

THE FUTURE OF ECOMMERCE TAXES



FastSpring

Dropping the hammer on growing online taxation

In the USA, 45 states currently use sales tax for things like funding education, maintaining our roads, and providing public safety. When governments see an [estimated \\$23 billion dollars in annual tax revenue](#) going uncollected through eCommerce channels, they take serious notice.

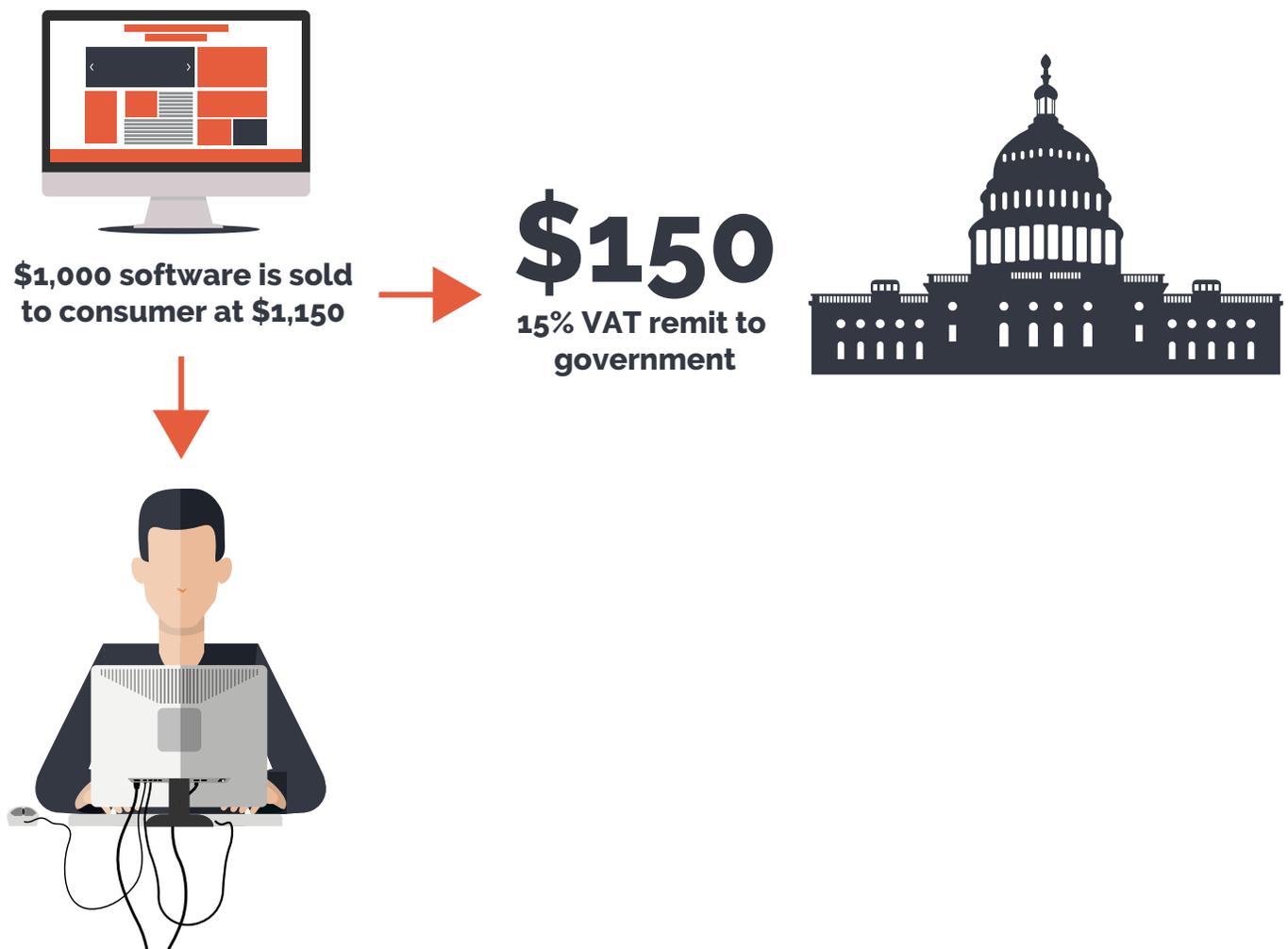


Why should this matter to digital sellers and SaaS companies? Governments are **cracking down** hard on businesses that sell digitally within their jurisdictions without paying the proper sales tax. Some are even issuing penalties of [25-30% for non-compliance](#).

However, that's not your biggest problem. Not even close.

The true challenge is that there are over **12,000** [taxing jurisdictions in the United States](#) and hundreds more worldwide. Each has their own set of ever-changing rules, filing deadlines, and other regulations which you are required to keep up with in order to conduct business.

It's an insurmountable task for any company without a dedicated accounting team in hand that specializes in international sales tax .



Keeping pace with the tax man

With eCommerce growing at a **25%-year-over-year rate**, jurisdictions are doing everything in their power to ramp up their taxation efforts. New laws are being adopted almost daily and the burden is on your business to keep up with the changes.

