

# **Managing VAT and Sales Tax Challenges for Retailers Expanding Globally**

The challenges and issues facing retailers

2 May, 2012



# Presenters – Vertex Global Tax Solutions

- Alan James, Director – Client Solutions
  - Alan has an 18-year background in tax technology with experience in both indirect and direct taxes. He joined Vertex in 2007, moving from the tax management consulting practice at Deloitte. Alan is a Chartered Tax Adviser and holds a masters degree in information technology law.
  
- Andrew Hallsworth, Manager
  - Prior to joining Vertex, he worked for 12 years as a VAT adviser, primarily at PwC London, gaining his professional tax qualifications in 2000. Roles in-house at Oxford University and niche VAT consultancy practices developed his systems knowledge.

# Vertex Retail Customers...400+



GUCCI



CRABTREE & EVELYN



ZARA

bebe

ALDO

facebook



TARGET



URBAN OUTFITTERS



DSW



FOREVER 21

NETFLIX

Limited brands



lululemon athletica



# Agenda

## Topic

Trends in Global Indirect Tax

Trends in Retail

European VAT Issues

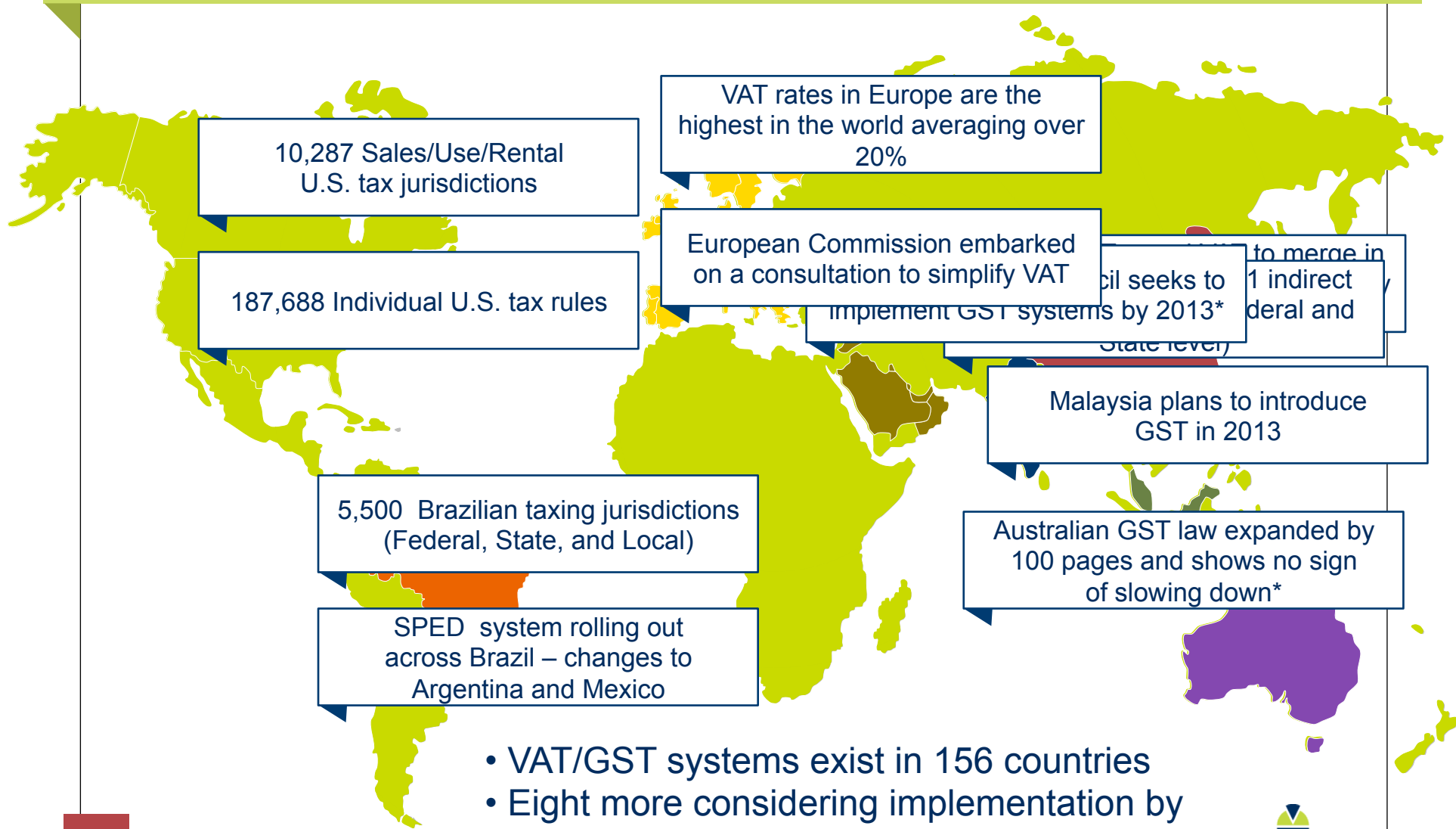
United States Sales Tax Issues

How Retailers solve these issues

Questions and Answers

# Trends in Global Indirect Tax

# Global Challenges of Indirect Tax



- VAT/GST systems exist in 156 countries
- Eight more considering implementation by 2013



# Trends in Retail

# E-Commerce v Bricks & Mortar – Global

## Comparison of purchases from Stores v Online

- UK
  - 80% from store today
  - By 2015 predicted to be 76% from store and up to 24% online
- Global average:
  - 91% all purchases currently from store
  - 6% online
  - By 2015 predicted to be 86% from store and up to 11% online



# Challenges to Doing Business

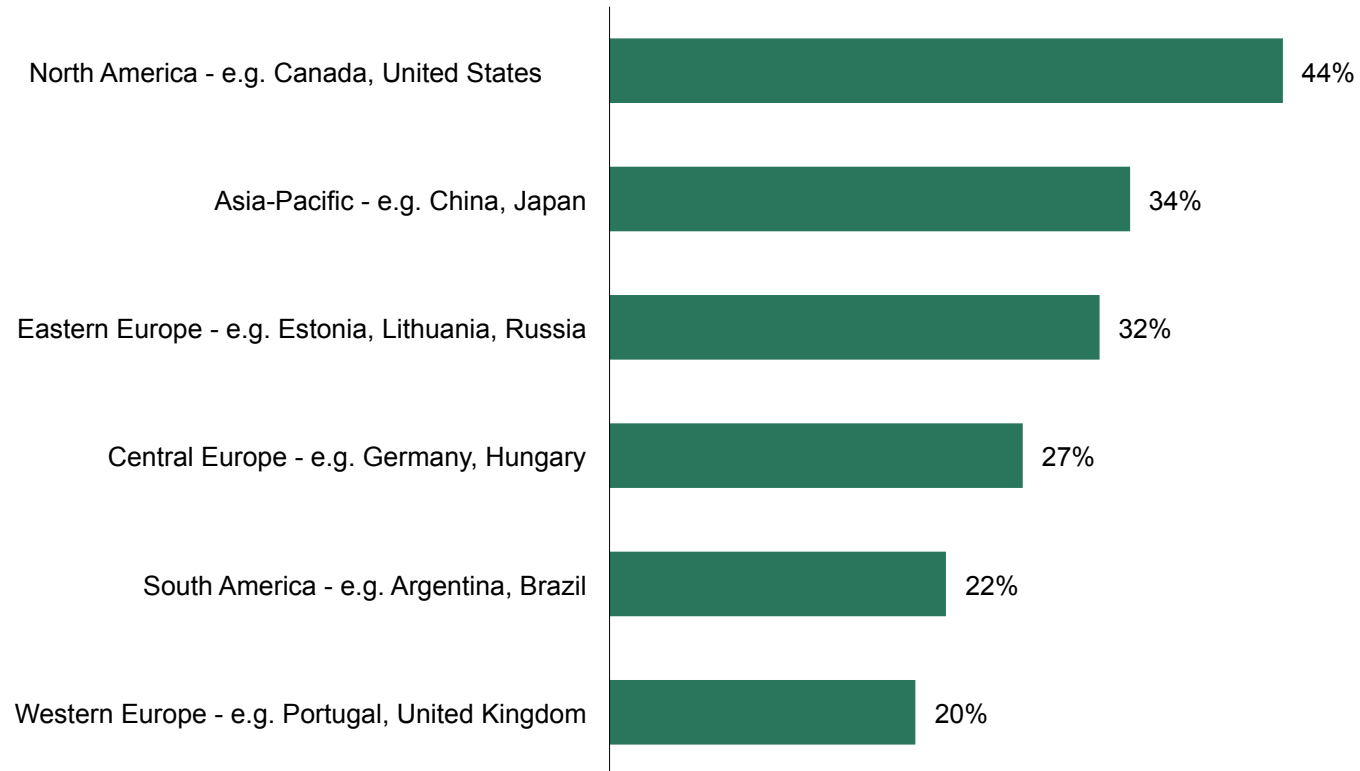
**“What do you see as the main challenge to expanding e-commerce in other countries?”**



