



# **Don't Let Sales Tax Stop Your Ability to Sell**

**Sales Tax Should Never Impede Sales Results**



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# 1 | Introduction

Sales tax is a non-negotiable element of doing business anywhere in the United States. Ensuring that you are collecting and remitting the correct amounts based on the rules in the jurisdictions you are selling into is the basic foundation of achieving and maintaining compliance.

However, it is no simple process. As outlined in the following pages, you will come to understand that thousands of different regulations exist across state, county and local lines that can make managing your sales tax processes extremely difficult. Making matters worse, there are hundreds of new laws and changes continuously being evaluated and introduced and updates do take place frequently, often with little advance notice.

Deciding on and implementing a sales tax process or solution for your business is an important step to meeting your compliance requirements and avoiding costly notices and audits. It is also a complex decision that requires you to evaluate your internal capabilities, existing technology and varying levels of expertise.

Your business exists to provide products and services to your customer base, not to manage sales tax. The primary goal of everyone in your organization should be on improving your operation and growing your business. Managing sales tax should never be an impediment to these core objectives.

If the complexity of managing sales tax has grown beyond your current capacity to manage or is infringing on your core business objectives, [talk to Sovos. We can help.](#)



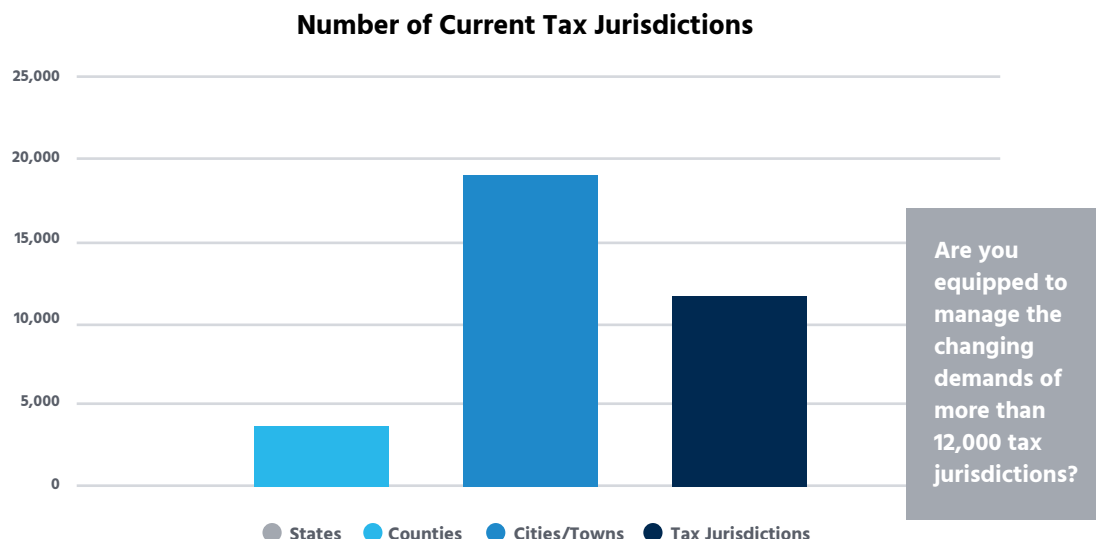
## 2 | Understanding Sales Tax Complexity

The sales tax world was turned on its head on June 21, 2018, when the Supreme Court issued its landmark decision in *South Dakota v. Wayfair, Inc.* Now, more than three years later, the ramifications of the decision are well understood. Most every state in the country has enacted (and further refined) its rules imposing sales tax collection responsibilities on remote sellers.

### Number of jurisdictions:

Today in the U.S., there are approximately 22,688 political subdivisions (states, counties, cities).

**Sales tax exists in approximately 12,274 locations**, including 45 states (along with D.C. and Puerto Rico), 2,213 counties, 7,814 cities and 2,201 districts.



