Streamlining Sales and Use Tax Compliance in Retail:

Current Challenges, Opportunities, and How Technology Can Drive Innovation

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Along with trying to grow sales, revenue, and their customer base, retailers must contend with an evolving sales and use tax compliance landscape.

The increased complexity associated with collecting and reporting on sales and use tax has led to more operational and compliance challenges for financial and accounting professionals within the retail industry.
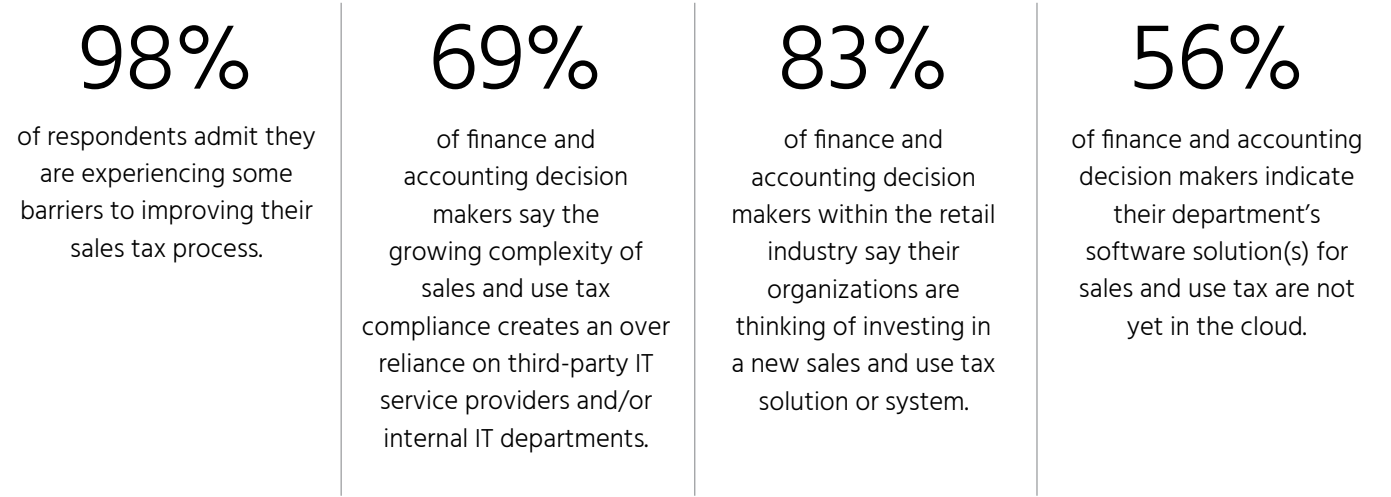
A recent Sovos survey of U.S.-based, full-time finance and accounting decision makers at retail companies with annual revenues of $25 million+ finds that retailers face three major challenges related to sales and use tax compliance:

1. Driving efficiency. Finance and accounting professionals often wear multiple hats and have limited resources and bandwidth.

2. Increased complexity associated with an omnichannel environment in which customers are purchasing online, in-store, and across jurisdictional boundaries. The 2018 *Wayfair* decision, which found that states can collect sales tax on certain businesses even if they don't have a physical presence in their jurisdictions,[1] has only added more complexity for retailers.

3. Changing sales tax rules make it more difficult for retailers to manage finance and accounting operations from a compliance and risk management standpoint.
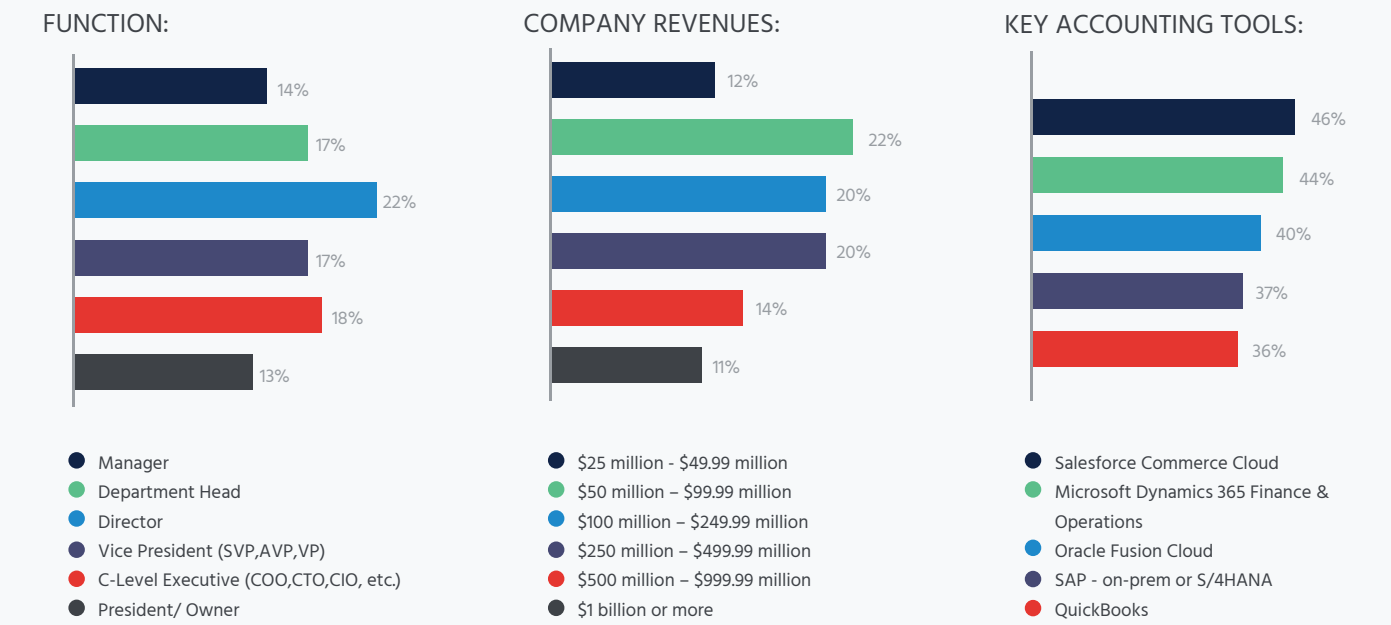
[1]*"South Dakota v. Wayfair"* - AICPA

