

The complete, three-part report

The future of e-commerce compliance

TaxJar



alter agents

Research conducted by Alter Agents



Table of Contents

03

Background & methodology

04

Part 1

The acceleration of e-commerce and the impact on compliance

12

Part 2

Addressing the needs of financial professionals

19

Part 3

Supporting compliance with automation

25

Info

Why TaxJar?

Background & methodology

This research project sought to better understand the post-pandemic ecommerce landscape and explore the associated challenges financial professionals are facing with it. More specifically, TaxJar aimed to start conversations and generate awareness about the complexity of managing tax compliance within the U.S. and provide solutions to aid both financial professionals and their businesses.

TaxJar, in partnership with independent research agency Alter Agents, conducted a quantitative research study amongst 501 financial professionals across the nation. In this study, financial professionals are defined as those that are responsible for financial decisions surrounding tax and tax compliance and are from mid-market businesses that employ 50 to 1,000 employees or hold \$10 to \$500 million dollars in revenue. All financial professionals were required to have a portion of their business (at least 25%) in e-commerce, as opposed to being fully brick and mortar.

The methodology, questionnaire and analysis were conducted by Alter Agents, based out of the United States. All survey participant answers and quotes are kept anonymous for respondent privacy.

The Survey

- A 20-minute online quantitative survey
- N=501 respondents
- Surveyed 2/25/21 - 3/13/2021
- Nationally representative

The Respondents

- Ages 25-65
- Financial professional
- Responsible for financial decisions related to tax / tax compliance
- Mid-market businesses with \$10-500M or 50-1,000 employees
- Portion of business as e-commerce / online sales

The Future of E-Commerce Compliance: Part 1

The acceleration of e-commerce and the impact on compliance

TaxJar



alter agents

Research conducted by Alter Agents

This year has proven a dizzying challenge for e-commerce businesses as they've shifted strategies, channels, and business models in an effort to thrive in a world changed by COVID-19.

Seventy-four percent of all surveyed companies have done more business in e-commerce since the start of the pandemic. But with that remarkable growth has come another challenge to reckon with: compliance. As organizations have done more business online, their compliance has become increasingly complex.

We surveyed more than 500 financial professionals in order to better understand how they are navigating e-commerce compliance – as well as how they foresee the landscape changing in the future. This survey included a variety of industries from financial services to manufacturing to technology and cloud solutions, and provides valuable insights to those looking to stay ahead of compliance and at the forefront of e-commerce. We'll delve into those insights in this three-part report.

For those responsible for tax compliance, the past year has been confusing at best. A startling 88 percent of financial workers have faced challenges with sales tax compliance, with most facing multiple challenges concurrently.¹

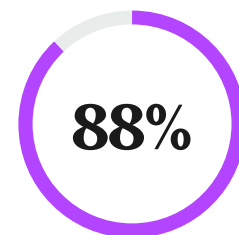
The complexity of maintaining compliance is forcing financial professionals to think through new approaches. E-commerce can take place anywhere, anytime, and now people are buying online more than ever before. Brands are working on overdrive to navigate shipping, nexus laws, variable tax rates, and more in this dynamic and evolving commerce environment.

Audits, customer dissatisfaction, owing back taxes or having liabilities that could threaten a merger or acquisition are all potential consequences of mismanaging compliance in the e-commerce realm.

As one financial professional told us, "The challenge is very

About the Report

TaxJar, in partnership with independent research agency Alter Agents, conducted a quantitative research study amongst 501 financial professionals across the nation. In this study, financial professionals are defined as those that are responsible for financial decisions surrounding tax and tax compliance and are from mid-market businesses that employ 50 to 1,000 employees or hold \$10 to \$500 million dollars in revenue. All financial professionals were required to have a portion of their business (at least 25%) in e-commerce, as opposed to being fully brick and mortar.



88%
of financial workers have faced challenges with sales tax compliance, with most facing multiple challenges concurrently.

obvious: when our sales tax is not compliant, we will not be able to continue our business.”¹

The stakes are high for financial professionals. Given this, financial professionals are doing all they can to be compliant with one financial professional saying their company does as much as possible to solve sales tax compliance.”¹

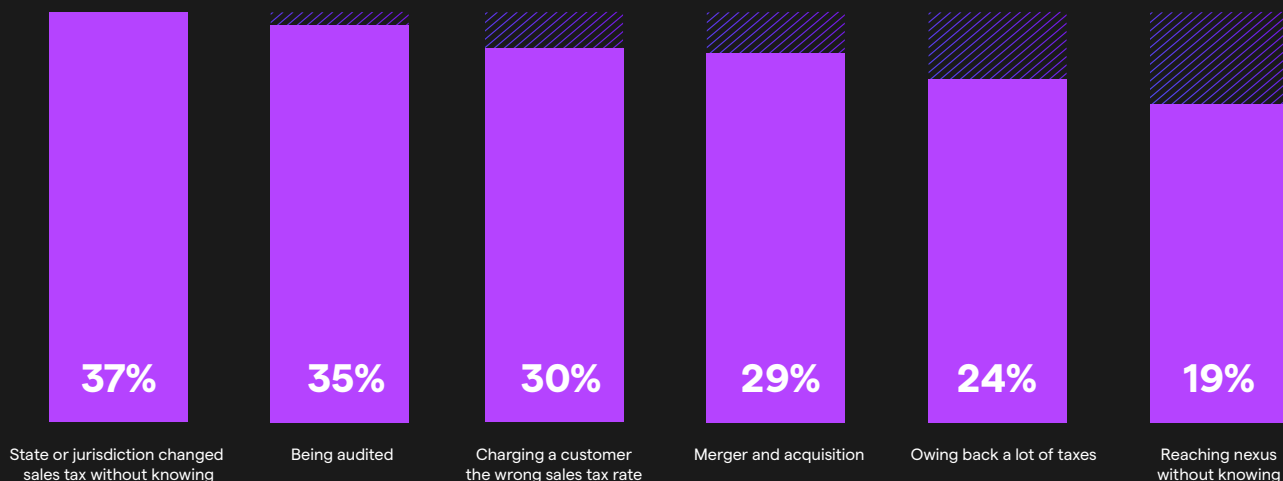
Yet despite this commitment, most have made mistakes or experienced negative tax consequences.

Among those financial professionals we surveyed, **82 percent** have had a *negative experience* with tax compliance.

Close to one in three have charged the wrong sales tax rate, been audited, and/or had the state or jurisdiction change the sales tax rate without them knowing.¹

While most of us don’t think of it when we’re wearing our consumer hat and hitting the “buy” button, the complexity of compliance within e-commerce has had a profound impact on businesses. There is a significant array of tax implications to selling in multiple tax jurisdictions.