It can be very challenging to research taxation levels from different territories or even what qualifies as a nexus (which is a sufficient physical presence to be taxed).

What it takes for software companies to handle their own taxes

(including sales tax, VAT, GST and Consumption)



250 hours

of researching tax updates per year



1 in-house tax expert

3 tax firms

Modern tax codes and other legislation can be passed with very little oversight in a short period of time, often with minimal documentation. Even Certified Public Accountants struggle to keep up with the new tax codes across 160 countries, much less the 12,000 US jurisdictions. It takes a complete team of tax experts working around the clock to keep up with emerging regulations.

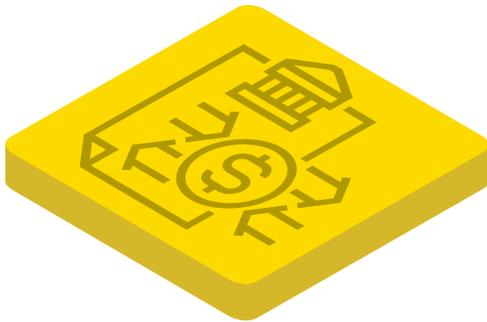
What the VAT is up with international taxation?

The Value-Added Tax, also known as VAT, is a tax charged in Europe and other countries at a fixed annual rate on all goods and services. Businesses meeting the minimum income threshold must collect the VAT on all sales and pay the VAT on all purchases. Additionally, a VAT return also must be filed every quarter with the HMRC.

This threshold changes annually and varies by country- there are also VAT requirements in South Korea, New Zealand, South Africa, and other nations.

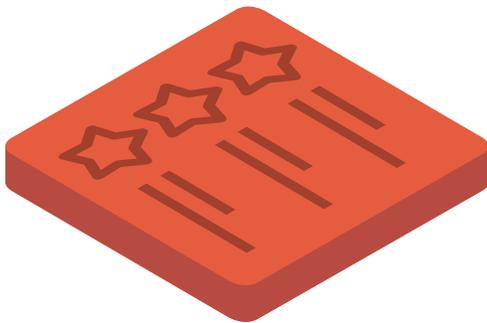


Small businesses can elect to pay the VAT under one of three schemes, each with its own benefits and drawbacks:



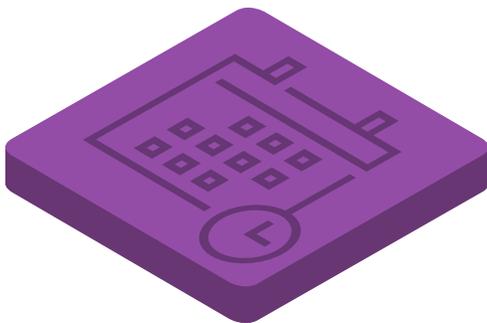
Cash Accounting Scheme

A percentage tax based off of collected payments.



Flat Rate Scheme

A reduced rate paid on all sales, but cannot deduct VAT on purchases.



Annual Accounting Scheme

A standard rate submitted through one annual payment.

The biggest challenge with the VAT is that regulations are updated annually and retailers are expected to fall into immediate compliance. If your VAT taxes are not paid before the new laws go into effect, it can become very confusing on how much taxes are owed or when they are due.

This is on top of industry-related VAT taxes that can change independently as well.

Your taxes should come with a “don’t DIY” warning!

Online retail giants like Amazon and eBay have entire departments of financial experts dedicated to handling their sales tax liabilities.

For small businesses to stay compliant with US and International sales tax regulations, it requires hiring a highly specialized tax professional. However, this is a costly investment that may outweigh the benefits of doing business at all for small to medium-sized online retailers.

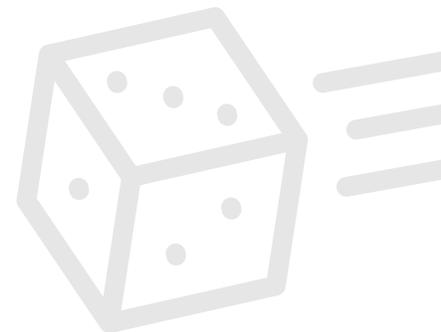
The price you pay for not collecting tax



25-30%

Penalty (plus interest)

The only other option is to do nothing - roll the dice and hope that neglected tax liabilities don't catch up with you. But with some territories implementing 25-30% tax penalties with compounding interest, that's quite a gamble.



What about my payments solution provider?

The good news is that some of the modern payment solution providers can handle certain aspects of managing your eCommerce taxes. But at the same time, this is where it can get more confusing-

- Do they keep up with tax laws?
- Do they automatically pay all tax obligations?
- Do they cover the many different VAT taxes?
- Will they know what you're exempt from?
- Do they keep up with filing dates?
- Do they have experience with VAT exemptions?
- Do they cover consumption tax in countries such as Japan and Australia?

The software opportunity

\$14B

Software market
forecast by 2018



(IDC Worldwide Software Forecast)



Unless you can **check off every box** for each of those questions, your payment processor cannot protect your taxation interests alone. You'll still be required to **keep up with changing laws**, filing dates, payments, and dozens of other regulations.

