GLOBAL SALES REGULATIONS BY COUNTRY

Expanding your tech stack to meet new tax compliance responsibilities

GUIDE

Avalara

Tax compliance done right

Contents

DISCLAIMER

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this guide is for informational purposes only and does not provide legal or tax advice.

Introduction

International tax compliance can be a huge challenge for any type of business expanding overseas. Tax compliance rules and requirements do not only apply to those who sell tangible items, but to suppliers and service providers too – including manufacturers, SaaS companies, and accounting professionals.

No business type or model can circumnavigate its compliance responsibilities. Ignoring or getting them wrong can lead to audits and noncompliance penalties. These can cause disruption, loss of business, staff cuts, and reputational damage, which can all hinder growth.

Tax compliance rules exist in every global region but are not uniform or universal. Requirements can be region-specific, and may also differ at local levels within a region. In the U.S. for example, there are more than 13,000 U.S. sales and use tax jurisdictions with varying rates, requirements, and thresholds – which can frequently change. It's perhaps unsurprising, then, that **three in five U.K. businesses** decided not to expand into the market due to U.S. sales and use tax **complexity**. The same research found that 80% of U.K. business leaders believe that tax complexity is one of the greatest burdens facing their organization.

Compliance responsibilities don't end when a purchase is made. Businesses – particularly retailers – must get their goods across borders if selling internationally. This means understanding and complying with customs rules, handling shipping requirements, and paying the correct duties and import/export taxes.

To get their goods across international borders, retailers must get their Harmonized System (HS) codes right. These are six-digit identifiers assigned to every product sold across international borders. They enable customs authorities to apply the correct duties and taxes. Incorrect codes will likely lead to customs delays or goods being barred from entry, as well as surprise additional costs that can be passed onto the recipient. Given the thousands of codes that update and change every few years, it's understandable how businesses face issues when assigning the correct codes to their products. **94%** of survey respondents reported facing delays in cross-border shipping due to incorrect item classification and documentation, and just 6% said that goods are never delayed.

Manufacturers – who often partner with multiple suppliers in disparate regions – must contend with ever-changing rules and regulations that determine how their products are taxed. According to a 2022 **survey**, keeping up with changing tax laws and guidelines is the number one compliance headache for 54% of manufacturers. It can become necessary for manufacturers to not only consider their own obligations, but those of vendors they buy from or sell to, depending on where they're located. If a manufacturer buys from a vendor with U.S. sales and use tax obligations, they too may find their own obligations increase. This can include requesting and validating exemption certificates at the point of sale, which can result in extra work – especially if they are manually collecting, validating, and storing them. And if manufacturers make intra-community acquisitions (ICA) in the EU – where they may not be established – they will be obligated to register for VAT within the relevant EU member states.

Regardless of where they are based or established, manufacturers are likely to have to track large volumes of stock-keeping units (SKU) that are sold into international markets. Ensuring they too have assigned the correct HS codes is therefore essential.

Even when a business does not sell tangible items that must physically move across oceans and borders, compliance can still present complications. Software businesses need to keep on top of law changes affecting **digital products** and how governments handle SaaS – as digital products become more commonplace, authorities want to ensure they close any gaps in tax revenue.

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A big challenge for software businesses is how definitions of digital products and services can differ around the globe. While it may be universally understood what a book is, the same cannot be said for an ebook. Working out what taxes apply (if they apply at all) is something businesses have to keep front of mind.

Compliance responsibilities can be difficult to manage even with experienced experts among a business's staff. For those experiencing talent shortages, especially for accounting professionals and firms, managing tax complexities becomes all the more difficult. Avalara **research** found that 84% of CFOs surveyed in the U.S. and U.K. face a significant talent shortage within their accounting and finance teams. 47% noted that burnout resulting from long hours and menial, manual tasks was a notable factor for the diminishing talent pool.