### It's only going to get more complicated

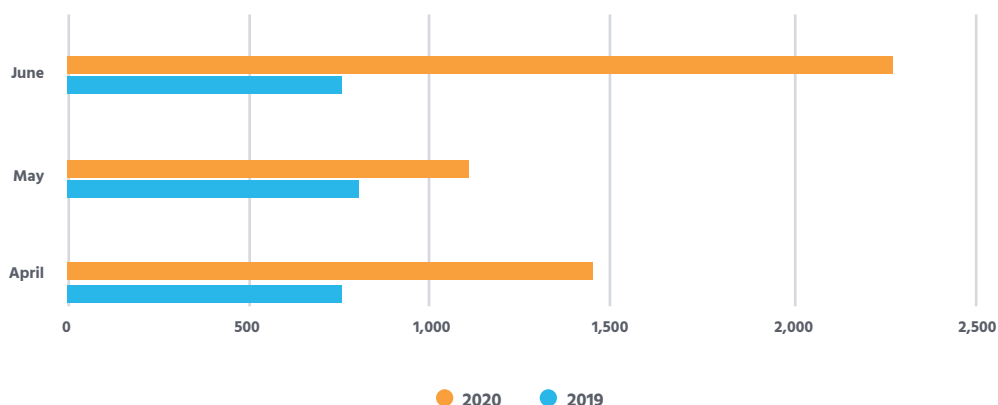
Not only is there an incredible number of jurisdictions and laws for businesses to track, new legislation is being introduced at an increasing rate. For example, in the final months of 2020, Sovos was tracking more than 684 bills that could change sales tax compliance requirements. During that same time in 2019, Sovos was tracking only 104 bills.

This pace shows no sign of abating. During the early spring of 2021, we were tracking as many as 2,148 proposed bills that could become law. For the same period in 2020, that number was only 686. On average, close to 1,400 new bills are being introduced each month.

Governments at every level have embraced digitization to speed revenue collection, reduce fraud and close tax gaps. Since the *Wayfair* decision, which vastly expanded the nexus footprint of organizations, states have moved quickly to establish new regulations to maximize income owed. To accomplish this, notices, audits, penalties and fines can be expected to be used more aggressively as tax authorities work to expedite collections and improve transparency.



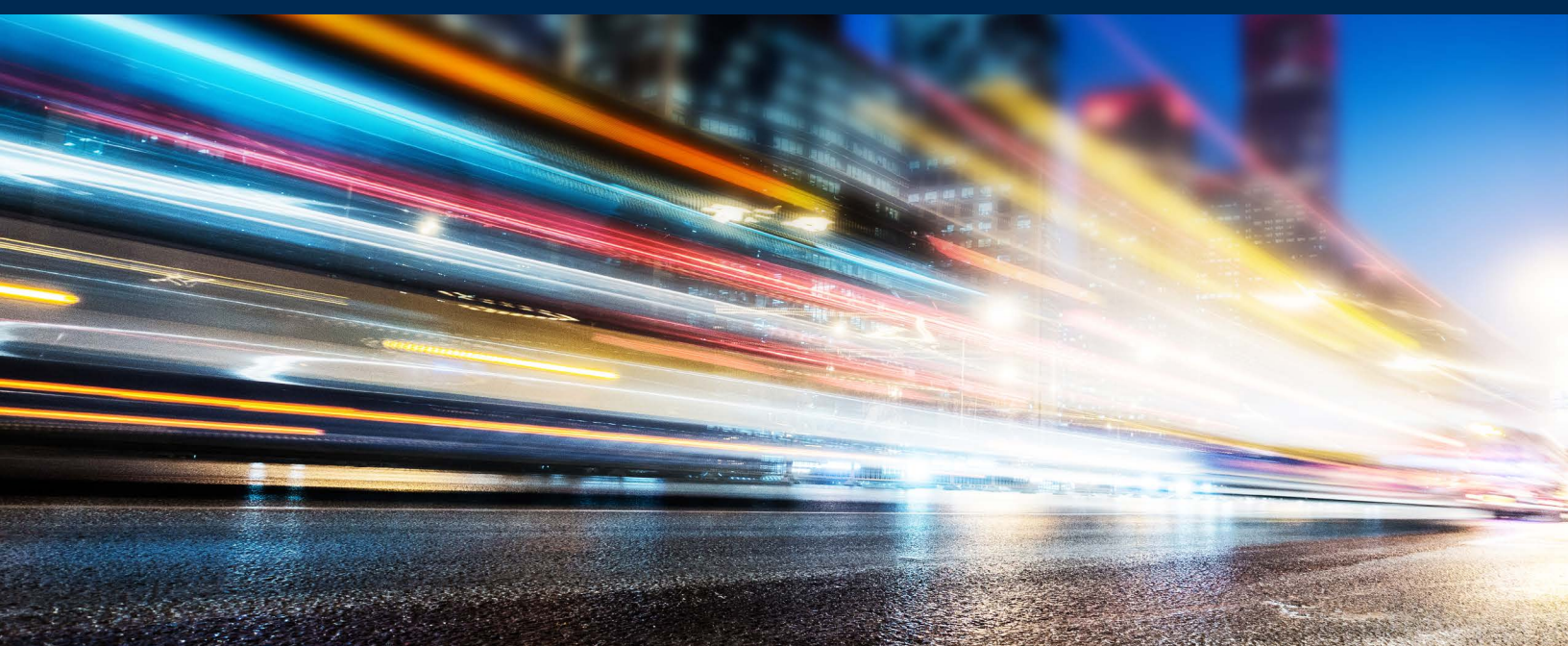
### Total Laws Under Construction



The metrics bear out what most of us already know - sales and use tax is complicated and getting more difficult by the day. The only way to stay up-to-date (and more importantly, stay ahead) is through efficient and scalable compliance processes and solutions.

