Updates

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Gail Cole • Dec. 17, 2021

It's impossible for one report to cover every aspect of transaction tax compliance. But Avalara Tax Changes 2022 tries.

Movie buffs may liken the report to an epic film like 1962's *Lawrence of Arabia*, which clocks in at close to four hours, or the more contemporary *Avengers: Endgame*, which pushes past three. In truth, it may have more in common with *Logistics*, a "37-day-long road movie" that follows the life cycle of a pedometer in reverse, from a store

day in and day out.

Consider the following:

- 96% of midsize businesses and 65% of small businesses in the U.S. have changed in response to COVID-19
- Shipping freight costs surged by 323% between September 2020 and September 2021
- More than 60 countries have electronic invoicing requirements
- 200+ countries will adopt the new Harmonized Tariff Schedule on or after January 1, 2022
- The EU and U.K. have eliminated VAT exemptions for low-value imports
- 136 countries have agreed to a global minimum tax plan
- 45 states plus Washington, D.C., categorize software up to 10 different ways for tax purposes

Read on for insights into what this all means.

COVID-19, the great disruptor

Everyone is tired of the COVID-19 pandemic. Too bad for us.

The disrupting effect COVID-19 has had on the economy can't be underplayed. It's led to factory closures and ship quarantines at port, which has clogged the global supply chain to an astonishing degree. On November 9, 2021, for example, 111 ships were waiting for a spot to unload at a Southern California port. Once products do come ashore, they often run into further delays due to a dearth of truck drivers or, as in British Columbia, collapsed bridges and washed-out highways. Because on top of everything else, there's a global labor shortage and extreme weather.

The effect on tax compliance plays out like this: Companies unable to import

sales and use tax compliance.

Remote sales tax is here to stay

In 2018, the Supreme Court of the United States issued a ruling that will be studied in constitutional law classes for decades to come. South Dakota v. Wayfair, Inc., overturned a long-standing physical presence rule that prevented states from imposing a sales tax collection obligation on remote sellers (i.e., out-of-state sellers with no physical tie to the state). Within three years of the ruling, nearly every state with a sales tax was taxing remote sales. The laggard, Missouri, will follow suit on January 1, 2023.

But like a fledgling leaving the nest for the first time, economic nexus laws are subject to fits and starts. To decrease chances of their laws being challenged, many states at first followed South Dakota's lead and provided an exception for sellers with fewer than $100,000 in sales or 200 transactions in the state in the current or previous calendar year. Over time, some of the largest states like California raised their sales threshold to $500,000 and repealed the transaction threshold if they had one. Many other states abolished the transaction threshold, as well, but that didn't eliminate the complexity for sellers. Economic nexus thresholds still vary from state to state, some including exempt sales and/or sales of services, some not. That means businesses dealing primarily or exclusively in exempt transactions can still establish economic nexus and an obligation to file sales tax returns.

Further complicating sales and use tax compliance is the fact that local governments in a handful of states enforce economic nexus at the local level, requiring remote sellers to register with and remit sales tax to the local tax department.

Businesses that sell through marketplace facilitators face additional complexity thanks to marketplace facilitator laws, which require certain marketplace facilitators to collect and remit the tax due on third-party sales. At first glance, marketplace

register (and therefore collect and remit sales tax) as required. In much of the rest of the world, the gap results from registered businesses intentionally or mistakenly misreporting value-added tax (VAT).

Some U.S. states mine data and use other tools to uncover unregistered businesses. Elsewhere in the world, many countries are imposing electronic invoicing, real-time reporting requirements, and other measures to catch fraudulent activity and mistakes as they happen. Avalara Tax Changes 2022 explores this growing trend.

A world of tax reform

Just about all commerce is global today, as the journey of a pedometer from Bao'an to Stockholm shows. And global ecommerce itself is growing, from approximately $1.672 trillion in 2015 to a staggering estimate of $4.921 trillion in 2021. With more businesses selling internationally, tax officials worldwide are working to ensure cross-border sales are properly taxed.

Most economic regions in the world are exploring or undergoing some degree of indirect tax reform, according to IDC MarketScape. There are new tax registration, collection, and remittance requirements for online sales into the EU and the U.K., as well as ongoing efforts to make tax digital. Companies doing business between Canada, Mexico, and the United States are learning to navigate the new NAFTA: the United States-Mexico-Canada-Agreement (USMCA).

And now there is the new global minimum tax deal, which will likely have far-reaching consequences.

Unique concerns for retail, manufacturing, and software businesses

The forces shaping tax compliance in 2022 are affecting different industries in different ways.

For example, retailers that established buy online, pick up in store options during the

of those two businesses.

These are just some of the issues addressed in Avalara Tax Changes 2022, a weighty report that strives to give you the information you need to stay in compliance as you grow your business in the coming year.

Read the report.

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Sales Tax • Small Business