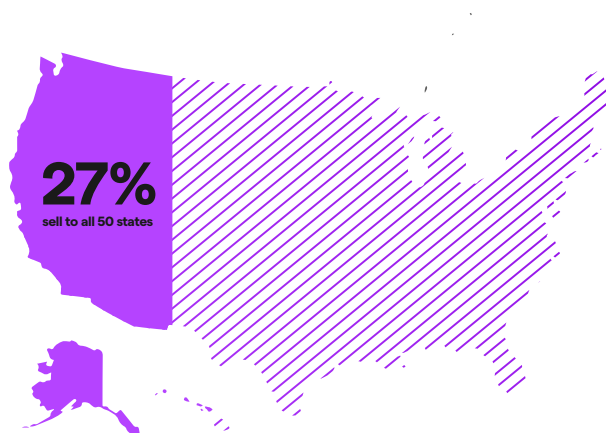
Previous Experiences Related to Sales Tax



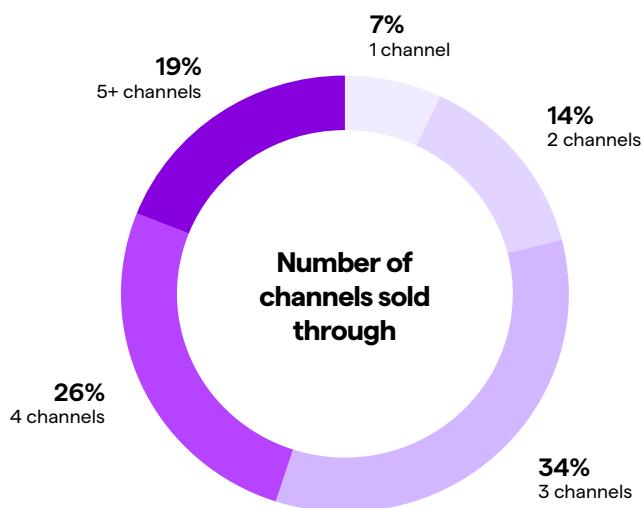
Over a quarter of companies who play in the e-commerce space sell to all 50 states, with most companies selling to an average of 25 states.¹

Each state's unique rules and regulations add to the challenge. Not surprisingly, financial professionals rank state registrations as their top sales tax compliance issue. As one financial professional described, "Sales and use tax issues are particularly tough if a firm operates in several states, in addition to the usual issues of complying with different laws."¹

U.S. E-Commerce Landscape



Average number of states sold to: 25



Average: 3 Channels

According to the Tax Foundation, slightly over half of states in the U.S. (26) had notable tax changes take effect at the beginning of this year.² Tax professionals are continually dealing with uncharted territory as regulations are added and updated. “Tax codes are constantly changing and are always open to interpretation.” one financial professional explains.¹

Navigating tax compliance within this accelerated and ever-changing industry of e-commerce takes a toll.

Over four in ten financial professionals report negative feelings such as being overwhelmed, worried, or uneasy towards their tax compliance. Those who feel overwhelmed by tax compliance issues attribute it to not knowing about real-time changes.¹

Forty-five percent of financial professionals who are overwhelmed say it is because the state or jurisdiction has changed sales tax without them knowing. And four in ten of those who are overwhelmed say it's because they have reached nexus without knowing it.¹

Similarly, four in ten are stressed about keeping up with changing regulations. Three in ten are constantly worried about their compliance. As one financial professional said, “Knowing which form to use, where and when to file, and what to include on the returns can be an onerous task.”¹

While many financial professionals have found they are confident and prepared, there is also widespread worry and unease, especially among those who have been audited or owe back taxes because of an e-commerce tax miss.¹

Sales Tax Challenges

Top sales tax challenges ranked

- 1 State registrations
- 2 Integrating data sources / transactions from an e-commerce platform to a sales tax platform
- 3 Calculating sales tax rates
- 4 Understanding nexus determination (physical & economic)
- 5 Monitoring nexus thresholds & qualification criteria
- 6 Reporting and filing taxes
- 7 Assigning exemptions
- 8 Registering for a sales tax permit

Average number of general financial challenges

3.48

Average number of sales tax challenges

2.89

With COVID-19's acceleration of e-commerce, financial professionals will need to be more prepared than ever before.

While e-commerce sales have been an increasing source of revenue for brands, growth for this channel was happening at a steady pace until 2020. E-commerce revenue grew 13-17 percent annually from 2010 until now, running about ten points ahead of overall retail growth.³

By 2018, consumers were evenly split over whether they preferred to shop online or in store, with two thirds of Millennials choosing the former.⁴ Direct-to-consumer brands and retailers acted accordingly and steadily built out their e-commerce offerings over time. Our study found that 93 percent of medium-to-large sized companies have some portion of their business in e-commerce.¹ For many, selling goods online was a smaller source of revenue than the overall pie, but it had been their primary growth engine. Still, consumers hadn't shifted en masse to online purchases. There would be time to figure things out and get e-commerce ducks in a row.

Feelings about Sales Tax Compliance

38%

"I'm **stressed** about keeping up with changing regulations"

30%

"I am **constantly worrying** that I haven't thought far ahead enough to be sales tax compliant"

Companies in E-Commerce



93% of companies have some portion of their business in eCommerce

Then COVID hit. With consumers hesitant to shop at brick-and-mortar retail, the slow-burn acceleration turned into an explosion. Nearly 70 percent of shoppers agree that COVID-19 changed their shopping habits a lot.⁵

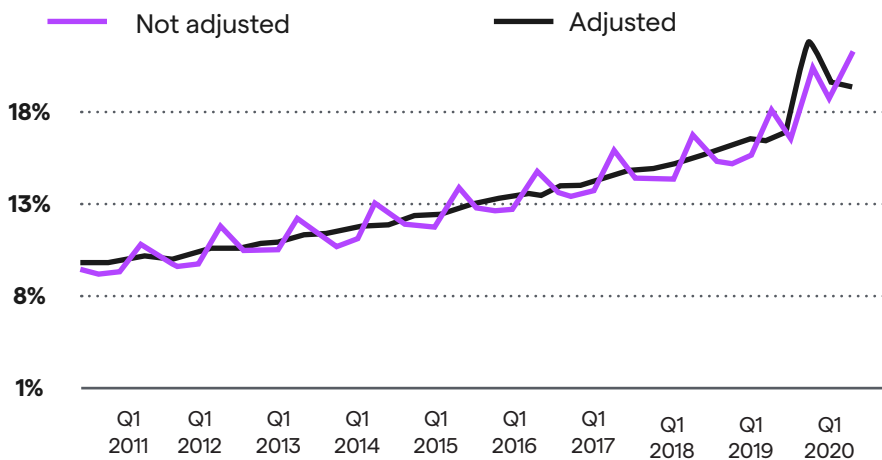
E-commerce sales as a percentage of overall retail sales rose from under five percent in 2012 to about 12 percent at the start of 2020.⁶ This may sound meager, but the growth in e-commerce sales after the COVID-19 pandemic is unprecedented: US sales grew by 44 percent in 2020 as the pandemic shifted a lot of buying online.³ A majority of this shift came from consumers who would have likely preferred to purchase in store but turned to online channels due to health and safety concerns. Online grocery sales jumped 300 percent in March of 2020 as consumers switched their shopping habits overnight.⁷

COVID-19:

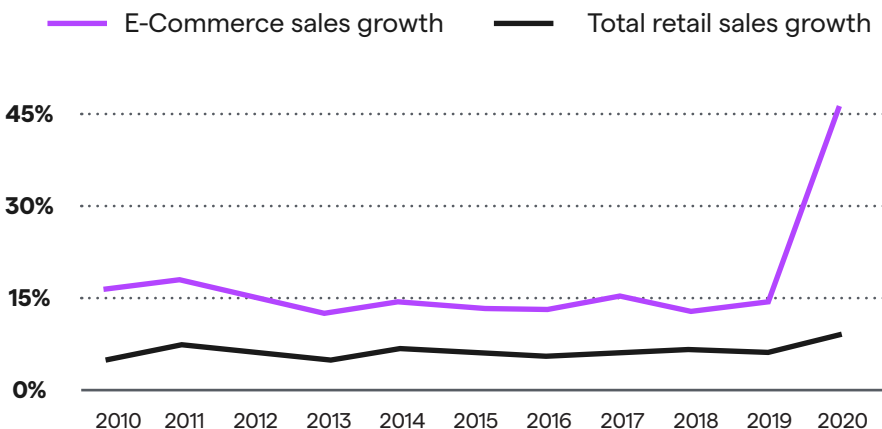
With consumers hesitant to shop at brick-and-mortar retail, the slow burn acceleration turned into an explosion. Nearly 70 percent of shoppers agree that COVID-19 changed their shopping habits a lot.

