Forrester reports 70% of global revenue now comes from third-party channels.

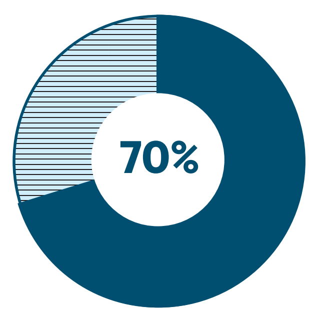
Keep in mind that with the addition of new sales channels come new sales tax obligations. As you rethink sales channels and revamp operations to reach more customers, it's critical to factor tax compliance into your strategy and planning.

Retailers who sell on two marketplaces see nearly

3x more revenue

than those who only sell on a single marketplace.

70% of global revenue comes from third-party channels.



Navigating nexus

When you add or expand sales channels, your customer basebecomes larger and more geographically dispersed. This can impact how you manage tax compliance depending on where customers are located.

For U.S. sellers, that can mean changes to **nexus** – the connection to a state or local jurisdiction that obligates a business to collect and remit sales tax. Historically, nexus required having a physical presence in the state, such as a store or warehouse. 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, a landmark decision by the United States Supreme Court 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 one of the 45 states with sales tax have economic nexus laws in effect. Nexus thresholds vary by state. Many states use $100,000 in sales or 200 transactions as the standard. However, some states have higher or lower thresholds. Several states including Alabama, California, and Massachusetts base economic nexus on sales revenue only. Kansas has no thresholds – any remote sales into the state trigger economic nexus. Some states **include exempt sales** and services in their thresholds.

Under these new rules, it's easy for even a small retailer, or manufacturer new to selling direct, to exceed nexus thresholds in one or more states. The chart on the following page illustrates how easy it is for a new tax nexus obligation to be triggered by multichannel selling.

Examples of business activities that can trigger sales tax nexus:

- *Sales revenue and transaction volume*
- *Physical presence*
- *Remote employees*
- *Online advertising*
- *Affiliate relationships*

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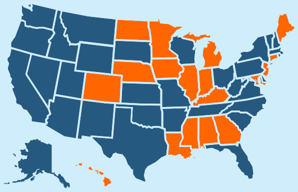
HOW MULTICHANNEL SELLING CAN ADD UP TO ECONOMIC NEXUS

Economic nexus is based on your total sales into a state. When you sell to buyers through multiple channels, you're more likely to meet or exceed the thresholds in that state. Digital channels like ecommerce, online marketplaces, and social media are probable triggers because your customers could be located anywhere. So, it's possible that even if you didn't have to register to collect sales tax in a state previously, growth in remote sales could mean that you do now. And this is true for every state where your sales give you economic nexus.

The example below shows how aggregating your sales data from various channels could add up to economic nexus if total sales into the state now exceed revenue or transaction volume thresholds. You'll need to determine if you've triggered economic nexus for every state where you're now selling to customers through multiple channels.

SALES CHANNEL	REVENUE	TRANSACTIONS
Web sales	$40K	70
Store sales	$20K	50
Marketplace	$50K	90
Social selling	$5K	20
TOTAL	**$115K**	**230**



Studies have shown that once your business has multistate nexus, managing sales tax gets significantly more complicated and difficult. Tax rates and rules can vary by state and even by jurisdiction. There are more than 13,000 tax jurisdictions in the U.S. This is further complicated by the ever-changing nature of nexus and **sales tax laws and legislation**. In 2020, there were 3,786 multi-tax rate updates and 41 international tax rate updates. **Cross-border sales** come with their own complex tax and trade compliance rules.

2021 sales tax changes report

Understanding tax compliance as it relates to multichannel selling

Deciding to sell through new or additional sales channels can change tax compliance for your business. New obligations can result from one channel's activities or, more likely, some combination of channel activities.

Consider the following examples:

MARKETPLACE SELLING

> ***John owns a retail shop in Sunnyvale, California, that sells locally made, organic cleaning products. He also sells products on his website. Sales are modest, so John decides to try online marketplaces Etsy and Amazon to reach new customers.***

Marketplaces may handle sales tax for you on sales through their platform. But you still need to consider how these additional sales impact total sales across all channels. It's possible that the combination of online and marketplace sales could establish nexus for John's business in more states and require him to register, remit, and file sales tax returns in those states even if his previous online sales didn't meet those thresholds.