Base: US and European Mid-Market Retail IT decision makers

# Regions for Expansion

**“Which regions is your company planning to enter?”**



Base: US and European Mid-Market Retail IT decision makers

# European VAT Issues

# European Issues

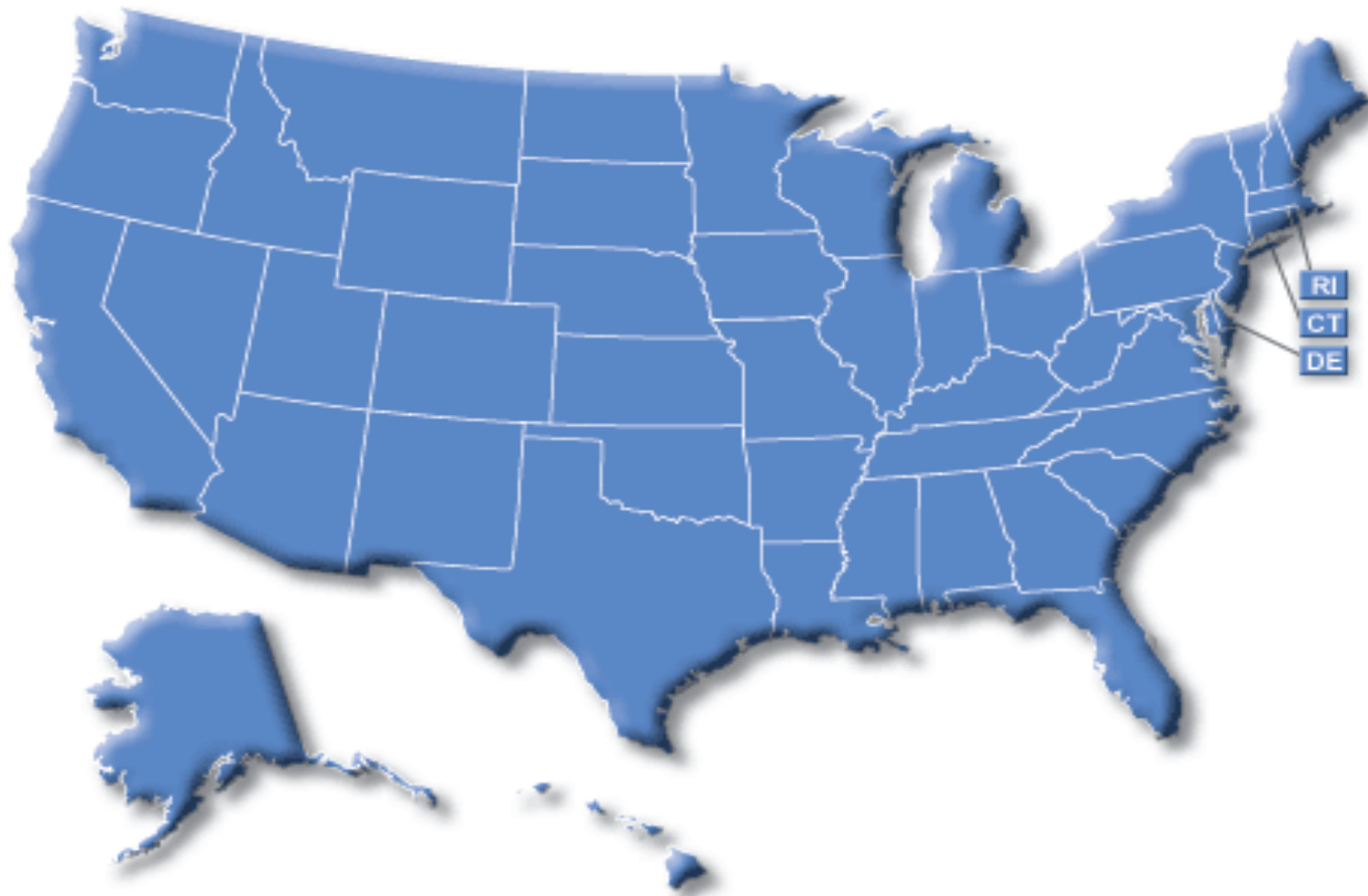
- Bricks & Mortar
  - Local Rules Apply
- 'Distance selling' - Intra-EU B2C Sales of Goods
  - Charge UK VAT and monitor sales to each Member State
  - Exceed threshold; required to register for VAT overseas
  - Different VAT rules/rates in each Member State
- Significant compliance issues
  - VAT returns
  - Intrastat
- Digitised Products – Rules change 2015
  - Charge VAT at rate in country where customer located
- Increased scrutiny/cross-border co-operation between tax authorities
  - Focus on process and systems