US sales grew by 44% in 2020 as the pandemic shifted a lot of buying online.

Estimated Quarterly US Retail Ecommerce Sales as a Percentage of Total Quarterly Retail Sales

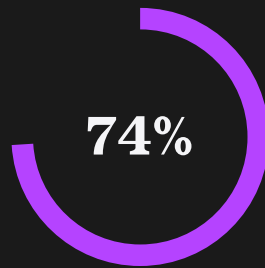


Comparing growth: US E-Commerce vs. Total Retail Sales



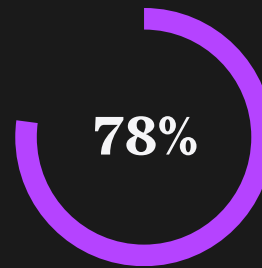
Impact of COVID-19 on E-Commerce

Current COVID-19 Impact on E-Commerce



of companies say that they have done more e-commerce since the start of COVID-19

Future COVID-19 Impact on E-Commerce



of companies agree that their e-commerce business will only grow in the future

Most financial professionals (78 percent) say they believe their e-commerce business will only grow more in the future. As one professional put it: “We expect our e-commerce to greatly, significantly increase because of COVID. People are staying at home and using their computers, and I think they will continue to do so after COVID has gone away.”¹

Another said: “I think it’s pretty much common sense right now that e-commerce will continue to grow... More and more people will continue to shop online... In the next five years, I think it’s safe to say that e-commerce will grow significantly.”¹

E-commerce and digital commerce will continue to grow, and with it, the need for new solutions for financial professionals to manage their expanding and ever-complicating remit. In the next chapter of this discussion, we’ll look at how financial professionals are currently addressing tax compliance issues and managing the challenges brought about by digital commerce.

“

We have had **increased e-commerce sales** because **customers are online more often these days.**”

“

We **expect our e-commerce to greatly, significantly increase because of COVID.** People are **staying at home and using their computers, and I think they will continue to do so after COVID has gone away.**”

SOURCE LIST:

1. Alter Agents Commerce & Compliance Study conducted on behalf of TaxJar, 2021
2. State Tax Changes Effective January 1, 2021, Tax Foundation, 2021
3. US ecommerce grows 44.0% in 2020, DigitalCommerce360, 2021
4. Alter Agents Hyper Disruption Study, 2021
5. Alter Agents Shopper Behavior Study, 2021
6. U.S. Census Bureau News, 2021
7. What is the state of the food retail industry? The Food Industry Association, 2020

Sales Tax Compliance for Modern Commerce

With the rapid growth of e-commerce and constantly shifting regulations, getting sales tax compliance right is challenging. It's not a profit center, and it takes you away from what your company does best.

TaxJar is reimagining how businesses manage sales tax compliance. Our cloud-based platform automates the entire sales tax life cycle across all of your sales channels — from calculations and nexus tracking to reporting and filing. With innovative technology and award-winning support, we simplify sales tax compliance so you can grow with ease.

Our automated solutions are already helping more than 20,000 businesses save time and resources.

Reduce your risk of errors and missed deadlines

The TaxJar platform automates sales tax compliance across 11,000 jurisdictions. We make sure you always stay ahead of your economic nexus exposure, collect the right sales tax rate on every product sold, and submit filings and remittances on time.

Sell across more channels with less effort

With TaxJar, it's easy for multichannel sellers to expand to new markets and manage sales tax compliance. Our cloud-based platform enables your business to scale seamlessly. AI-driven product categorization, a real-time calculation engine, a flexible API, and aggregated transaction reports remove your administrative burden.

Integrate TaxJar with your e-commerce or ERP platform

Getting up and running with TaxJar is simple. Choose from a wide range of built-in-house integrations with platforms, ranging from Stripe to Shopify to NetSuite. The TaxJar API gives you even more flexibility for custom solutions.

TaxJar

**Schedule a demo today to discuss how we
can help you with your compliance needs.**

The Future of E-Commerce Compliance: Part 2

Addressing the needs of financial professionals

TaxJar



alter agents

Research conducted by Alter Agents



The massive growth in e-commerce and digital commerce has forced financial professionals to grapple with the impact on their businesses as well as on their evolving roles and responsibilities.

In an ideal world, financial professionals would spend their time focused on managing profit and growing revenue. But because of the risk inherent in selling to multiple tax jurisdictions, staying tax compliant often takes a front seat to strategic business goals. Our research of 501 financial professionals reveals that paying taxes is one of the most common concerns they share.

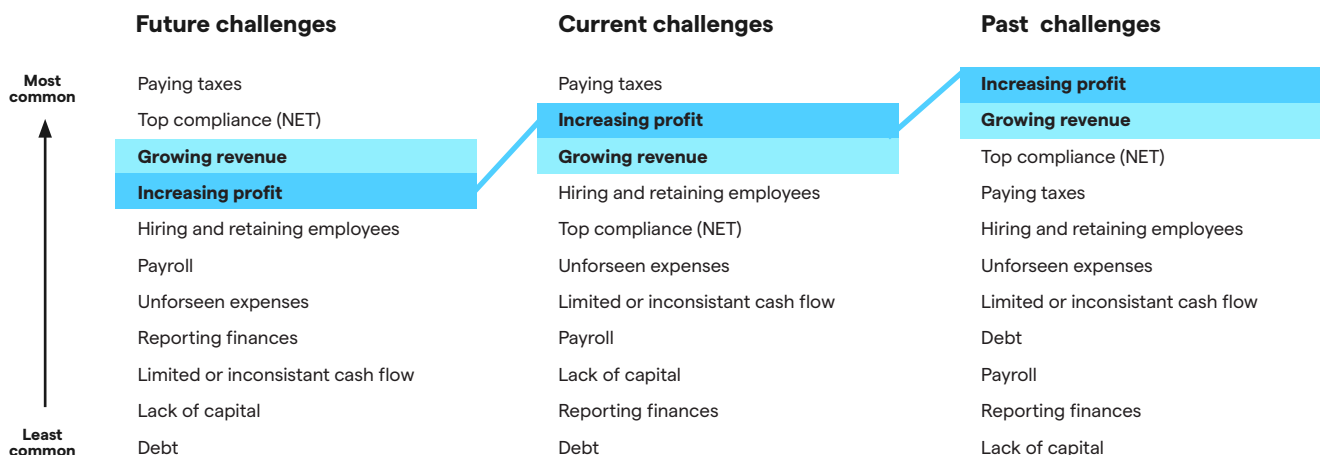
Managing the anxiety that comes with getting the details of tax compliance right is part and parcel of a financial professional's job. Still, our research found that financial professionals are increasingly overwhelmed by the requirements. And this isn't surprising given the multiple steps that must be taken when trying to get compliant with sales tax laws.

