CBIZ BIZGROWTH STRATEGIES

IDEAS TO HELP GROW YOUR BUSINESS

Article reprinted from Winter 2018

Tax & Accounting

How to Avoid the e-Commerce Tax Trap

BY **MICHAEL MOORE**

Consumers' increased use of the internet to purchase everything from groceries to clothes to furniture – and everything in between – has dramatically changed many companies' business models.

In order to keep up with the ever-evolving habits of consumers, traditional brick-and-mortar B2B and B2C companies are either ramping up their e-commerce business or pivoting entirely to an online-only business.

It's encouraging to see most businesses in this position understand that they need to adjust their tax plan to match their new business model. Unfortunately, many underestimate how difficult and painful the process can be – especially if the business owner doesn't approach this endeavor as aggressively as they should.

Every business has its own nuances and unique situation. However, before making any e-commerce-related changes, it's imperative to involve a tax professional, preferably one well-versed in state and local taxes. Oftentimes, preparing your business for the tax issues associated with e-commerce is a process that can span weeks, months or even years in order for the business to protect itself from state auditors.

Before you jump feet first into the "clicks over bricks" mindset, sit down with a tax professional to answer these three questions.

1. Because of our e-commerce activity, is my business now susceptible to having to collect any type of transactional taxes that our previous business model did not include?

Every jurisdiction across the country has created its own tax structure, and the truth is that there is no general consistency. If your business was previously only selling to customers via a brick-and-mortar model but is now conducting sales to people in different states, you could have nexus in that state.

Oftentimes, businesses are not prepared for this harsh reality because they jump into transactions without systems in place to manage transactional taxes.

It's highly recommended that you invest in a system that helps you remain compliant with the states in which you have nexus. At the end of the month, the system can produce a report that tells you the jurisdictions you owe taxes to.

2. Although our e-commerce transactions might subject our customers to additional taxes, is it our obligation to collect and remit those taxes?

This is an important nuance if you are using a service like Amazon or Etsy. It cannot be stressed enough: Read the fine print!

Ultimately, the answer to this question will be dependent on how the transaction works. Who is the seller? For example, if a website is just the mechanism that people see and your business is actually the one selling the product, that transaction is potentially taxable, and you would be responsible for remitting those taxes.

3. What happens if we don't collect and remit those taxes?

The implications of failing to prepare adequately can be dire. If you're audited, a state will do a lookback of three to seven years and not only assess you the taxes you should have collected, but you will also be forced to pay penalties and interest.

For business owners who want to sell at some point, not protecting yourself from a tax standpoint could cause a wrinkle when the buyer assesses your books and sees something amiss.

In order for your company to remain in business, you must read the writing on the wall and cater to your customers' preferences – whether that be moving to e-commerce, remaining brick and mortar or a combination of the two. However, by prioritizing your tax planning at the outset of this decision-making process, you can protect yourself from some dire consequences down the road.

MICHAEL MOORE
CBIZ MHM, LLC • Kansas City, MO
816.945.5648 • mmoore@cbiz.com
@CBIZMHMKC

Our business is growing yours