Sales and use tax compliance is a critical issue retailers must address to reduce their regulatory risks, increase operational efficiency and boost their bottom line. This report reveals the current challenges retailers face — and potential solutions they can implement to overcome them.

REPORT HIGHLIGHTS

98%
of respondents admit they are experiencing some barriers to improving their sales tax process.

69%
of finance and accounting decision makers say the growing complexity of sales and use tax compliance creates an over reliance on third-party IT service providers and/or internal IT departments.

83%
of finance and accounting decision makers within the retail industry say their organizations are thinking of investing in a new sales and use tax solution or system.

56%
of finance and accounting decision makers indicate their department's software solution(s) for sales and use tax are not yet in the cloud.

In the survey, respondents fell into the following demographics:

FUNCTION:

- 14%
- 17%
- 22%
- 17%
- 18%
- 13%

- Manager
- Department Head
- Director
- Vice President (SVP,AVP,VP)
- C-Level Executive (COO,CTO,CIO, etc.)
- President/ Owner

COMPANY REVENUES:

- 12%
- 22%
- 20%
- 20%
- 14%
- 11%

- $25 million - $49.99 million
- $50 million – $99.99 million
- $100 million – $249.99 million
- $250 million – $499.99 million
- $500 million – $999.99 million
- $1 billion or more

KEY ACCOUNTING TOOLS:

- 46%
- 44%
- 40%
- 37%
- 36%

- Salesforce Commerce Cloud
- Microsoft Dynamics 365 Finance & Operations
- Oracle Fusion Cloud
- SAP - on-prem or S/4HANA
- QuickBooks

QuickBooks, Salesforce, Microsoft and SAP were the most commonly used solutions for finance and accounting decision makers at $50 million+ retail businesses, while those who work at $100 - $250 million retail businesses primarily used Salesforce.

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Key Findings: The Biggest Sales and Use Tax Compliance Challenges for Retailers

Our survey found four key trends related to sales and use tax compliance within retail:

Trend #1. Growing complexity and evolving regulations lead to a host of compliance challenges for finance and accounting teams within the retail industry.

- 35% of finance and accounting decision makers indicate that keeping up with the speed and volume of tax rate and rule changes that impact their business is one of the most significant sales and use tax compliance difficulties their department faces. This challenge seems to be more pronounced for larger enterprises, as 50% of respondents who made this claim were from organizations with at least $1 billion in annual revenue.

- Nearly half of respondents say their companies sell online through their own ecommerce site. Among finance and accounting decision makers who work at ecommerce-focused companies, 52% say their companies sell their products and services on at least three online platforms or marketplaces, leading to more complexity and an increased need for streamlined processes to avoid risk of error. Companies with less than $250 million in revenue tend to sell on three channels, while those with $500 million or more in revenue are more likely to sell on more than three channels.

- Channel complexity likely contributes to other tax and compliance issues for retailers, as respondents also say some of their organizations' main challenges included difficulty distinguishing nexus status for online sales (29%) and aggregating tax information from multiple sales channels (20%). Aggregating tax information was more of a challenge for respondents from $500 million (31%) and $1 billion companies (39%). Distinguishing nexus status for online sales was a greater challenge for respondents from $25 million (26%) and $100 million companies (27%)

- **Growing complexity is also contributing to burnout** — nearly half (49%) of finance and accounting decision makers say their work environment is more stressful because of the growing complexity associated with sales and use tax compliance. Respondents from $1 billion companies (57%) were more likely than any other group to say this complexity increased their work stress. This may be because larger organizations may operate across more national and international jurisdictions than smaller enterprises.