The VAT headache

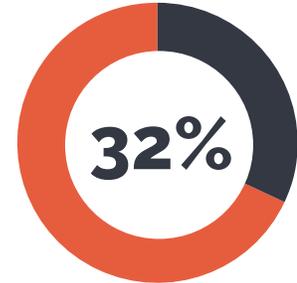
Companies who handle their own VAT compliance:



of businesses do not understand what VAT cash accounting is.



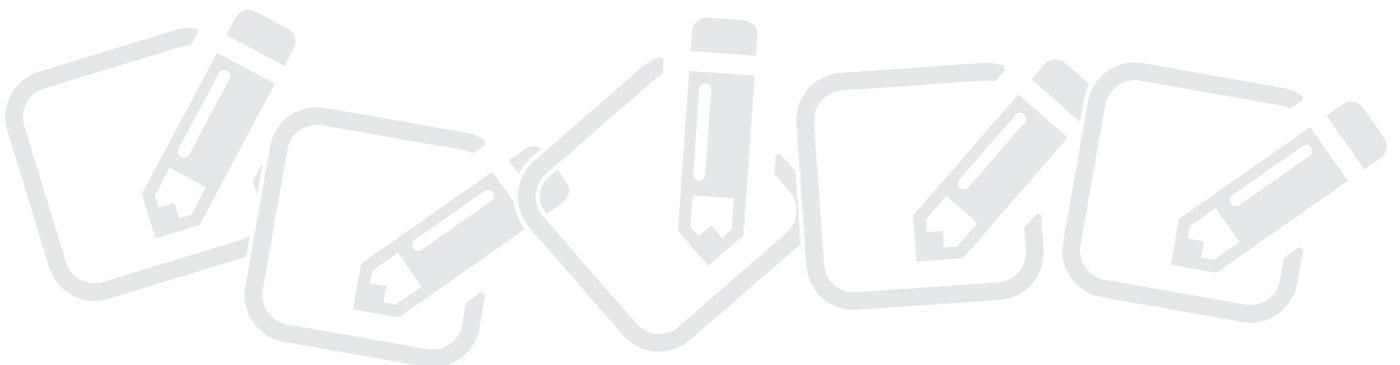
of businesses surveyed are very confident they are processing their VAT correctly.



of respondents do not understand how to account for VAT when trading abroad.

(Source: SAGE)

Of course, this is not just a conversation about compliance- it is also about costs and your bottom line. For any complete tax solution to even be considered, it has to be both dynamic and affordable.



Future-proofing your eCommerce business

If there's one thing you can count on, it's that more and more jurisdictions around the globe will expand their taxation laws to cash in with online retailers. The complexity of keeping up with the legislation is not a challenge that you'll be able to face alone. You need to future-proof your eCommerce business by keeping ahead of regulation changes.

There is one more thing you can count on—FastSpring.

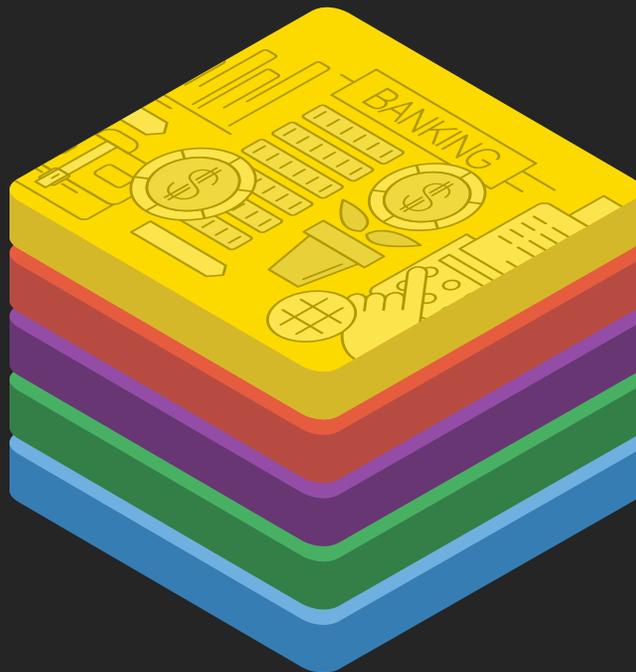
FastSpring handles everything related to sales tax, the VAT, and Goods and Services taxes automatically as an extension of our basic payment processing services. That means at no additional cost, you can wipe the headache of taxes from your plate once and for all.

“FastSpring more or less eliminates the nightmare of international tax (VAT) compliance. Their risk management system and the fact that you can process refunds without additional fees makes sales simple and intuitive.”
—G2 Crowd Review, Matthew E.

“In the EU law before 2015, VAT was based on the location of the business, but it is now based on the location of the customer. So the fact that FastSpring abides with EU laws is great! And I have had many EU based happy customers thanks to FastSpring's VAT coverage!”
—Daryl W., Computer Software Industry

If you're ready to say goodbye to complex tax compliance issues and bank-breaking penalties, get started with FastSpring today.

[CREATE MY FREE ACCOUNT](#)



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