HOW AUTOMATION CAN HELP

Regardless of the market or region, businesses of all types and sizes simply must find an effective and sustainable way of keeping up and complying with tax rules and requirements. Given the frequency of changes and variance of rules, manual tasks and legacy technology are becoming increasingly costly, ineffective, time-consuming, and counterproductive. In short, manually checking and maintaining spreadsheets just won't cut it. Automation can help businesses save time and money. The right technology can also scale with businesses as they grow. They can regularly update so businesses can navigate the international compliance landscape as smoothly as possible without having to adopt disparate systems requiring ongoing maintenance and upgrades. This can help an organization respond to compliance challenges of tomorrow, not just today.

Automation can also help improve customer retention by enhancing the customer experience. It can calculate global tax rates and customs duties instantly to provide more accurate pricing at checkout (reducing cart abandonment). Automation can help sellers apply HS codes more accurately to help ensure their goods move as rapidly as possible through customs, lessen the chances of surprise additional costs, and reach their international customers more quickly.

Automation can also help fill knowledge gaps. **89%** of accounting CFOs surveyed plan to invest in artificial intelligence to solve talent shortages. By streamlining repetitive, manual tasks, team members can save time and stay energized and satisfied with their roles.

Overcoming tax complexities in new markets

Tax compliance presents obstacles and barriers to businesses in all global territories and markets. Let's take a look at some region-specific compliance challenges and how to overcome them.

UNITED STATES

Understanding U.S. sales and use tax liabilities is key for businesses entering the U.S. market. U.S. sales and use tax is a different proposition for businesses used to dealing with VAT, which is set at a national level and maintains fairly consistent rates. VAT rates also vary little between countries with VAT systems, particularly in continental Europe where the average rate is 21%, and change infrequently.

U.S. sales and use tax rates are not set at a national level and vary from state to state (where it is charged – not all states do). Rules can also differ in cities and counties within a state, and rates can change much more frequently than VAT or GST. Calculating what should be collected and remitted can therefore be a tough task, even when U.S. sales and use tax is charged only to the final consumer instead of throughout the supply chain like VAT. There are over 13,000 U.S. sales and use tax jurisdictions with their own rates and rules, making manual monitoring of the changing rates and rules near impossible. Calculation software can integrate into the systems you already use to help you more accurately calculate U.S. sales and use taxes then instantly apply them to your checkout. This helps to give the most accurate final landed cost to your customers.

Regions with VAT systems – such as the EU – have more clearly defined and accepted definitions of digital goods. SaaS businesses entering the U.S. must prepare for varying and contended definitions, depending on where in the U.S. they're doing business.

Businesses (of any kind) once needed to have a physical presence in a U.S. state, such as an office building or warehouse, to have nexus – a commercial connection between a business and a U.S. state. However, the landmark South Dakota v. Wayfair ruling changed things. The Supreme Court ruled that remote sellers can be liable for U.S. sales

and use tax even without a physical presence. Businesses in Bruges or Birmingham could have the same obligations as those in Boston or Baltimore.

It can be difficult to determine where you currently have U.S. sales and use tax obligations. It can be trickier still to work out where you've had them in the past without realizing, and where you could trigger new obligations in the future. **Assessment tools** can help you work things out so you can stay on top of your responsibilities and help manage the risk of noncompliance.

UNITED KINGDOM

Manually registering for VAT and filing returns for every market they operate in can be time-consuming for all types of U.K. businesses. Such processes can also be error-prone, and lead to costly penalties and disruptive audits. Filing dates can easily be missed, especially when operating internationally and handling a higher number of responsibilities. When businesses do expand beyond the U.K., compliance tasks can become more complex if dealing with tax and compliance systems they're less familiar with. The same challenges can create obstacles for non-U.K. businesses entering the market who are unfamiliar with U.K. legislation or VAT systems in general – if used to dealing with a sales tax, they must be able to account for VAT at each stage of the manufacturing and supply chain.