- **Overseeing these compliance activities is often one of many responsibilities for finance and accounting decision makers, which may further contribute to burnout.** Our survey found finance pros wear multiple hats. Sales and use tax compliance is one of many responsibilities for 26% of respondents, while 40% say it is one of their main functions, but not their only one. Finance and accounting professionals from companies with under $250 million in revenue were more likely to be multitasking in this way, balancing their focus on sales and use tax compliance issues with other operational functions.

It appears that managing evolving compliance activities is more challenging for respondents at mid-sized companies compared to larger enterprises. Financial and accounting decision makers at companies with revenues of approximately $25 million were more likely to say managing compliance tasks takes away focus from core business priorities and created a strain on available resources compared to most of their counterparts at larger enterprises — except for those who work at businesses with at least $250 million in revenue.
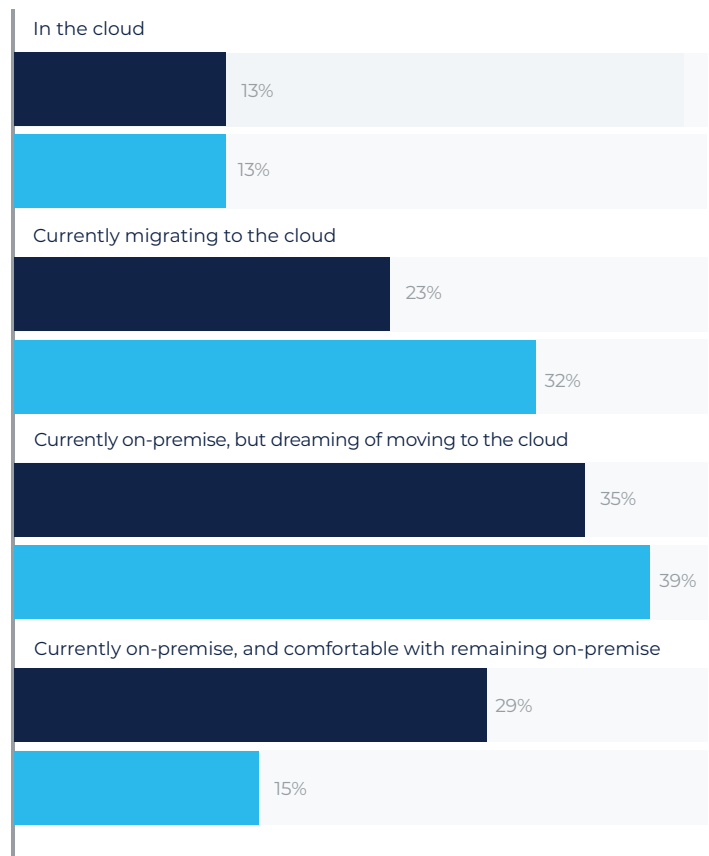
Our survey indicates burnout is increasingly common for finance and accounting professionals and could be a larger business risk for the industry as a whole. Finance and accounting teams could benefit tremendously from additional resources and tools to improve sales and use tax compliance management and make their work more efficient.

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Trend #2. Most retail organizations use several disparate tools to manage their accounting needs.

- Finance and accounting decision makers say their organizations primarily use cloud-based solutions for their accounting needs, including Salesforce, SAP and QuickBooks. Though retailers may embrace cloud-based solutions for their general accounting needs, they primarily rely on on-prem solutions to manage sales and use tax.

- 56% of respondents indicate their department's software solution(s) for sales and use tax are not yet in the cloud. At the same time, 39% of respondents say their department's solution is currently on-prem but dream of moving to the cloud, while 17% are comfortable remaining on-prem. Respondents at larger companies with revenues of $1 billion or more were more likely to say their organizations had already adopted cloud solutions (43%). Only 13% of respondents at companies with revenues between $25 -$50 million said the same.

Where is your department's software solution(s) for sales & use tax hosted?

In the cloud
- 13%
- 13%

Currently migrating to the cloud
- 23%
- 32%

Currently on-premise, but dreaming of moving to the cloud
- 35%
- 39%

Currently on-premise, and comfortable with remaining on-premise
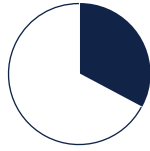- 29%
- 15%

- ● $25 Million – $49.99 Million annual revenue
- ● $50 Million+ annual revenue

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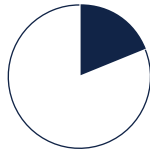## WILLINGNESS TO MOVE TO THE CLOUD VARIES DEPENDING ON BUSINESS SIZE:

32% of finance and accounting decision makers at $50 million+ businesses say their organizations are migrating to the cloud

33% of respondents at $100 million+ businesses say their organizations are migrating to the cloud

40% of respondents at $250 million+ businesses say their organizations are migrating to the cloud

19% of respondents at $500 million+ businesses say their organizations are migrating to the cloud

32% of respondents at $1 billion+ businesses say their organizations are migrating to the cloud

Many organizations also lack a dedicated sales and use tax solution.