TAXABLE AND TAX-EXEMPT SALES

> ***Mei manages finances for a manufacturing company in Dayton, Ohio. They recently started taking orders online and allowing customers to buy direct on their website.***

Moving from a primarily tax-exempt sales model to one that includes taxable sales can be challenging. But it shouldn't be a blocker to growth or multichannel selling. Just be clear on the rules and certain that your people and processes are up to the task. Mei's company is now selling directly to consumers, which will likely mean a mix of both taxable and tax-exempt sales. Mei's job will be to ensure her company's ecommerce and billing systems can correctly apply sales tax or tax exemptions to each transaction. She'll also need to pay attention to which states include tax-exempt sales in nexus thresholds.

ECOMMERCE AND WEBSITE SALES

> ***Lisa and Charles make and sell pottery in their studio in Charleston, South Carolina. With a recent drop in foot traffic, they decided to shift all their sales online and sell exclusively through their website. They currently ship to all 50 states.***

Now that nearly every state requires remote sellers to charge sales tax on ecommerce sales, you need to consider how online sales impact nexus for your business. Sales tax rates and rules vary by state, so you also need to be sure you're charging the correct sales tax to each customer depending on location. Lisa and Charles may need to register to collect and remit sales tax in more states if their online sales into those states exceed revenue or sales volume thresholds.

FULFILLMENT AND DROP SHIPPING

> ***Frank oversees fulfillment for a large retailer based in Dallas, Texas. To keep up with online order demand, the company now keeps inventory in warehouses in Washington and Virginia as well as in Texas. In some cases, items ordered online are shipped directly to customers from the manufacturer.***

It's important to remember that physical nexus rules still apply. If you're storing inventory, shipping directly from the manufacturer, or using third parties to drop ship to customers, be sure to check state rules and track those activities carefully to account for any new sales tax obligations that could result. It's possible Frank's company now has or could soon have nexus in Washington and Virginia and maybe even in other states depending on where his suppliers are located.

AFFILIATES AND SOCIAL SELLING

> ***Emma oversees marketing for a closet-remodeling company in Denver, Colorado. The consultation promo in their online ads on partner websites and social media channels is seeing high engagement, including several sales.***

Digital sales channels are a great way to build brand awareness and attract new customers. But they can also add to a company's sales tax obligations. Several states have **affiliate nexus laws** and **click-through nexus laws**, which could apply in Emma's case. Selling through social sites is a form of ecommerce and could subject the company to economic nexus thresholds in some states.

PHYSICAL EXPANSION

> ***Ramesh is the sales director for a specialty foods ecommerce company. Previously, all sales were online. But the company decided to open a few brick-and-mortar stores in key target markets in Seattle, Chicago, and New York.***

Traditional sales channels are still part of the channel mix for many companies. And physical presence rules still hold true when it comes to establishing nexus. Anytime you expand the footprint of your business (virtual or physical), you need to consider how that impacts your sales tax obligations. It's likely that even if Ramesh's company's online sales in Seattle, Chicago, and New York don't trigger nexus, a physical location in those states will require charging sales tax according to state regulations.

REMOTE STAFF

> ***Rebecca is the CEO of a software company based in Durham, North Carolina. She plans to grow her sales team considerably over the next six months. Most of her new hires will be remote, spread across the U.S. in various key markets where the company hopes to increase its customer base.***

Hiring remote sales staff, contractors, installers, and other personnel that generate sales revenue for a company is considered a nexus-creating business activity by many states. Rebecca will need to consider how her expanded sales team will change where her software company is required to register to collect and remit sales tax based on the rules in each state where employees live and work.

INTERNATIONAL SELLING

> ***Thomas is the ecommerce director for a popular U.S. apparel brand. National online sales revenues are steady and the company is ready to expand and start selling and shipping its products to international customers.***

The growth of ecommerce has made international selling an attractive and viable option for many companies. However, cross-border transactions come with their own set of trade and tax rules and regulations. Be sure you understand how value-added tax (VAT), goods and services tax (GST), customs duty, and import taxes apply. **Item classification** is also key. Thomas should also ensure shipping and duty costs and policies are clearly communicated to customers.