Businesses can adopt **automated solutions** to reduce the need for manual tasks and processes, saving time and costs, and alleviating the risk of error. The right software can also flag upcoming filing dates to lessen the chance of missing important deadlines.

Even with software solutions in place, U.K. businesses need to stay informed about upcoming compliance changes, or risk noncompliance and new headaches. Brexit created confusion and disruption for both U.K. and more specifically European businesses. Regulatory changes such as those outlined in the EU Commission's VAT in the Digital Age (ViDA) initiative, and upcoming e-invoicing mandates and live reporting requirements, must be observed and adhered to. But knowledge doesn't necessarily solve the problem – businesses require a certain level of tax expertise in order to comply with new legislation and rule changes, and adapt accordingly. Businesses don't necessarily have this expertise and experience by default, especially those of smaller and medium size, so finding the right compliance partner can be paramount.

EUROPE

As more and more mandates are rolled out across all world regions, e-invoicing is becoming a global standard. It's a matter of when – not if – EU and non-EU businesses will need to adopt a solution. No wonder, then, that 63% of global companies surveyed have made e-invoicing and real-time reporting a top priority.

E-invoicing and live reporting enable authorities to better tackle tax fraud, reduce the VAT gap, and gain more insight into business and trade data via more transparency into transactions. Simply put: e-invoicing isn't going away, and will play a huge role in the future of compliance and global trade. That isn't to say that businesses can't also benefit – adopting an e-invoicing solution is an opportunity to streamline and improve the efficiency of finance functions by saving time and costs, and reducing errors.

E-invoicing mandates and live reporting requirements are regularly being introduced, amended, and updated – both in and outside the EU, and in most global regions – making it a huge challenge for businesses everywhere to stay up to date. Businesses that want to stay ahead of the curve should invest in a scalable solution that not only allows them to operate in markets with mandates in place, but enables them to adapt to new requirements in the future. The ideal e-invoicing solution should future-proof your business by helping you to adapt to evolving compliance requirements – in an ever-growing number of countries that are mandating e-invoicing – so you don't have to constantly find and adopt new solutions for each new market you enter. The same solution should also enable your business to send and receive e-invoices through national networks, including Peppol, and report any required data to tax authorities in real time.

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New challenges aside, businesses cannot ignore their day-to-day VAT responsibilities. This includes dealing with VAT systems that may be more complex (and time-consuming) than others within the same continent. Businesses registered for VAT in Italy, for example, must submit a notoriously complex annual VAT return, consisting of hundreds of fields and dozens of pages. Yet it's an essential task, as its completion determines the business's difference between input VAT and output VAT – and any refunds due – for an entire calendar year.

THE EVOLUTION OF THE EU IOSS SCHEME

Previously, businesses selling into the EU would typically need to register for VAT in each EU member state they sell to, and provide a VAT return to each. Trying to understand and comply with tax rules in numerous countries can be difficult, particularly if language barriers are involved. The Import One-Stop Shop (IOSS) – introduced in July 2021 – is a simplified reporting model that allows businesses to sell more easily into all 27 EU member states by registering in just one EU nation, reducing their reporting requirements. IOSS was expanded in May 2023 when, having assessed that the existing €150 threshold for goods sold to EU consumers created a burden to businesses, the EU removed the threshold.

Marketplace sellers in Europe should also be aware of their changing requirements. ViDA legislation will extend VAT obligations

for marketplaces and ecommerce platforms by making them liable for charging and remitting VAT on domestic and cross-border sales of goods within the EU. Marketplaces and ecommerce platforms will also become 'deemed importers', meaning platforms – not the consumer – will be responsible for ensuring VAT and customs duties are paid at the point of sale.