- 57% of finance and accounting decision makers don't have tax preparation and filing software solutions in place to manage sales tax compliance. However, respondents from businesses with $50 million or more in revenue (51%) and those with $1 billion or more in revenue (50%) were more likely to have this solution in place.

- 59% don't have a tax rate calculation solution for all selling channels in place to manage sales tax compliance, but respondents from businesses with $500 million or more in revenue were more likely than any other group to already leverage a tax rate calculation solution.

Without a dedicated sales and use tax solution, many retailers are likely increasing both their compliance and financial risks. Using solutions that aren't purpose-built for these specific compliance activities could increase the risk of error for retailers, given that these companies operate and collect sales and use tax from so many channels.
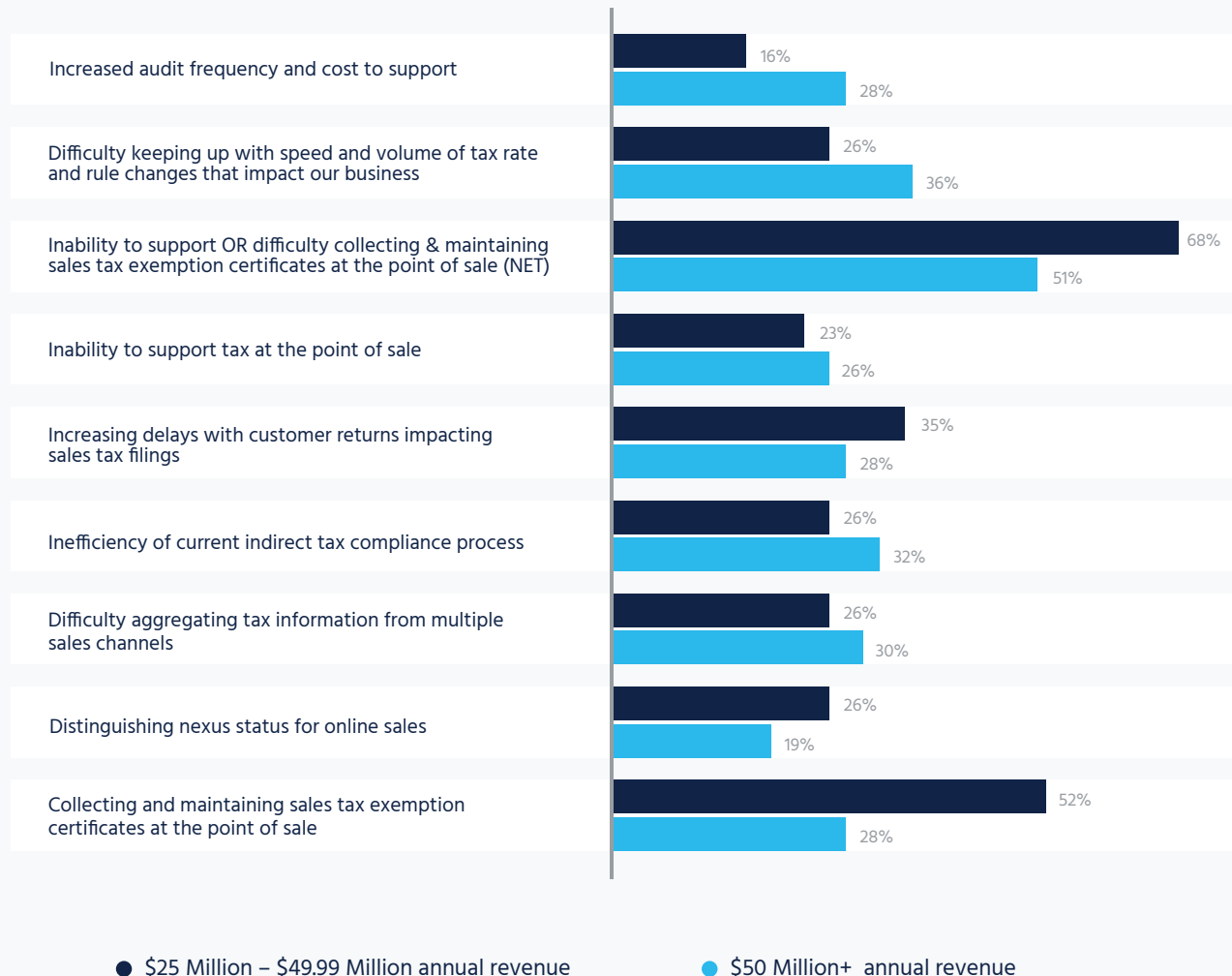
Trend #3. Retailers' sales and use tax management processes can be more efficient.
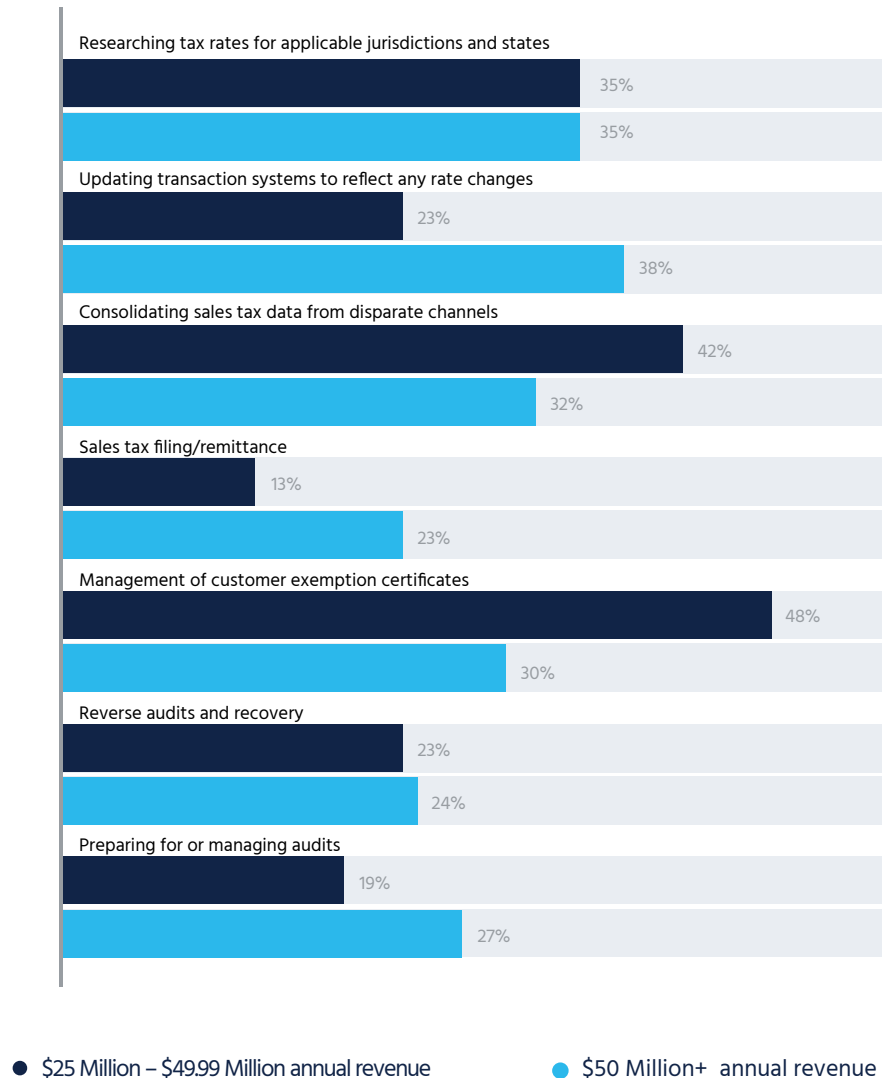
- Nearly one-third (31%) of finance and accounting decision makers indicate the inefficiency of the current indirect tax compliance process is a significant sales and use tax compliance challenge for their organizations. Respondents from the largest enterprises — $500 million+ in annual revenue — were more likely to make this statement.