Aggregate sales data and streamline tax management

Once you have a clear understanding of how multichannel sales can change your sales tax obligations, you'll want to set up your business to address them properly. How will you handle growth going forward without adding risk? You first need to have clear visibility into your sales operations. Aggregating sales data ensures you have a complete and accurate record of all your transactions. A "single source of truth" simplifies and streamlines compliance so you're aware of where you have nexus and can determine what tax rates and rules apply to each transaction. This is where a tax automation solution like Avalara can make a difficult job easier by lessening the work and burden of getting sales tax right.

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Avalara tax automation solutions are designed to integrate seamlessly with your existing business software and systems to give you a 360-degree view of your sales transactions and make it easier to stay on top of your tax obligations, even as your business changes. Avalara affords you the ability to automate the entire tax compliance process – from registration to rate calculation to returns filing – with one solution suite. This helps optimize the efficiency and profitability of your multichannel sales strategy.

Take the proper steps to be sales tax compliant

Channel sales are tightly tied to tax compliance, so when one changes, it directly affects the other. So, the more adept you are in managing sales tax, the less likely you are to make costly missteps that could result in unfavorable audits or upset customers and supply chain partners. The list below shows the five basic steps involved in sales tax compliance, what you need to do for each step, and how a tax automation solution like Avalara can build efficiencies into each step to save you time and resources and reduce uncertainty.

STEP 1: KNOW WHERE YOUR BUSINESS MUST COLLECT AND REMIT SALES TAX

WHAT YOU NEED TO DO:

- Stay informed of changes in legislation that may impact your business
- Know how each state's nexus laws apply to your sales channels
- If you sell through marketplaces, affiliates, or social channels, or use third parties to fulfill orders, be clear on who's responsible for collecting and remitting sales tax

HOW AVALARA TAX AUTOMATION SOLUTIONS CAN HELP:

- Determine where you have nexus
- Checks that you haven't missed or overlooked obligations
- Makes it easier to update your obligations as they change

STEP 2: REGISTER TO COLLECT AND REMIT SALES TAX

WHAT YOU NEED TO DO:

- Register with state and local tax authorities to collect and remit tax
- Do this for every state in which your sales activities meet or exceed nexus thresholds

HOW AVALARA TAX AUTOMATION SOLUTIONS CAN HELP:

- Simplifies and expedites the process of getting you set up to collect and remit tax where you're required to do so

STEP 3: CALCULATE THE CORRECT SALES TAX AMOUNT

WHAT YOU NEED TO DO:

- Instantly calculate the correct sales tax in your shopping carts and point-of-sale systems
- Ensure your ERP, ecommerce, POS, CRM, and accounting systems are set up properly to make these calculations

HOW AVALARA TAX AUTOMATION SOLUTIONS CAN HELP:

- Instantly calculates sales tax for every transaction in real time
- Verifies and assigns tax codes based on the products you sell and applies the appropriate tax rate for that jurisdiction

STEP 4: TRACK AND MANAGE EXEMPT SALES

WHAT YOU NEED TO DO:

- Collect, track, and validate exemption certificates from your buyers
- See to it that your process doesn't leave you open to risk by inaccurately charging sales tax when a sale should be exempt

HOW AVALARA TAX AUTOMATION SOLUTIONS CAN HELP:

- Collects and manages certificates, and stores documents electronically so you can access them easily from your ecommerce and accounting systems

STEP 5: REMIT SALES TAXES TO THE TAX AUTHORITY

WHAT YOU NEED TO DO:

- Aggregate data from across your business systems to properly prepare sales tax returns
- Understand the filing requirements for each jurisdiction where you collect sales tax
- Complete the correct sales tax returns and file on time according to schedules

HOW AVALARA TAX AUTOMATION SOLUTIONS CAN HELP:

- Automates the sales tax return preparation process (paper and electronic)
- Aggregates sales transaction data from your accounting, ecommerce, POS, CRM, and marketplaces applications
- Simplifies and streamlines preparing and filing returns
- Creates a single repository for all your transaction data

STAY INFORMED

- Check out the **Avalara resource center** for educational tools, guides and webinars
- Read the **Avalara blog** for up-to-date news on all things sales tax
- Learn more about the **Avalara solution**

Call 877-780-4848

Avalara

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, GST, excise, communications, lodging, and other indirect tax types. To learn more, visit **avalara.com.**

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