# EU VAT Rate Changes April 2011 – March 2012

Italy	<ul style="list-style-type: none"> <li>21% from 20% (from 1 Sept 2011) – further increase expected in 2012 to 23%</li> <li>Reduced Rates 10%, 4%</li> </ul>
Cyprus	<ul style="list-style-type: none"> <li>15% to 17% (from March 2012)</li> <li>Reduced Rate 5%, 8% (no changes)</li> </ul>
Czech Rep	<ul style="list-style-type: none"> <li>20% (from 2012)</li> <li>Reduced rate from 10% to 14% (since Jan 2012)</li> </ul>
France	<ul style="list-style-type: none"> <li>19.6% (since Apr 2000) – Increase to 21.2% in Oct 2012</li> <li>Reduced Rate 7%, 5.5%, 2.1% (no changes)</li> </ul>
Hungary	<ul style="list-style-type: none"> <li>25% to 27% (since Jan 2012)</li> <li>Reduced Rate 18%; 5% (no changes)</li> </ul>
Ireland	<ul style="list-style-type: none"> <li>21% to 23% (since Jan 2012)</li> <li>Reduced Rates 13.5%, 9%, 4.8% (no changes)</li> </ul>
Norway (non-EU)	<ul style="list-style-type: none"> <li>25% (no changes)</li> <li>Reduced Rate 15% and 8% (since Jan 2012)</li> </ul>

# United States Sales Tax Issues

# The US Transaction Tax Challenge



# The US Transaction Tax Challenge





# The US Transaction Tax Challenge



**10,000 + Cities, Counties  
and Districts**

# Basics of US Transaction Taxes

- Taxes on sales to final consumer
  - Keeping up-to-date on the numerous rates and taxability determinations at state and local levels
- 'Nexus'
  - If you create 'nexus' in a State, required to charge tax for sales in that State for ever
    - Sales reps on the ground; product parties; 3<sup>rd</sup> parties 'soliciting' on your behalf; **click-thrus**
- Taxes calculated at the line item detail level
  - Multiple tax types/rates on single transactions
- Applied for both B2B and B2C transactions
  - 'Exemption Certificates' for resellers and socially-responsible bodies
- Multiple State Audits
  - State auditors also posted in other States

## US Retail – Sales Tax Complexities

- Deliveries or services rendered at a customer's home address
- Store returns from other jurisdictions
- Send Sales (In-store purchases shipped to another location)
- Store-within-a-Store merchandising (Non-core products type that have diverse taxability)
- Internet purchases returned in-store
- Mobile purchases for in-store pickup