BRAZIL

Brazilian consumption tax is notoriously complicated, and places high compliance costs on businesses. Numerous taxes – and laws with broad definitions open to interpretation – regularly lead to disputes between states, municipalities, and taxpayers. The long-awaited **tax reform bill**, approved by Brazilian congress in December 2023, aims to simplify tax laws, consolidate five existing taxes into a value-added tax (VAT), and move to a more international standard. The new system will be subject to a transitional period until 2032. This means businesses will have to comply with both tax systems. Ironically, the bill's goals of simplification will create more complexity, at least for the next few years. From 2026, when the new taxes come into force, companies must be prepared for changes to their processes and systems.

AUSTRALIA

Businesses with a turnover of AUD 75,000 or more from sales in Australia (whether domestic or foreign) are required to register for GST, including those selling digital products and services. The "Netflix tax" extends GST to streaming services sold into Australia from overseas. This tax also includes software and ebooks. Regardless of type, businesses must charge, collect, and remit 10% GST to the Australian tax authority.

Businesses selling into Australia must also be aware of the rules around low-value imported goods (LVIG) – physical goods valued at AUD 1,000 or less. When selling such goods, businesses must charge GST at the point of sale if they meet the registration threshold. For goods exceeding AUD 1,000, customs duties, taxes, and charges may apply upon import. As in other global regions, businesses should classify their goods accurately to ensure the correct customs value is declared.

Companies must also ensure the invoices they issue meet the Australian requirements for GST, which includes an Australian business number (ABN) if the buyer is GST registered. Once the business itself is registered for GST, adhering to periodic reporting and payment deadlines is a requirement – this includes submitting business activity statements (BAS). As with VAT, automated software solutions can make life much easier for businesses when calculating GST rates, and helping them to effectively manage their obligations to include filing and returns.

Tax compliance presents obstacles and barriers to businesses in all global territories and markets

The challenges associated with managing international sales transactions

Whatever your business size, type, or experience level, and regardless of the market you're operating in or planning to, international tax compliance challenges must be overcome. But when that obstacle is cleared, focus must be trained on tackling barriers to market entry related to international sales transactions. Here are a few obstacles to be aware of:

SHIPPING AND SUPPLY CHAIN MANAGEMENT

While the supply chain disruptions of recent years appear to be stabilizing, further challenges remain a possibility. In the first half of 2023, supply chain risk management platform Resilinc recorded 8,197 supply chain disruptions, such as shutdowns, production halts, warnings/citations, and workplace accidents. And according to a study from McKinsey, businesses can expect a supply chain disruption that lasts a month or longer to occur about every four years. Global events beyond a business's control can also prove tumultuous to the supply chain – Russia's 2022 invasion of Ukraine, for example, caused fuel prices to soar. Severe weather events are also an ever-present threat that impact ports and shipping routes.

A DIGITAL SUPPLY CHAIN

Technology can be utilized to provide businesses with near-real-time insights into events and conditions at every step of the chain, such as supplier performance and customer needs, which can give them the heads-up to potential problems on the horizon. Oracle NetSuite suggests a digital supply chain can increase on-time delivery to customers by 8% and reduce costs by up to 50%.

Since rapid and hassle-free delivery is now the expectation for consumers, automating Delivery Duty Paid (DDP) in your checkout and shipping process can help your business meet that expectation. DDP is a form of shipping where customers see all charges involved in the buying and delivery process – not just the product price. It includes taxes, shipping costs, and customs duties. The customer therefore knows exactly how much they're paying for delivery.

Overwhelmingly, customers prefer DDP to Delivery At Place (DAP) – 96% say they'd be put off buying a product if they couldn't view the final price. With DAP, the customer sees product price and shipping costs, but can also be responsible for customs duties and import charges. This means they can make a purchase without realizing they're responsible for additional fees.

Such unexpected costs, including shipping, customs duties, and taxes, are a key driver of shopping cart abandonment.

COMPLYING WITH TAX AND CUSTOMS AUTHORITIES

Complying with tax and customs authorities can be difficult for any business. This is especially true when selling into new markets, where you may be unfamiliar with local laws or languages.