There are many steps financial professionals must take before filing their taxes. First they have to collect accurate sales tax at checkout. Then, they have to monitor and determine their economic nexus – which is sometimes more complicated than it seems. After that, they must compile all channel and marketplace data and assess their tax liability. If, after all these steps are accomplished, everything looks good, they can finally file and remit their taxes.

About the Report

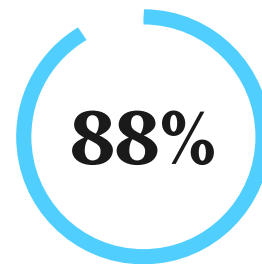
TaxJar, in partnership with independent research agency Alter Agents, conducted a quantitative research study among 501 financial professionals across the nation. In this study, financial professionals are defined as those that are responsible for financial decisions surrounding tax and tax compliance and are from mid-market businesses that employ 50 to 1,000 employees or hold \$10 to \$500 million dollars in revenue. All financial professionals were required to have a portion of their business (at least 25%) in e-commerce, as opposed to being fully brick-and-mortar.

Financial Challenges Over Time



To help them feel more confident and supported throughout this process, they have three key needs. These needs can be characterized as Foundational, Functional, and Emotional.

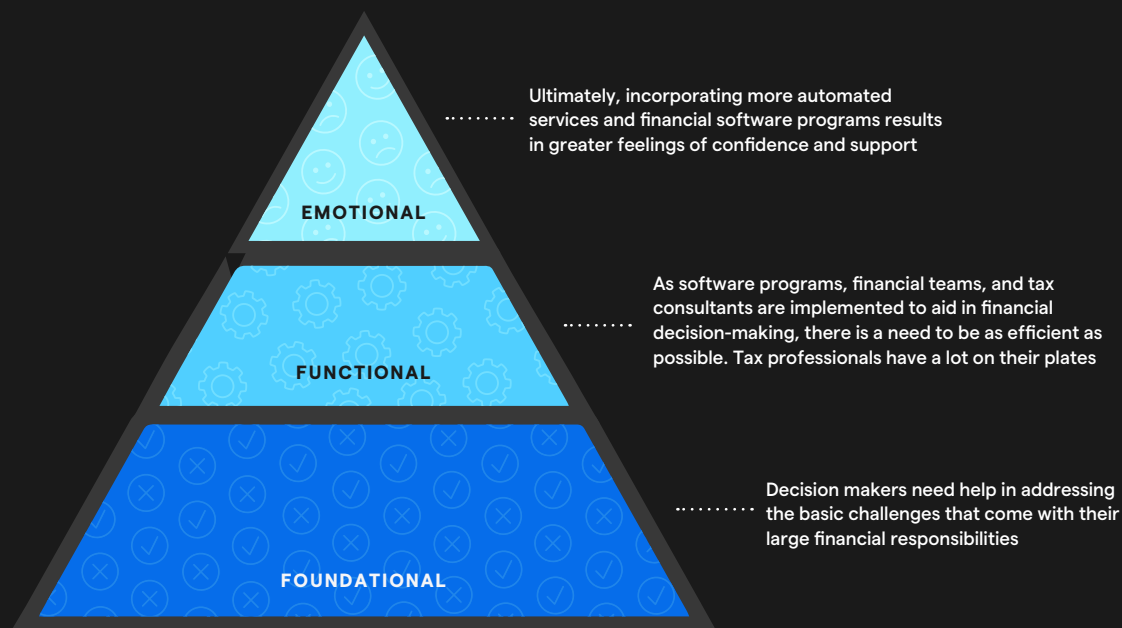
If we look at financial professionals' situation through the lens of Maslow's Hierarchy of Needs, we find that they need help in addressing the basic challenges that come with their large fiduciary responsibilities. These professionals have a lot on their plate, with most of them citing five compliance tasks and responsibilities on average, a significant amount given the complex nature of these tasks.¹ Nearly all (88 percent) of these financial professionals face sales tax or sales tax compliance challenges, such as keeping up with changing regulations in each jurisdiction and making sure enough tax is collected to be compliant without overcharging consumers.¹ As TaxJar's SVP of Operations, Lydia Chen puts it:



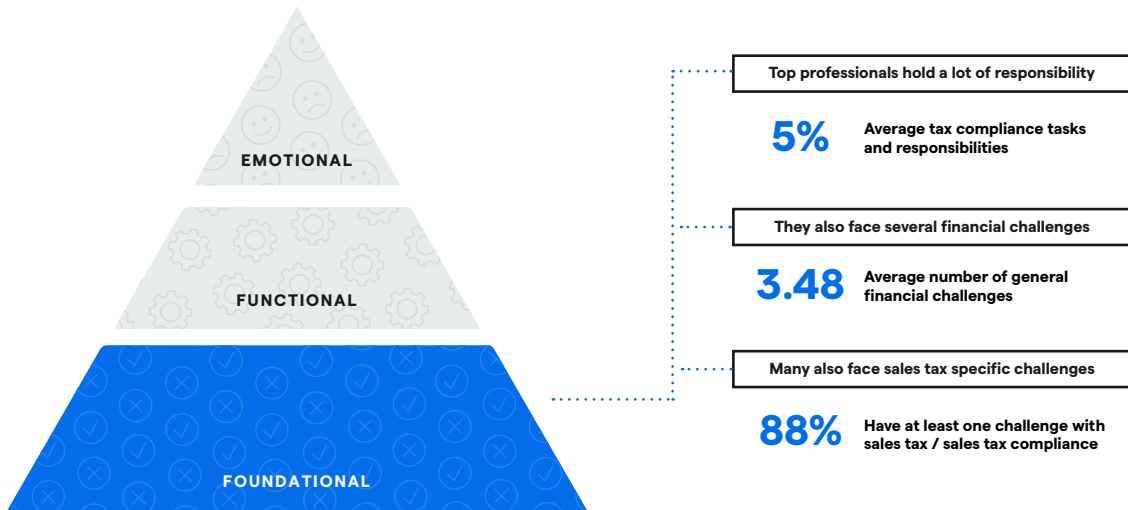
88%
of finance pros have at least one challenge with sales tax compliance

“ In addition to the varying taxation on product types, there are an array of exemptions and ‘sales tax holidays’ that add to the complexity of sales tax compliance.”²