***“Without Sovos it would be a disaster for us to try and manage tax rates and rules, especially in states with multiple levels of jurisdictional rates. I’m confident in Sovos that all the rates are accurate and timely, and if we have a sales tax holiday then we know they’re going to be handled. Sovos helps us avoid auditing issues and responds quickly to any questions we may have.”***

- Mark Oulds, director of taxation, Boscov's





## 3 | The Cost of Getting Tax Wrong

When it comes to tax management, getting it right has never been more important because the stakes have never been higher. The determination of regulatory authorities to recover all tax revenues owed cannot be underestimated. The tax gap in the U.S. is estimated at \$600 billion annually and governments are embracing new technology and enforcement methods to ensure they collect what is legally required and do so quickly.

So, what can go wrong when putting together a tax strategy that ensures your business remains in compliance with all applicable laws and regulations?

Let's begin with the most obvious. Manual processes are a thing of the past. The speed, complexity and pace of change have made managing sales tax a function that demands automated assistance and expertise that exceeds the capabilities of most internal business units. If your idea centers around the use of spreadsheets and calculators, you need to reconsider. This antiquated approach has given way to cloud-based software that can be counted on to automate the regulatory update process and manage labor intensive activities.

## Don't Let Tax Be An Inhibitor to Business

What happens if you can't meet a customer's - or potential customer's - needs? What if your sales tax calculation software takes too long to calculate tax at the point of transaction? Or maybe the calculation happens but it's incorrect, meaning you will have to deal with adjustments after the fact.

Can a bad experience really impact current and future sales? Let's take a look:

- 66% of consumers will consider switching to a competitor after just one or two bad experiences
- 9% of businesses lose customers to the competition when they don't take customer retention seriously
- 68% of customers expect the rate of innovation from companies to accelerate
- 74% of customers expect companies to use existing technologies in new ways to create better experiences

Customers know that technology is evolving, and they expect businesses to keep pace and ensure that the latest technology can effectively help them. If your sales tax processes can't maintain the pace of change, how can you expect to meet customer expectations and also ensure you stay compliant with all sales tax obligations?

Sales tax can be an inhibitor to your business, but it doesn't have to be. A solution with always-on availability, unmatched performance and the most up-to-date system integration options will keep you ready every day of the year.

***“The way we were handling tax exemptions [before Sovos] was embarrassing. Our approach was to save them to a drive and that was the extent of it. There was no structure and no organization. Technically we had it on file, but good luck finding it. We now have a better organization system and structure to manage that process.”***

- Skip Graham, network administrator, GoKeyless

## **Underestimating the cost of tax management**

It can be easy to underestimate the cost of managing tax by failing to account for the organizational impact your approach takes. There are two common types of costs many organizations overlook when it comes to tax. First, how much will we spend trying to manage this process? When deciding on your approach, consider how much human capital you are spending to manage sales tax properly. How many people must you hire, train and assign to this function as their primary job? Furthermore, what is the effect on adjacent departments that support this function?

Next, what are the opportunity costs of your approach to sales tax management? You need to be asking yourself, what else could I or my team be doing with this time? Is managing sales tax the most strategic use of time, or are there other critical business functions the team could be focused on instead?

Furthermore, when your IT team is responsible for implementing necessary system updates, can they move as quickly as the tax team needs them to? If they are able to keep pace, can they also stay on top of their other job responsibilities?

Localized system failures present business risks and often require IT intervention. Continuously troubleshooting, repairing and constantly upgrading on-premise systems can quickly become expensive, which will in turn drive up your TCO. Additionally, a scalable solution will seamlessly meet your business needs and maintain compliance, all while keeping costs under control. Even while accounting for sales tax updates, you don't want to consequently sacrifice other aspects of your business in the process.

## **Worst case scenario for businesses**

Today, regulatory authorities have the ability to track and cross-reference transactions through digitization, which means that notices come faster, audits are swifter and the potential for penalties and fines is greater than ever.

Remember, the goal of the regulatory authority is to maximize revenue and shrink the tax gap. They will use all the tools available to them to make this a reality. In these cases, having an expert sales and use tax partner on your side is valuable in reviewing and correcting potential discrepancies quickly.