If you're selling into new markets, you'll need a good understanding of liability and your potential tax obligations. You'll also need to ensure you have software solutions in place to help handle tasks like the application of correct HS codes for when you ship goods across borders.

Treat tax compliance as a step-by-step process: Your first step should be to research any potential liabilities based on your projected sales. Next, make sure you're registered for VAT or sales tax in any of the relevant countries or jurisdictions. Third, ensure you have a digital solution capable of calculating a broad spectrum of tax rates – an essential tool if you're selling to multiple countries. The final step is to be certain you understand how to file returns so you're remitting the correct amount of tax to the correct authorities.

96%

of online shoppers say they'd be put off buying a product if they couldn't view the final price

Building a tech stack that enables compliant international sales transactions

SETTING YOURSELF UP FOR EXPANSION WITH THE RIGHT TECH STACK

Automating manual tax compliance tasks and processes can help your business reduce the risk of noncompliance penalties and disruptive audits. By adopting the right technology, you can help ensure you have the infrastructure to deliver your goods and services promptly, regardless of the markets you're expanding into. Automation can also help protect your business against future developments. By updating to adapt to new legislation and requirements, your business can continue operating in the ever-changing compliance landscape without the need to spend time and money on new solutions or hiring new experts.

MANAGING YOUR CUSTOMS OBLIGATIONS

International compliance challenges require robust and scalable solutions. And when your customers and business goals are at stake, solutions must be reliable and easy to use and maintain too.

An automated cross-border solution can use data spanning international tax regions to instantly calculate customs duties and import taxes in real-time and apply them to your products. This improves the buying experience by giving the customer a more accurate final cost, and can reduce cart abandonment. Such solutions can integrate into a business's own systems, as well as the most popular ecommerce platforms and marketplaces.

OTHER FACTORS TO CONSIDER:

The all-important EORI number

An Economic Operators Registration and Identification (EORI) number is an essential piece of identification that any business needs for selling goods into or out of the EU. Just as your business has an identification number for all VAT-related interactions, the EORI number is used when dealing with European customs, as well as those in the U.K. If you're VAT registered in the EU, you'll automatically receive an EORI number. However, if you've only just reached the VAT registration threshold, you may need to take steps to link your new VAT number with your EORI number. Doing so allows you to link your customs declarations with your VAT reporting, which can simplify compliance greatly.

DDP vs. DAP

Getting the customer to call, click, order, or add to a shopping cart doesn't spell the end of your compliance considerations. Businesses should also pay close attention to the post-purchase experience they offer. Evidently, not all businesses do – according to Metapack's post-purchase experience **report**, 93.5% of shoppers had a bad post-purchase experience within a year of being surveyed. Of these, 40.6% have bad experiences 'somewhat regularly'.

Unexpected fees is one of the top reasons for customers to assess their post-purchase experience negatively. To reduce this risk, businesses can consider DDP as their delivery agreement, instead of DAP. As previously discussed, DDP means the price a customer pays includes all relevant taxes and customs duties. DAP means import charges and duties are not included, and the customer could be surprised with additional costs.

Double check your HS codes

HS codes can be a weak spot for businesses of all types. Determining and assigning the correct codes can be error-prone when attempting manually. The same item can have a different code in different regions, and the Harmonized System updates and amends its codes every few years. Incorrect codes can be applied without the business realizing – this could lead to return shipping, additional fees (customs authorities could apply the maximum charges to your products as a default), unhappy customers, and loss of business. Automated **item classification** software can more accurately identify and apply HS codes to your goods, helping to reduce these risks and costly errors, and improve the customer experience. Remember: those accurate checkouts for your customers can only be calculated correctly if your HS codes are also being assigned correctly.

93.5%

of shoppers had a bad post-purchase experience within a year of being surveyed

Staying compliant, from start to finish

1. Register where you're going to sell

Whether it's for U.S. sales and use tax, VAT, or GST, register in the countries, states, and jurisdictions you're planning to sell into. Registration is a crucial first step that will enable you to manage the correct tax obligations.