# US Retail – Sales Tax Complexities

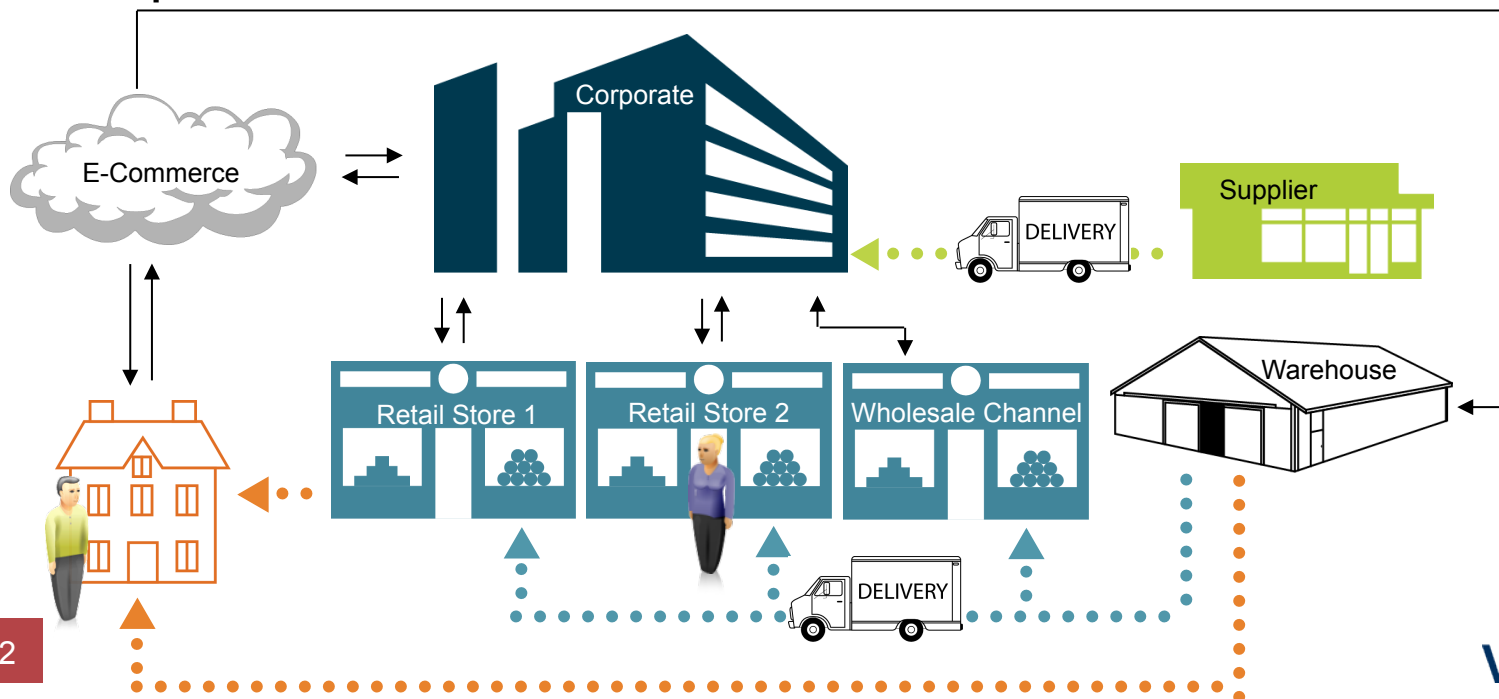
Rules to watch out for:

- Tax Holidays
- Tiered Taxes
- Threshold and Compound Taxes
- Origin and Modified Origin States
- Bracket Taxes
- And more!