There are a number of different approaches companies take to manage the changes and remain compliant. Some resign themselves to the fact they will make mistakes and put a percentage of revenue aside to cover sales tax penalties, but is this really the best use of capital?

When deciding what is best for you and your company, consider the entire picture of how sales tax complexity can impact your organization. The goal should always be to remain compliant, reducing the risk of audits and notices with the least amount of disruption to your organization.





## 4 | The 3 Approaches to Sales Tax Automation

Businesses need a sales tax solution to improve efficiency, scalability and overall effectiveness and one that can not only meet their current needs, but can also scale for future expansion. While organizations may think that there are only two options when it comes to automation: on-premise or cloud, the reality is, there are three options in a modern tax environment.

### On-Premise

Having an on-premise solution means that all hardware and software solutions are available in one place, which can be beneficial. There is also greater control of when updates are needed and how that is rolled out. However, it also means that when new tax regulations and mandates are introduced, there are typically small windows to update the system. This can be very disruptive to an organization's IT department.

Implementing, testing and then pushing updates live can take hours. Sales tax is quickly evolving, meaning that changes are happening all the time. This can put extra burden on IT departments to keep pace while also maintaining other job responsibilities.

The required maintenance with on-premise solutions can also be a hindrance to business growth. Anything from software updates, to security patching, to maintaining dedicated servers can cost your organization money that would be better spent elsewhere.



## Cloud

A [cloud-based sales tax solution](#) can offer user-centric solutions that operate on the most up-to-date regulatory requirements that make real-time tax calculations. Businesses can avoid backtracking and making adjustments for quickly changing regulations after they occur.

Moving sales tax operations to the cloud can eliminate the need for separate technology, maintenance and oversight of a unique system. Additionally, businesses can rest assured that any necessary updates are on time and that the system is secure.

Research from ASUG, the world's largest SAP user group, [conducted in collaboration with Sovos](#) found that cost reductions (hardware/software costs and/or support staff costs) and strategic initiatives or digital transformations were top reasons companies host sales tax solutions in the cloud. Additionally, 47% said the top benefit in hosting sales tax solutions in the cloud is reduced manual work for IT staff.

## The State of Active/Active

When any day of the year could be your busiest, it's important to have a cloud data center configuration working 24/7, 365 days a year. Sovos' [Active/Active architecture](#) ensures that your business operates with always-on availability through a reliable cloud platform.

Our regulatory team constantly tracks and updates sales tax rates to keep you compliant, and the state of Active/Active adds another layer of protection to deliver accurate calculations based on these rates. Whether you use certified integrations, mid-market APIs or enterprise APIs, Sovos offers flexible integration options.

With the continued shift from manual to automated processes, we ensure that your company can adopt multi-channel business strategies to ensure a continued evolution of technology utilization to better access consumers.



**“If I were to offer a company advice on choosing a sales tax provider, I would definitely steer them towards a model like Sovos, where you have an individual who’s responsible for your account, understands your business and is responsible for it month over month.”**