What are the most significant sales and use tax compliance difficulties your department is currently facing?

Category	$25 Million – $49.99 Million annual revenue	$50 Million+ annual revenue
Increased audit frequency and cost to support	16%	28%
Difficulty keeping up with speed and volume of tax rate and rule changes that impact our business	26%	36%
Inability to support OR difficulty collecting & maintaining sales tax exemption certificates at the point of sale (NET)	68%	51%
Inability to support tax at the point of sale	23%	26%
Increasing delays with customer returns impacting sales tax filings	35%	28%
Inefficiency of current indirect tax compliance process	26%	32%
Difficulty aggregating tax information from multiple sales channels	26%	30%
Distinguishing nexus status for online sales	26%	19%
Collecting and maintaining sales tax exemption certificates at the point of sale	52%	28%

● $25 Million – $49.99 Million annual revenue   ● $50 Million+ annual revenue

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- As it relates to sales and use tax, updating transaction systems to reflect rate changes (36%) and researching tax rates for applicable jurisdictions and states (35%) consumes the most time for finance and accounting teams.

- Respondents from organizations with $50 million, $250 million, and $500 million in revenue were more likely to say updating transaction systems takes up most of their time.

- Respondents from organizations with $100 million, $250 million, and at least $1 billion in revenue were more likely to say researching tax rates consumed more of their bandwidth.
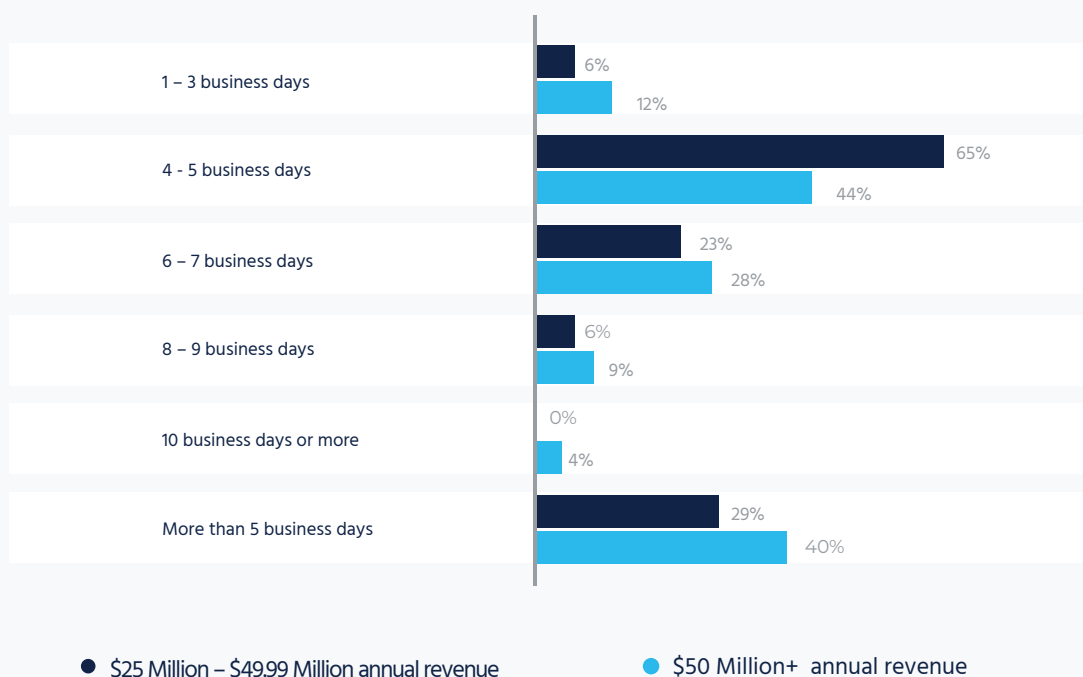
Which of the following currently takes up the majority of your time as it relates to sales and use tax?

Researching tax rates for applicable jurisdictions and states
- 35%
- 35%

Updating transaction systems to reflect any rate changes
- 23%
- 38%

Consolidating sales tax data from disparate channels
- 42%
- 32%

Sales tax filing/remittance
- 13%
- 23%

Management of customer exemption certificates
- 48%
- 30%

Reverse audits and recovery
- 23%
- 24%

Preparing for or managing audits
- 19%
- 27%

● $25 Million – $49.99 Million annual revenue   ● $50 Million+ annual revenue

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- Nearly half (47%) say their organization spends between four and five business days each month on sales tax compliance — 65% of this group are from companies with $25 million in annual revenue, which indicates that smaller organizations are spending an inordinate amount of time managing sales and use tax compliance.

- More than one-quarter (27%) say their organization spends between six and seven business days a month on these activities. Respondents from $250 million+ and $500 million+ businesses were more likely to spend between 6-9 business days a month on compliance tasks than any other group.

- 39% of finance/accounting decision makers say their organization spends more than five business days each month on sales tax compliance.

How much time is your organization spending on sales tax compliance each month (including data consolidation, return preparation and filing)?

Category	$25 Million – $49.99 Million annual revenue	$50 Million+ annual revenue
1 – 3 business days	6%	12%
4 - 5 business days	65%	44%
6 – 7 business days	23%	28%
8 – 9 business days	6%	9%
10 business days or more	0%	4%
More than 5 business days	29%	40%

● $25 Million – $49.99 Million annual revenue   ● $50 Million+ annual revenue

These figures indicate that, on average, finance and accounting teams are spending about one-quarter of their business days each month managing sales and use tax processes, which is likely greatly contributing to burnout. Using a dedicated, cloud-based sales and use tax solution could significantly increase efficiency while strengthening risk management for finance and accounting teams within retail organizations.

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Trend #4. Optimizing their sales and use tax strategy has become a key business priority for retail organizations.

Finance and accounting decision makers realize their current sales and use tax strategy needs improvement, but barriers remain. They are exploring several strategies to overcome these obstacles, including streamlining their internal audit processes and onboarding new technologies.

- 98% of finance and accounting decision makers admit they are experiencing some barriers to improving their sales tax process, with 100% of respondents from $1 billion+ businesses agreeing with this statement.

- Over one-third (34%) say limited IT resources to implement an effective solution is a significant barrier to improving their sales tax process. Limited IT resources were the greatest challenge for respondents from $100 million+ businesses (42%).