2. Prepare reporting and remittance procedures

Get ready to report and remit taxes in the countries, states, and jurisdictions that you're planning to sell into. Automated returns and reporting **solutions** can help you prepare for authorities that expect to receive transactional data in real-time.

3. Assign the correct HS codes to your goods

Businesses should assign the correct HS codes to their goods to more accurately calculate duties and import taxes. This helps to reduce the risk of customs delays and surprise costs that could be passed onto the customer.

4. Checkout: duties and taxes should be included in the price

Automation can help ensure all critical costs are included at the checkout. This gives the customer clarity at the point of sale, instead of nasty surprises later in the journey.

5. Prepare customs declarations and shipping labels

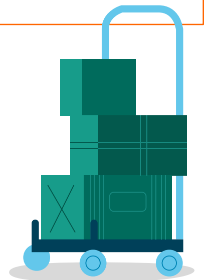
Your customs declarations can be automatically populated with important information such as EORI numbers, HS codes, and relevant tax identifiers such as VAT, TIN, SSN, and VIN. This helps to ensure you've described your goods accurately and valued them correctly for customs and tax authorities.

6. Goods checked at the border

Customs officials assess all taxes and duties within the documentation. These are immediately settled by the carrier and the package is then released for delivery.

7. Delivery

Your customer receives the order and likely won't think about the import costs they paid when they made their purchase.



8. Complying with e-invoicing mandates

Depending on the market you're selling in, you may have to comply with e-invoicing mandates and live reporting requirements. Your business can take these in its stride by using an e-invoicing solution for the billing step of the process.

THE POWER OF AVALARA

Avalara can help create a comprehensive, scalable compliance setup for your business that can support your international expansion. Avalara automation can instantly calculate international tax rates regardless of the region you're operating in, help ensure your goods move as swiftly as possible through customs, and help delight your customers with buying process clarity and rapid delivery.

THE POWER OF INTEGRATIONS

Scaling your business can be difficult if your systems and platforms cannot keep up. Continuously adopting new solutions for specific markets or constantly upgrading existing ones to legislate for rule changes can hinder growth. As can the need to hire additional expertise for each new market. Avalara can integrate into the systems you already use, so you can lessen interruptions to your growth.

Avalara has more than 1,200 signed partner integrations with the most popular ecommerce platforms, accounting systems, and enterprise resource planning tools.

Automation can shoulder the compliance burdens that take your time and energy, and allow you to focus on what you do best. Solutions can integrate into the systems you already use and instantly calculate international tax rates to give your customers a more accurate checkout, help you collect exemption certificates more easily, apply HS codes to your products so they move through customs as smoothly as possible, and help delight customers and partners with rapid delivery. You can keep better track of important filing deadlines, more effectively manage your reporting responsibilities, and stay compliant as the tax compliance landscape evolves.

Avalara AvaTax

Transactional tax calculation software is the fast, easy, and accurate way to get instant tax calculations and apply them to your checkout or point of sale.

Avalara VAT Reporting

Stay on top of your international VAT responsibilities with timely and effective management of all filing and reporting requirements.

Avalara Tariff Code Classification

Overcome cross-border challenges by getting your HS codes right, charging duties and taxes with more accuracy, and reaching your overseas customers more quickly.

Avalara E-Invoicing and Live Reporting

Comply with global e-invoicing mandates now and in the future, boost the efficiency of your finance functions, and save time and costs.

Avalara Exemption Certificate Management

Get a better way to compliantly request, validate, and store exemption certificates for thousands of transactions, and make life easier for your teams.

Looking to learn more about how Avalara can help scale your business's technology stack to accommodate compliant international sales transactions? Get in touch with us.

Avalara

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Brazil, Europe, and India. More information at **avalara.com**.