The Hierarchy of Needs for Financial Professionals



Foundational Needs of Financial Professionals



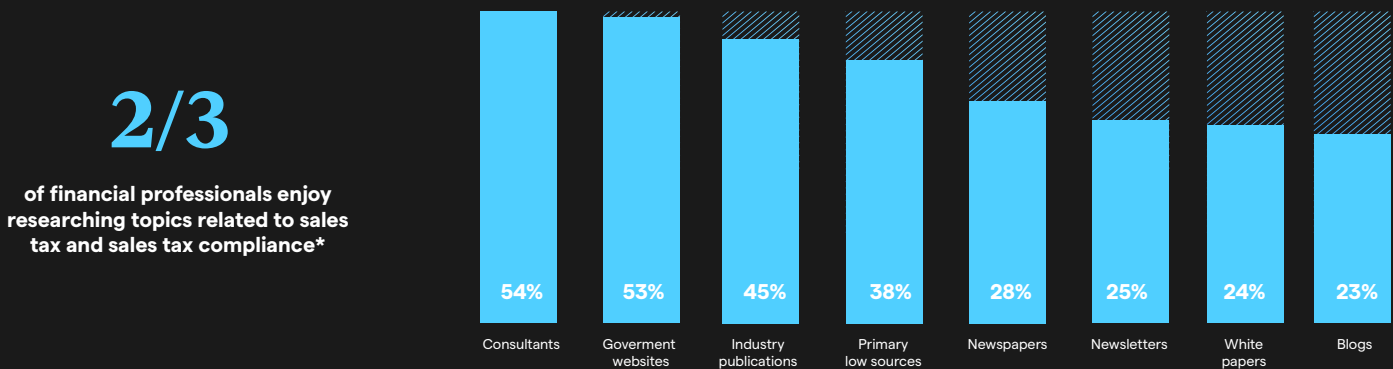
Once foundational needs are met, financial professionals turn to efficiency. Software programs, finance teams, and tax consultants help them implement and support decision-making.

TaxJar's founder, Mark Faggiano, describes creating efficiencies in the realm of tax compliance as an ever-present challenge for professionals:

“ To make sure they are compliant, financial professionals do a lot of research and explore multiple resources for aiding their financial decisions.”

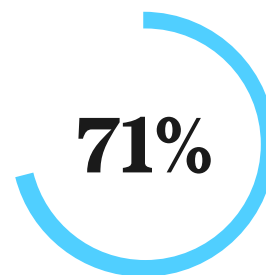
Financial Professional Research

Sources of information aid in that decision-making related to sales tax and/or sales tax compliance



Ultimately, 71 percent of financial professionals use more than one solution to meet their needs – a combination of software programs, tax consultants, and their finance team.¹

Due to the impact of implementing compliance requirements, tax efficiency quickly becomes a priority for 98 percent of financial professionals.¹



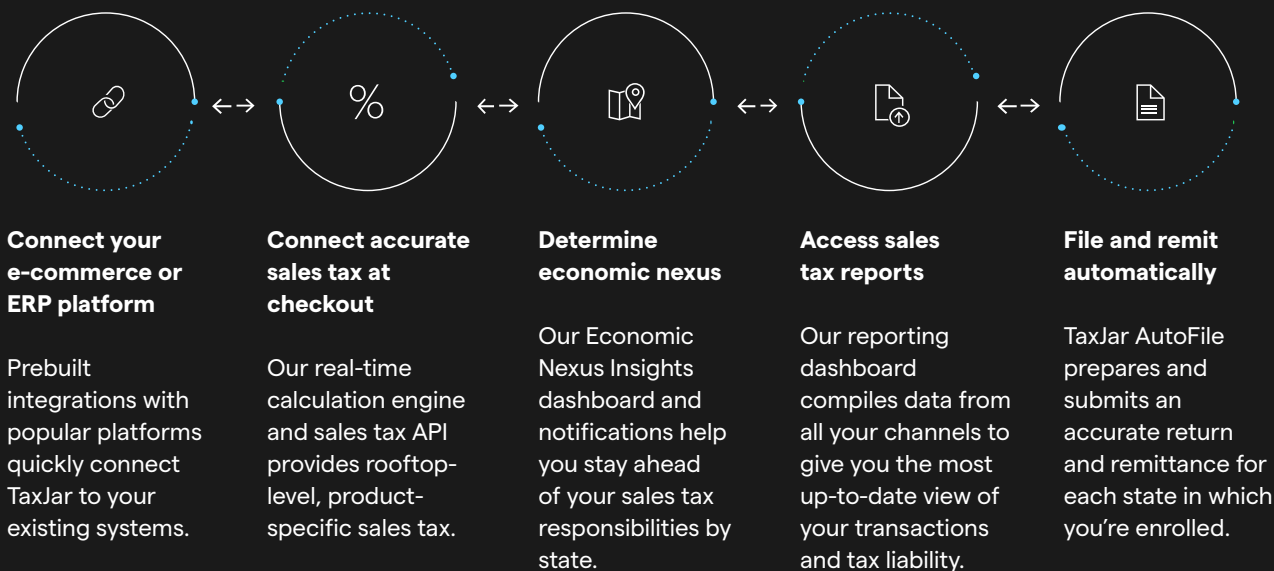
of finance pros use **more than one solution** to meet their needs

How are you currently addressing your challenges with sales tax compliance?

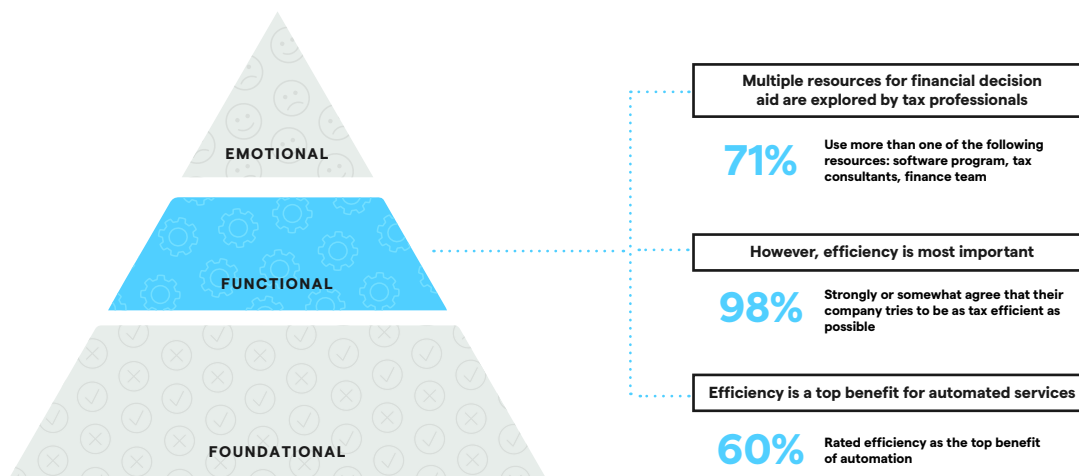
“ We are currently adopting various platforms and software to fully control and comply with the payment of our taxes.”

“ We use both financial software and an accountant to make sure we are compliant.”

Automation of the Sales Tax Life Cycle



Functional Needs of Financial Professionals



Once the immediate foundational needs are met and financial professionals have been able to apply some functional solutions to support their teams, the work shifts to addressing their emotional needs. And by emotional, we mean solutions that generate greater feelings of confidence and support.