- Erik Hinkie, CIO, Holmes Corporation

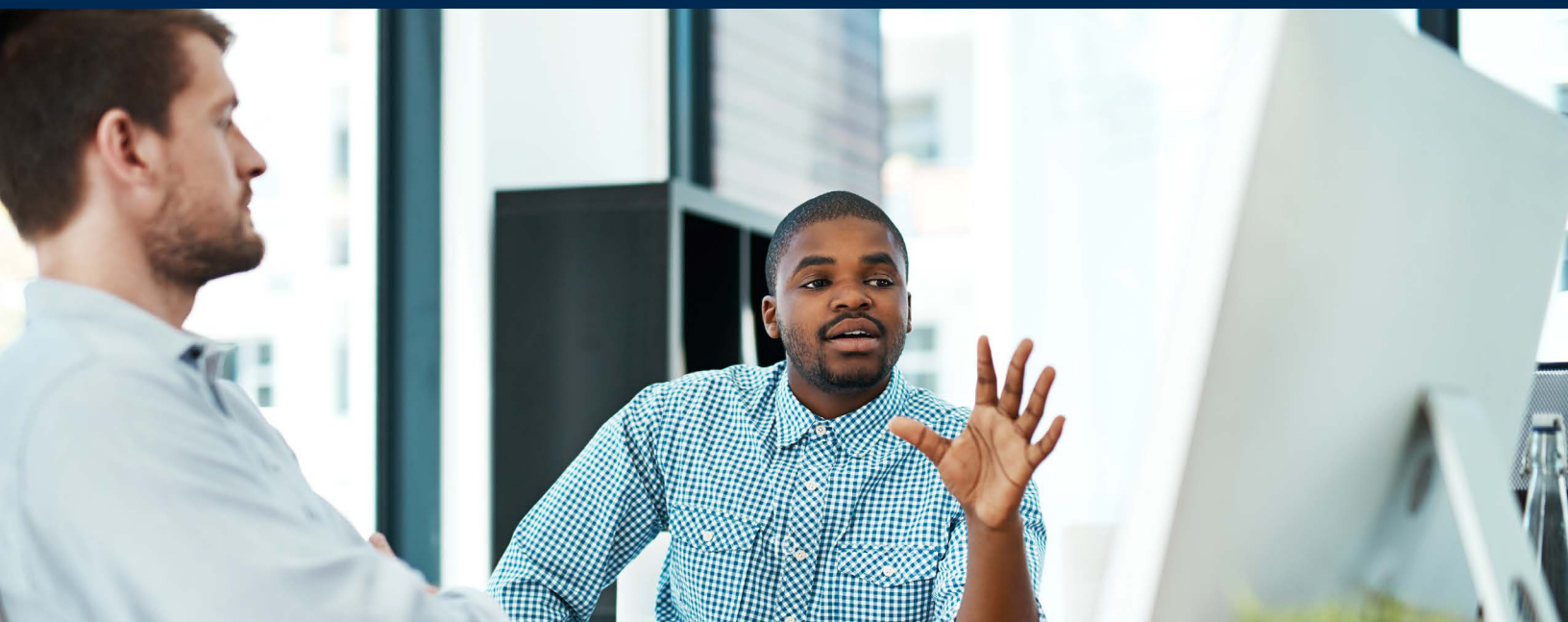
## Hybrid

For organizations that are already using a cloud-based sales tax solution, a containerized on-premise deployment model can offer the best of both worlds. Businesses can meet their high availability, low-latency and scalability requirements by allowing the calculation portion of the engine to be closer to the transaction source.

Organizations can utilize a centralized, configured reporting structure in a SaaS environment without on-premise overhead. Having an always-on cloud solution will ensure that businesses of all sizes can keep pace with the ever-evolving sales tax environment without putting extra burden on IT teams.

**“The Sovos CSP program is a tremendous value for our clients. It reduces burdens on three critical fronts: personnel, technology and audit risk. Sovos maintains high professional standards throughout the client experience from implementation to filing, regulatory matters and support. For our clients this means significant cost savings and confidence that things are done right from the start.”**

- Wade Watkins, partner, Squire







## 5 | Show Me the Data: Keeping Pace Through Busy and Slow Times

Even before working from home rose in popularity, consumers were increasingly looking for more ecommerce options when they wanted to make a purchase. While there are still going to be busier shopping times than others - like Black Friday and Cyber Monday - your business must be ready at all times.

Sales tax calculations shouldn't be slowing down your company. Having minimal maintenance, consistent uptime and guaranteed performance are key for sales tax software. Additionally, you need the most accurate determination and latest regulatory analysis to keep the entire sales process running smoothly. You must be on 24/7 and you need the right tools to help your business perform the same way.

### **Sovos talks the talk - and walks the walk**

On Black Friday 2021, Sovos' transaction volume had a 22% increase from 2020, with line item count growing 12% in that same time. Cyber Monday transaction volume saw a 10% increase compared to 2020 numbers.

We want our customers to feel like it's "business as usual" even during the busiest transaction times. Sales and use tax clients knew they could rely on uninterrupted, reliable and fast service. With an uptime at 100% and an average response time around 100 milliseconds, they didn't have to worry about being unable to meet their customers' needs.



## 6 | Conclusion

The rise in ecommerce has been underway for years, with the 2020 pandemic onset simply accelerating the speed. That trend continued in Q2 2021, when **total retail sales increased** 28.2% from Q2 of last year, with ecommerce sales in the second quarter of 2021 accounting for 13.3% of total sales.

High-traffic retail holidays like Black Friday and Cyber Monday will likely continue to have greater levels of transactions than other parts of the year. However, the reality is that any day could be the busiest day of the year. An organization might not face record-breaking ecommerce traffic every day, but it needs to know that not a single day will be interrupted by sales tax challenges.

A reliable cloud-based sales tax solution that can scale to match business growth provides better oversight into evolving tax forms and ensures a completely automated process for tracking and updating regulatory changes. Easing the burden on IT teams will also help the business focus on its other core initiatives. Sales tax is not something that can be ignored but it also doesn't have to be a hindrance to your business. Reach out to Sovos today and see how an always-on solution can keep your organization moving forward.





## 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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