- 74% say leadership has not been made aware of a business need for compliance process improvements and/or say leadership is unwilling to allocate budget to make changes at this time. Respondents from $50 million+ businesses (84%) were more likely to experience these two leadership issues than their counterparts at other organizations.

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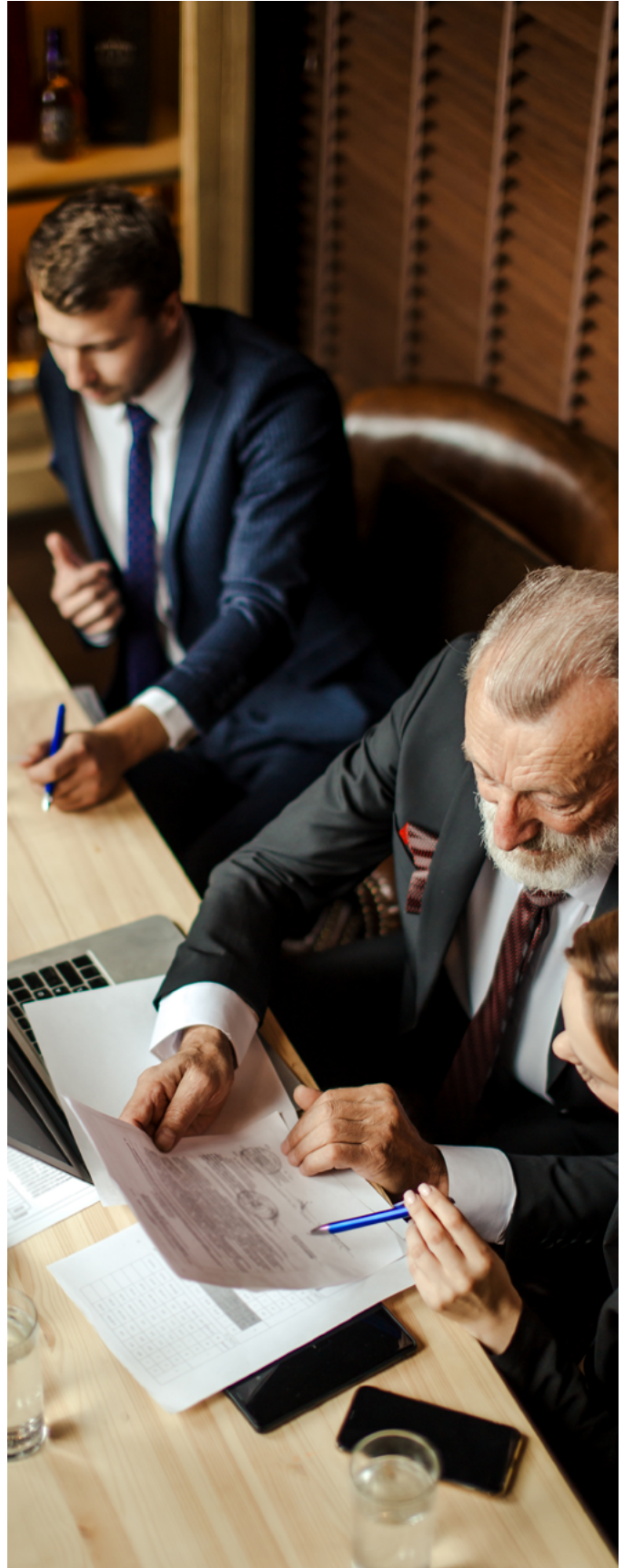
Respondents say their organizations need several core capabilities to improve their sales and use tax compliance processes, including:

49% Improved internal audit and reporting capabilities
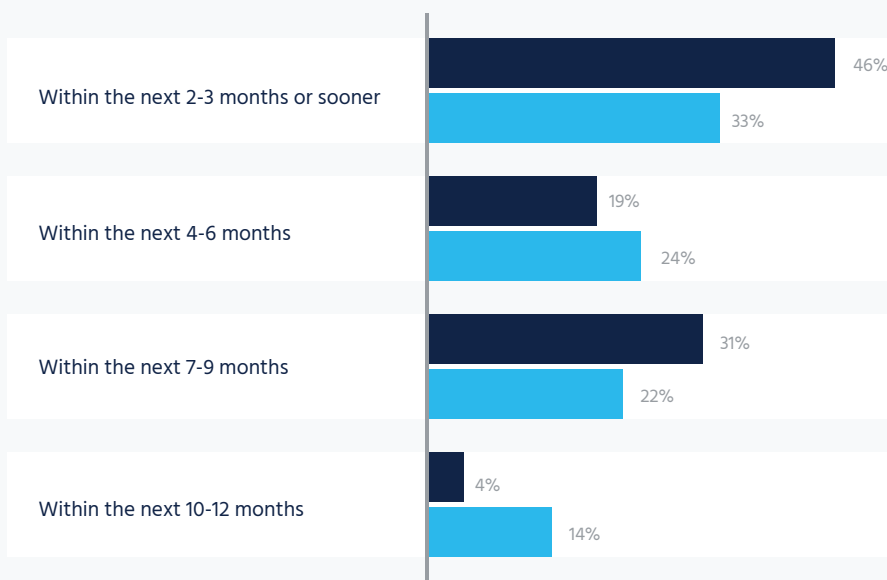
40% Advanced analytics and automation