Having confidence in their job, their workplace, and their industry may not only have large effects on a financial professional's well-being, but also on the performance and efficiency of their company. Almost all professionals (98 percent) believe they perform better when they feel confident.⁴

Providing tools to ease financial professionals' pain points is a simple but significant way to support this confidence. Indeed, 64 percent of financial professionals who use automation report greater levels of confidence than those who do not.¹

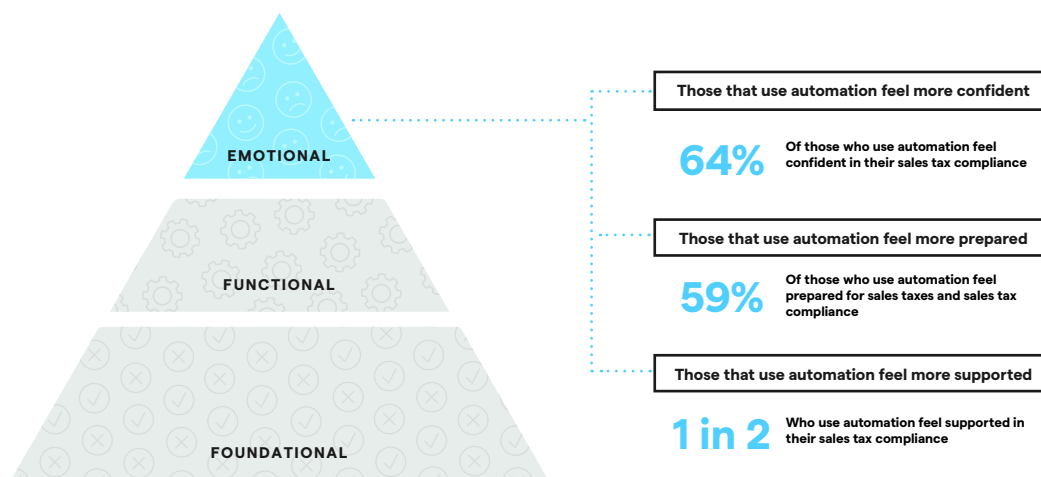
6 in 10 professionals who use automation feel more prepared in the realm of sales tax and sales tax compliance.¹



Automation completes the final piece of the financial professional's hierarchy of needs, with 51 percent who use automation reporting they feel supported in their sales tax compliance.¹



Emotional Needs of Financial Professionals



As we have discussed in this chapter, financial professionals working in e-commerce and digital commerce realms have foundational, functional, and emotional needs. In the next chapter, we will discuss how financial professionals are using automation to support all of those needs and prepare themselves to tackle any compliance challenge.

SOURCE LIST:

1. Alter Agents Commerce & Compliance Study conducted on behalf of Taxjar, 2021
2. Alter Agents Tax Compliance Interview with Lydia Chen, 2021
3. TaxJar quote from founder Mark Faggiano
4. Confidence at Work: Why Employers Should Nurture This Soft Skill, Indeed, 2020

Sales Tax Compliance for Modern Commerce

With the rapid growth of e-commerce and constantly shifting regulations, getting sales tax compliance right is challenging. It's not a profit center, and it takes you away from what your company does best.

TaxJar is reimagining how businesses manage sales tax compliance. Our cloud-based platform automates the entire sales tax life cycle across all of your sales channels — from calculations and nexus tracking to reporting and filing. With innovative technology and award-winning support, we simplify sales tax compliance so you can grow with ease.

Our automated solutions are already helping more than 20,000 businesses save time and resources.

Reduce your risk of errors and missed deadlines

The TaxJar platform automates sales tax compliance across 11,000 jurisdictions. We make sure you always stay ahead of your economic nexus exposure, collect the right sales tax rate on every product sold, and submit filings and remittances on time.

Sell across more channels with less effort

With TaxJar, it's easy for multichannel sellers to expand to new markets and manage sales tax compliance. Our cloud-based platform enables your business to scale seamlessly. AI-driven product categorization, a real-time calculation engine, a flexible API, and aggregated transaction reports remove your administrative burden.

Integrate TaxJar with your e-commerce or ERP platform

Getting up and running with TaxJar is simple. Choose from a wide range of built-in-house integrations with platforms, ranging from Stripe to Shopify to NetSuite. The TaxJar API gives you even more flexibility for custom solutions.

TaxJar

**Schedule a demo today to discuss how we
can help you with your compliance needs.**

The Future of E-Commerce Compliance: Part 3

Supporting compliance with automation

TaxJar



alter agents

Research conducted by Alter Agents

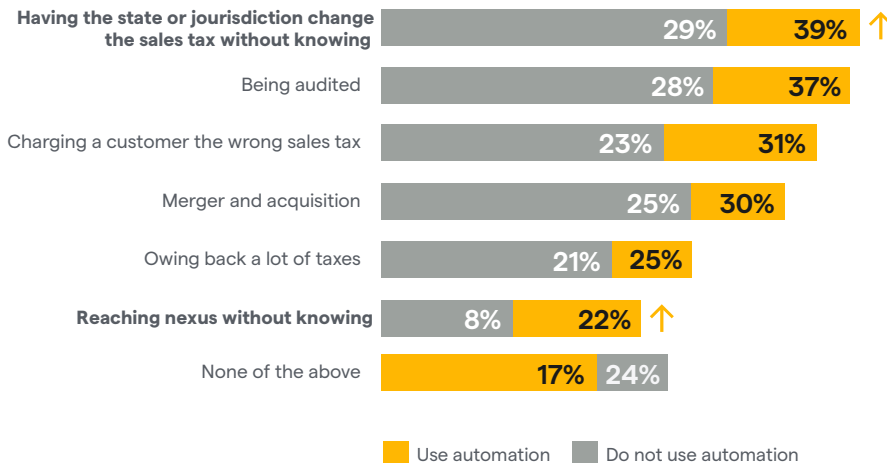


With the perfect storm of increasing complexity of sales tax, increasing regulations, and increasing e-commerce sales, financial professionals have a lot they are dealing with.

They are being proactive and searching for ways to help their organization keep up to ensure they are prepared for whatever comes at them within this dynamic and accelerating commerce environment.

Having a negative sales tax compliance experience leads many financial professionals towards automation. In fact, those who currently use automation are much more likely than non-automators to have had a negative compliance experience in the past.¹ Unexpected sales tax changes and nexus thresholds are top experiences that drive financial professionals towards automation.

Previous Experiences Related to Sales Tax



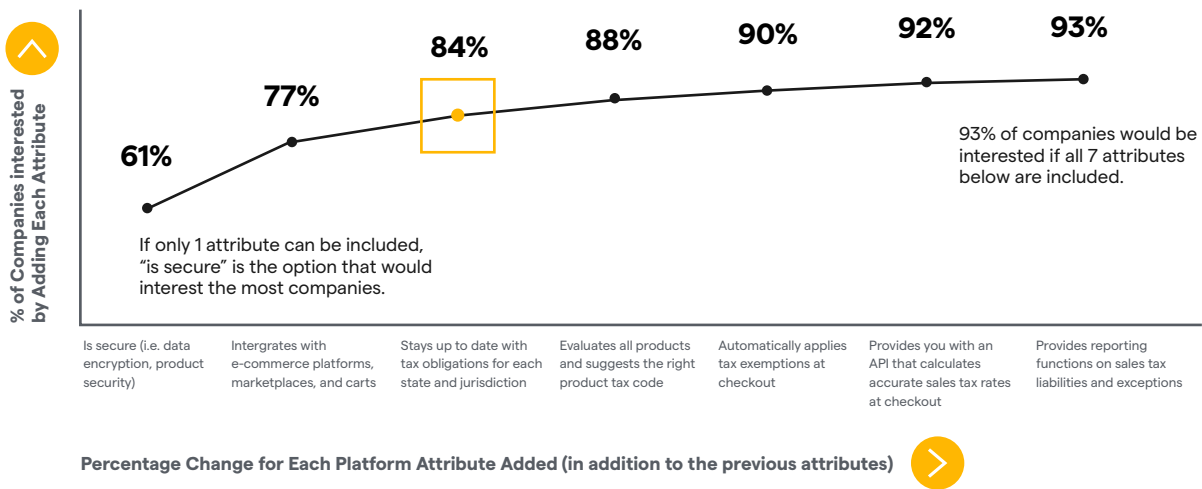
About the Report

TaxJar, in partnership with independent research agency Alter Agents, conducted a quantitative research study among 501 financial professionals across the nation. In this study, financial professionals are defined as those that are responsible for financial decisions surrounding tax and tax compliance and are from mid-market businesses that employ 50 to 1,000 employees or hold \$10 to \$500 million dollars in revenue. All financial professionals were required to have a portion of their business (at least 25%) in e-commerce, as opposed to being fully brick-and-mortar.