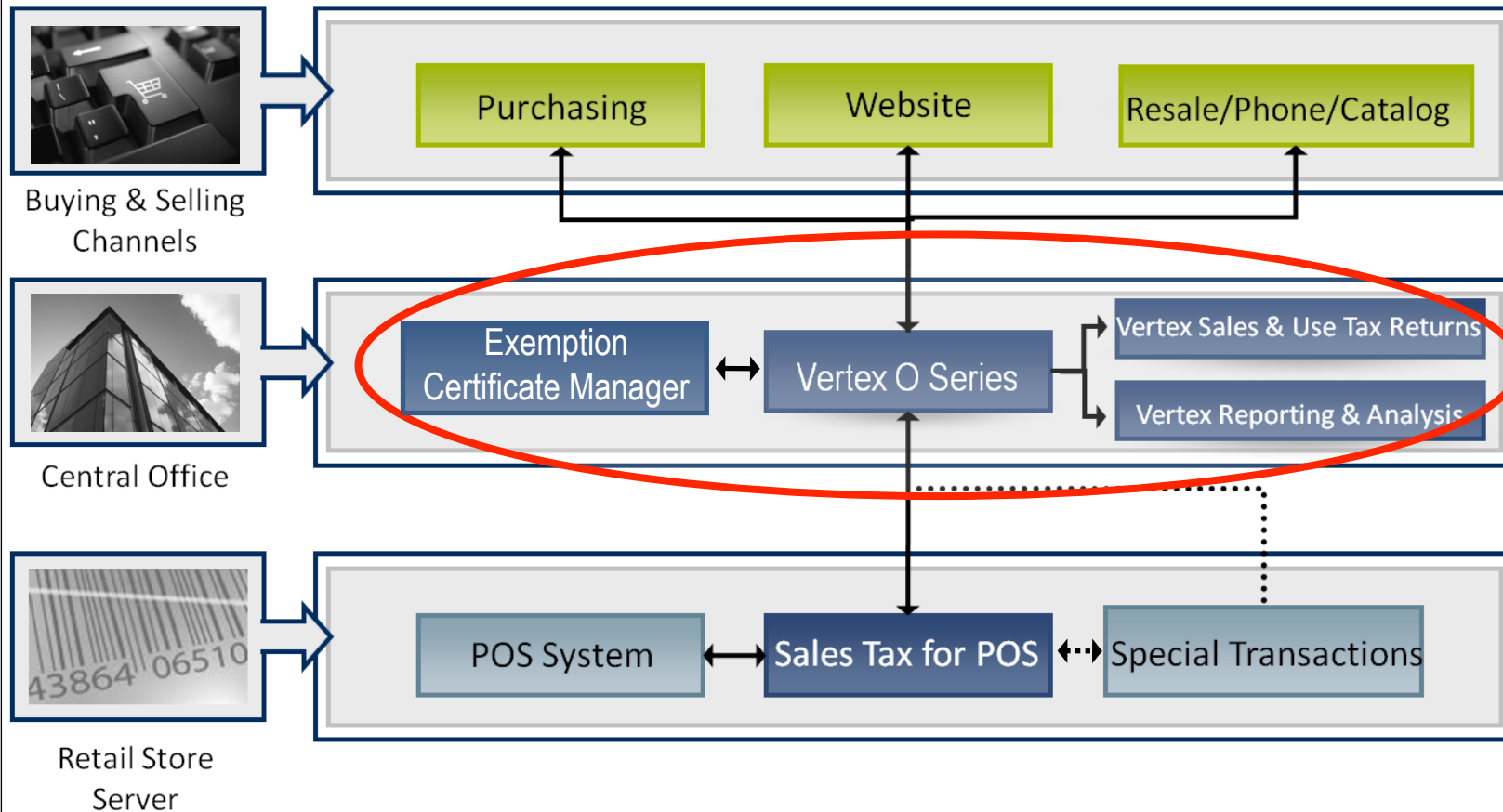
# How Retailers solve these issues

# The Big Picture for Retailers

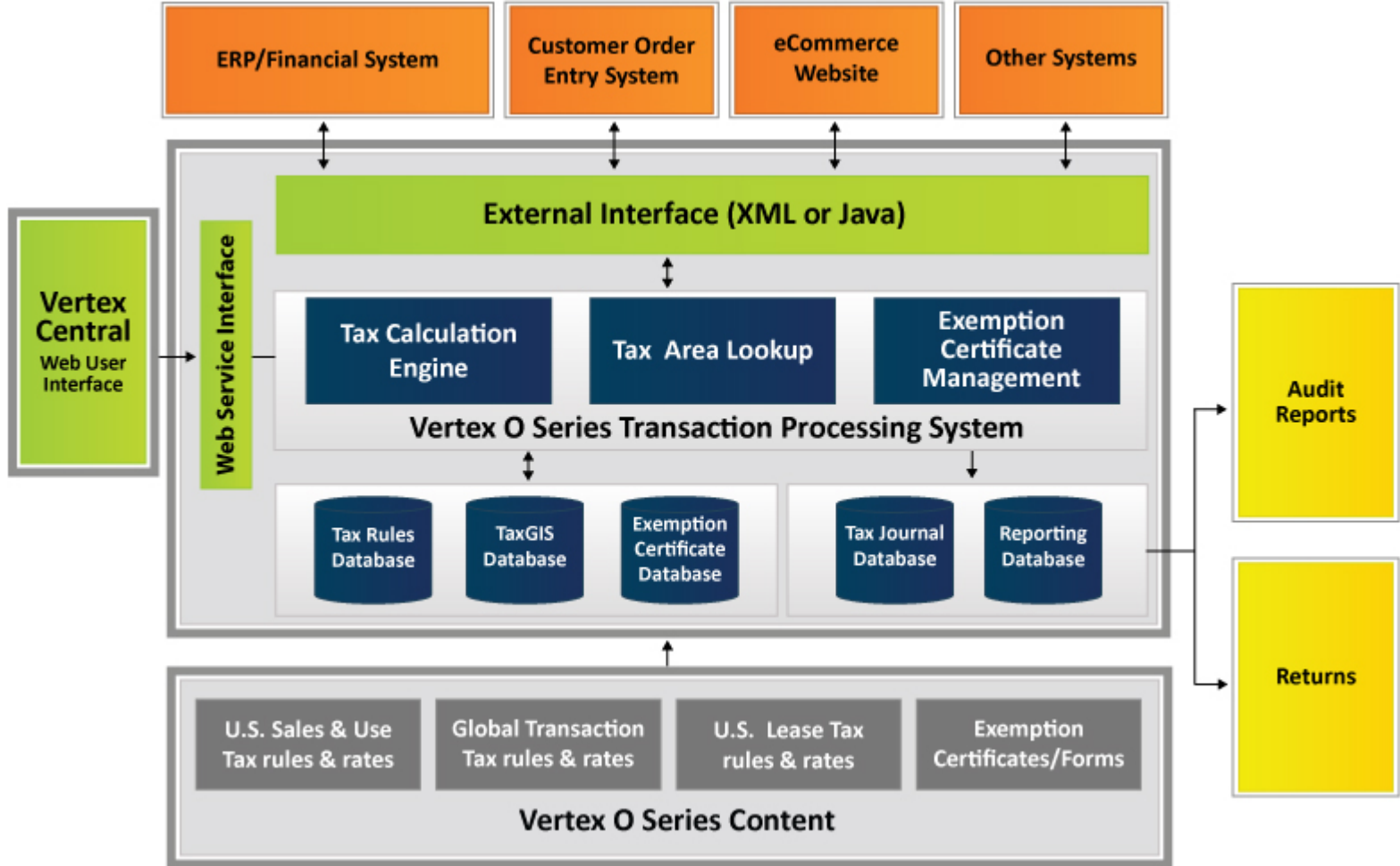
- Multi-channel retailers face increasingly complex tax compliance challenges
- The single largest exposure for companies doing business in 20 states or more are audit costs and penalties



# Sales Tax for the Multi-Channel



# Leading Web Services Architecture





# Tax Rules and Jurisdictions

Tax Types  
12,845

Max Tax Rules  
4,926

Tax Basis Rules  
4,350

Situs Rules  
2,236

Jurisdictions  
59,564

General Sales and Use Tax	9,883	
Gross Receipts Tax	821	
Surcharge - Short Term Rental/Lease		391
VAT	282	
Occupation Tax	222	
Prepared Food and Beverage/Meals Tax		628
International Sales Tax	57	
Short Term Rental Tax	46	
Tire Recycling Fee	42	
Heavy Equipment Surcharge	36	
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Sales	Sale	141,104
Seller Use	Sale	79,686
Consumer Use	Sale	68,339
Sales	Lease	32,959
Sales	Rental	32,951
Seller Use	Lease	26,435
Seller Use	Rental	26,430
Consumer Use	Asset/Goods Movement	20,153
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# Questions and Answers



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