30% Centralized technologies and/or centralized teams

An overwhelming majority (83%) of finance and accounting decision makers within the retail industry say their organization is considering investing in a new sales and use tax solution or system.

58% say their organization intends to invest in a new solution within the next six months. 19% of respondents from $25 million+ businesses plan to implement a new solution within the next month, 29% of $50 million+ businesses plan to do so within the next two to three months, and 33% of 1 billion+ business plan to implement a new solution within the next four to six months.

When will your organization be looking to implement a new sales and use tax solution or system?

- ● $25 Million – $49.99 Million annual revenue
- ● $50 Million+ annual revenue

	$25 Million – $49.99 Million	$50 Million+
Within the next 2-3 months or sooner	46%	33%
Within the next 4-6 months	19%	24%
Within the next 7-9 months	31%	22%
Within the next 10-12 months	4%	14%

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Key Takeaways and Recommendations

Our survey indicates finance and accounting decision makers within the retail industry face a host of sales and use tax compliance challenges driven by several factors. Omnichannel complexity, resource and skills constraints, overburdened staff, and the lack of a purpose-built sales and use tax solution all contribute to growing compliance and operational risks for retailers.

However, retail companies can overcome these challenges by taking several specific steps:

Understand your sales and use tax obligations

Finance and accounting teams must better understand their organizations' tax obligations resulting from physical and economic nexus.

Sales and use tax rules are constantly changing, so retailers must have the right tools and processes in place to determine their sales and use tax reporting requirements across jurisdictions. This approach may entail maintaining a database of nexus laws, gross receipts and thresholds across all 50 states, and deputizing certain team members with the responsibility to ensure this information is updated on a regular basis. Depending on the size of the organization, in-house legal counsel may be able to help with these activities.

Identify your organization's key pain points

Our survey found limited IT resources, budget constraints, and lack of leadership buy-in all affect retail organizations' ability to optimize sales and use tax compliance processes.

Though barriers will vary by organization, it's important for finance and accounting decision makers to identify the key bottlenecks that make their processes inefficient and increase their organization's risks. Metrics can help to make the case. For example, if teams currently spend one-quarter of their workweek on these activities because of manual processes, there may be a way to correlate this to lost time and money for their organizations. From there, finance and accounting leaders can make a compelling argument about the need to improve the company's compliance strategy.

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Invest in a dedicated, fully automated sales and use tax solution

Once organizations identify their specific pain points, they can seek a fully automated sales and use tax solution that addresses them. A comprehensive sales and use tax platform will offer several capabilities, including the ability to:

- Centralize and provide a single source of truth for sales and use tax data across jurisdictions

- Effectively manage certificates to eliminate paper-based processes

- Leverage simple-to-use reporting tools that easily identify missing, invalid or expired certificates

- Access the latest forms and information

- Streamline audit activities, as well as sales and use tax filing

- Improve accuracy and monitoring to reduce compliance risks and operational burdens for finance, accounting, and IT teams

- Have ongoing, flexible support to quickly resolve technical issues and answer questions

Additionally, companies may want to consider onboarding this solution via a managed sales tax service, which can further reduce compliance risks and day-to-day work for finance and accounting teams.

Prepare your finance and accounting teams

Even with a turnkey solution, business process changes likely will be necessary.

Organizations should lean on their technology provider to train finance and accounting professionals on the new solution they adopt. They also should continually assess how to optimize their internal processes to streamline sales and use tax filing. Where possible, organizations should find every opportunity to digitize and automate processes that are currently paper-based, integrate their current tax management systems with any new sales and use tax platform, and consider assembling a cross-functional team of stakeholders across finance, accounting, tax, and legal departments who will work together to proactively identify and address issues.

Taking all these steps will allow retail organizations to employ an optimized, technology-enabled approach to sales and use tax compliance that improves their efficiency, allows them to better manage complexity, and significantly reduces their risks.

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About Sovos

Sovos was built to solve the complexities of the digital transformation of tax, with complete, connected offerings for tax determination, continuous transaction controls, tax reporting and more. Sovos customers include half the Fortune 500, as well as businesses of every size operating in more than 70 countries. The company's SaaS products and proprietary Sovos S1 Platform integrate with a wide variety of business applications and government compliance processes. Sovos has employees throughout the Americas and Europe, and is owned by Hg and TA Associates.

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