In prior chapters, we've talked about how professionals have five major tasks on average in front of them, and how 7 in 10 are using more than one resource for tax compliance.¹ They use multiple resources because until recently, no single tool could address the extensive needs of a booming e-commerce and digital commerce business.

So, what are financial professionals looking for in a tax compliance solution?

Important Attributes for Sales Tax Compliance Software



The great majority (92 percent) of survey respondents think it's important that compliance software stays up to date with tax obligations for each state and jurisdiction.¹ Right behind them, 91 percent think it's important that compliance software is secure.¹ But for it to be useful, tax software has to address a number of needs. All of the 12 software attributes tested were thought of as important by at least 84 percent of financial professionals.¹

Any automation software has to address the greatest number of Foundational and Functional needs of financial professionals. Ideally, automation provides the key to addressing the biggest challenges related to staying compliant, without sacrificing efficiency. Today, four in five companies are using automation; the rest say they are planning to do so in the near future.¹

As TaxJar's SVP of Operations Lydia Chen notes, "If you want to be compliant, automating is really the only option that makes sense. It would take an army of people to perform all the steps necessary for a mid-market company to stay compliant – and that seriously cuts into your margins."² Given this reality, nearly all financial professionals (98 percent) say their companies are actively trying to be as tax efficient as possible.¹

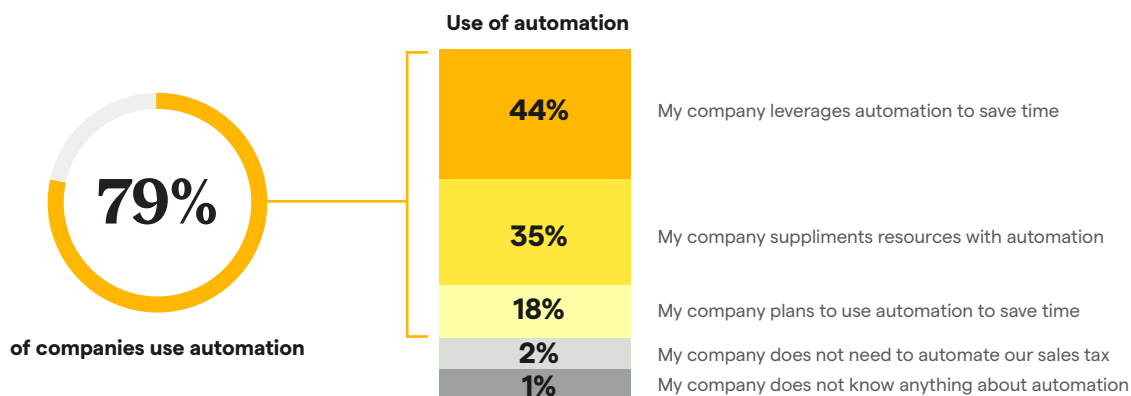
“

There really isn't an option to not automate if you want to be compliant.”

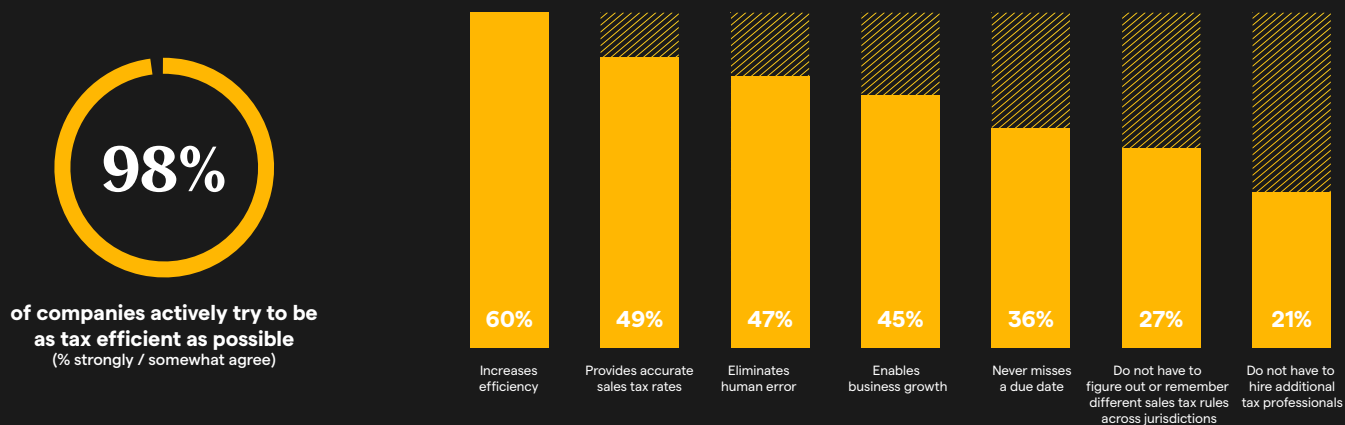
Lydia Chen

SVP of Operations, TAXJAR

Automation Use

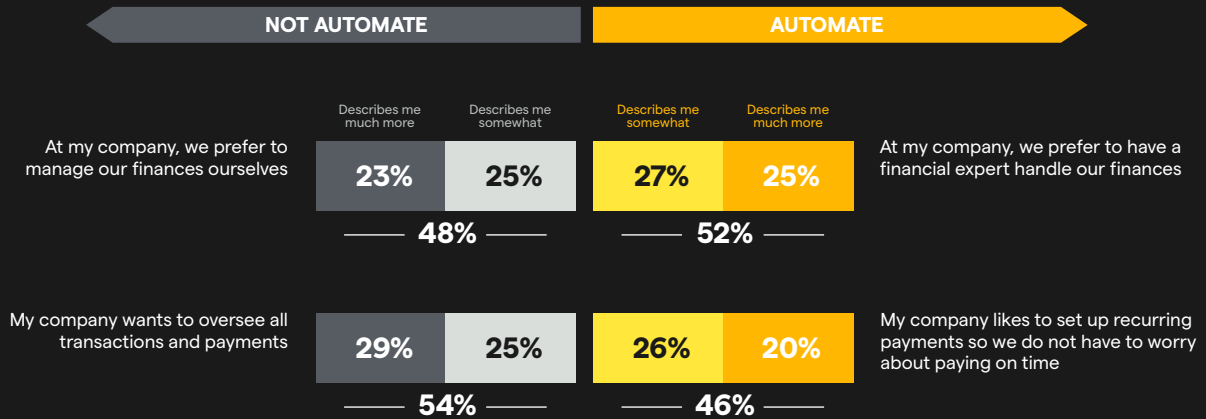


For those financial professionals who do rely on automation, they report that increasing efficiency is a benefit (60 percent) and nearly half are using automation to save time (44 percent). However, financial professionals find myriad other reasons to automate. Many recognize automation as a tool to avoid compliance issues by eliminating the human element. Nearly half of financial professionals automate to avoid human error (47 percent) and make sure that they are always using accurate sales tax rates during customer check-out (49 percent). Additionally, many are automating to grow their business (45 percent).¹

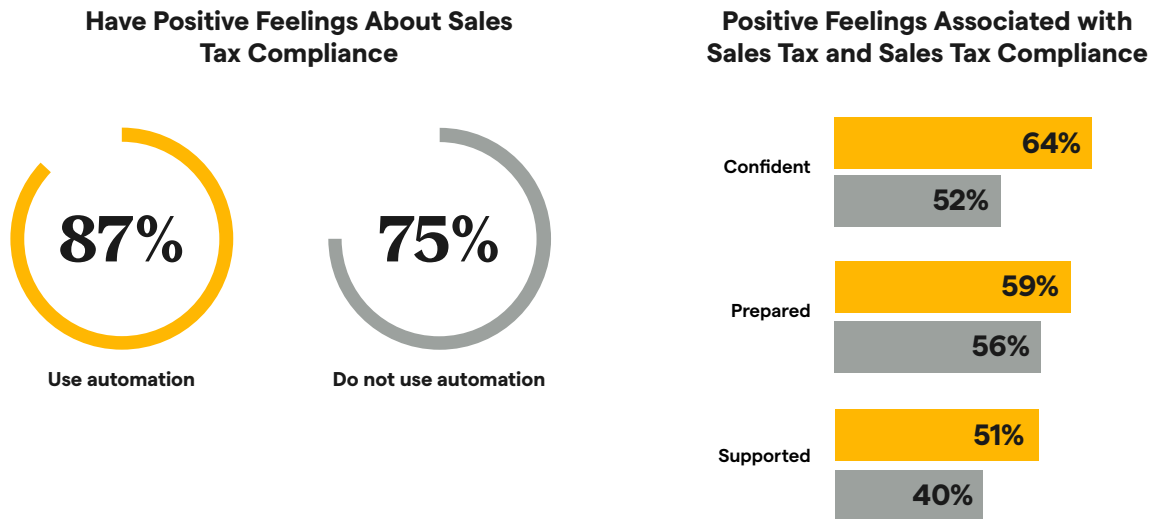


For those companies that have not yet automated their tax compliance workflow, tensions that may prevent using automation include wanting greater control over managing finances and payments. Nearly half of companies prefer to manage their own finances (48 percent) and do not want to hand over the reins to a financial expert. They choose not to set up recurring payments, so that they can keep a close eye on all transactions and payments (54 percent).¹

Attitudes Related to Automating and Outsourcing

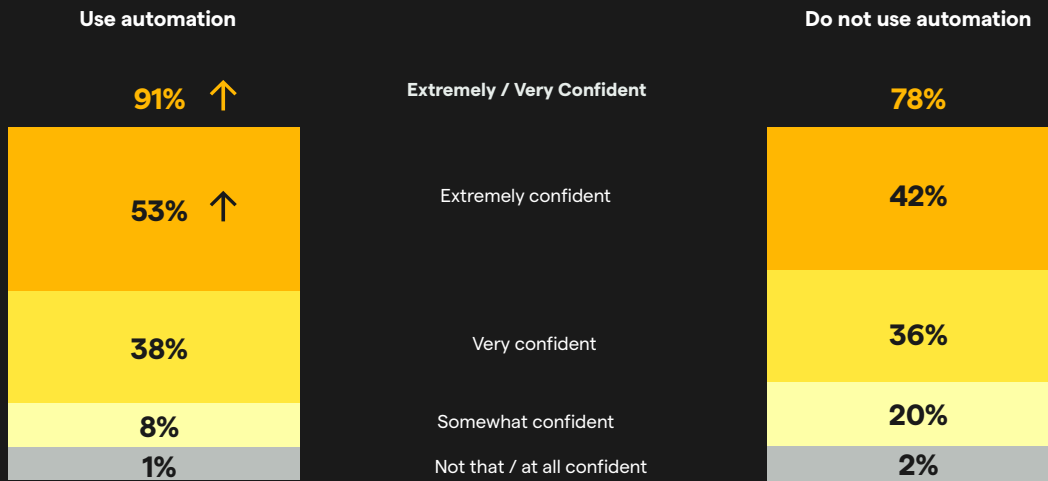


But for those who do seek out automation, the benefits don't stop at efficiency - financial professionals also report that they have increased levels of positive feelings such as confidence, preparedness, and feeling supported vs. those peers whose companies do not use automation.¹



Those who use automation for tax compliance are more likely to be extremely/very confident that they are compliant (91 percent vs. 78 percent). And they are also much more likely to say that they are an expert on sales tax compliance (49 percent vs. 33 percent).¹

Confidence in Sales Tax Compliance



There's no doubt: The future of e-commerce is here and tax compliance in this accelerated omni-channel environment is challenging. There is no one size fits all solution, but automation is what makes tax compliance possible and enables confidence, despite the rising complexity. Our research shows that financial professionals are ready for solutions that make compliance easier. With e-commerce and digital commerce set to continue their growth trajectory, financial professionals can count on new compliance tools from TaxJar to support them.

"I am an expert on sales tax and sales tax compliance"

49%

Use automation

33%

Do not use automation

SOURCE LIST:

1. Alter Agents Commerce & Compliance Study conducted on behalf of Taxjar, 2021
2. Alter Agents Tax Compliance Interview with Lydia Chen, 2021

Sales Tax Compliance for Modern Commerce

With the rapid growth of e-commerce and constantly shifting regulations, getting sales tax compliance right is challenging. It's not a profit center, and it takes you away from what your company does best.

TaxJar is reimagining how businesses manage sales tax compliance. Our cloud-based platform automates the entire sales tax life cycle across all of your sales channels — from calculations and nexus tracking to reporting and filing. With innovative technology and award-winning support, we simplify sales tax compliance so you can grow with ease.

Our automated solutions are already helping more than 20,000 businesses save time and resources.

Reduce your risk of errors and missed deadlines

The TaxJar platform automates sales tax compliance across 11,000 jurisdictions. We make sure you always stay ahead of your economic nexus exposure, collect the right sales tax rate on every product sold, and submit filings and remittances on time.

Sell across more channels with less effort

With TaxJar, it's easy for multichannel sellers to expand to new markets and manage sales tax compliance. Our cloud-based platform enables your business to scale seamlessly. AI-driven product categorization, a real-time calculation engine, a flexible API, and aggregated transaction reports remove your administrative burden.

Integrate TaxJar with your e-commerce or ERP platform

Getting up and running with TaxJar is simple. Choose from a wide range of built-in-house integrations with platforms, ranging from Stripe to Shopify to NetSuite. The TaxJar API gives you even more flexibility for custom solutions.

TaxJar

**Schedule a demo today to discuss how we
can help you with your compliance needs.**