

Conquering Cross-Border Tax Compliance by Evan Wright at Avalara

Video: <https://www.youtube.com/watch?v=EbalnrVc8eM&t=107s>

Introducing Evan Wright (00:00-01:25)

Welcome to the DCKAP E-Summit Spring Edition. Hopefully everyone's doing okay. My name is Tim Diep and I am the customer success Manager at DCKAP and I will be hosting today. So here's a quick video from our platinum sponsor, Avalara that joins the tens of thousands of customers using avalara seals in these tax solutions to make their jobs whole lot easier. It's time to get back to a simpler and happier year with tax compliance done right?

So next, I'd like to bring up Evan. He's the director of growth at Cross border Avalara and has an experience of the past six years. Evan has worked with thousands of businesses to educate them on the complexity of sales tax compliance and help them identify solutions to reduce the risk of increased customer satisfaction.

Prior to the arrival era. Evan worked for an expert that is international, a fortune 500 logistics freight. Florida as international operations manager recently, Evans Focus has been on working with companies that have a global compliance footprint and helping them grow and upscale their cross border business, and he's talk today will be on conquering across borders. So Welcome Evan to the stage.

Conquering Cross Border Compliance (01:26-05:00)

Thanks again, I really appreciate the time and I look forward to talking to everyone today regarding the complications and really, how to manage the cross border business as you start expanding internationally.

So today, a really brief agenda problem talks about the market opportunity and why we're starting to see a large trend for its cross border e-commerce.

There's new expectations of these customers that will be purchasing from businesses, cross borders and what they expect out of your brand and the brand experience online.

Understanding the common pitfalls are when it comes to compliance and making sure you are facilitating that shipment and ensuring that it gets there on time and meeting your customer's expectations. And then I'll briefly cut Avalara solutions on how to actually streamline those compliance obligations.

So first, let's talk about the opportunity Transporter has become quite the massive opportunity in regards to globally commerce. You know, as we've seen with the pandemic, it has really

Brought forth a huge, you know, plan of cross border and in regards to the volume and really moved it forward about five years. So by 2020 it was about \$4.2 trillion in global sales online.

And they expect we did a study with digital commerce, Digital commerce, 360 marketer and really the overall value. The cross border market will grow to \$6.5 Trillion by 2023. And today, most businesses that are based here in the U. S or really around the world don't still cross borders on really compliance taxes clearance. Um, and it just is too much of a headache for them. They don't want to be able to do that. But with the growth and technology and solutions out there today really allows these retailers to be able to be compliant.

No cross border and create that brand experience online that your customers are used to here domestically as well. So I thought this was incredibly interesting as I was doing some research on this. Global opportunity. As we said, it's gonna be \$6.5 Trillion, like 2023, but just looking at the percentage of e-commerce sales by country and here's the top 10 countries, in regards to what they're generating from online sales to China's global retail sales 16% are online today.

In the U. S 7.5% of retails online in the UK The third biggest market is 14.5%. So you look at these numbers and just the ship to, uh, e-commerce in general. We're going to see these numbers grow exponentially. So this generates 3% of its global GDP, uh, being an online retail year.

Why go across the border? (05:03-07:22)

Avalara conducted a research about cross border and really, we went through and interviewed a lot of our clients about cross border and what we've seen is about 86% of clients today are selling cross border, And the ones that were not the 13%... 92% of those said that they plan to sell cross border in the next 12 months. We're starting to see this market trend. Um, you know, across the board in regards to it being the fastest

growing segment of e-commerce as technology progresses, and you can really create that local experience globally. But as you start to Migrate to a cross border experience. These customers have expectations. And you know, we can all thank Amazon and some of the larger retailers out there who have, you know, could afford two day shipping and really created that extremely user friendly experience online.

So there's gonna be three pillars that we talk through this presentation and you'll start to see them come up again and again as we go through the compliance piece of this, but customer expectations, Really, they expect the frictionless experience. I mean, who doesn't write only 10% of consumers agree that that brands meet their expectations of what they consider a good experience, so there's a lot of room for growth in this area and brands that do this well, really said that themselves apart.

Transparency.-95% of buyers expect to see you all shipping fees. Taxes total before they complete a purchase. So we call this landed cost, you know, they we all expect to know what we're gonna pay at the time of check out and not get hit any surprise fees no hits at the door.

And lastly, convenience. So 90% of consumers say that when they interact with the brand online, they want a convenient experience. So I mean we're gonna take all the tests. This is really something that is driving, you know, consumer decisions online.

Pitfalls of cross border compliance(07:23-09:52)

You know, there are those three main pillars that will keep reoccurring. But let's dive into the you know one of the common pitfalls, so I have worked with a lot of different clients across multiple industries. Marketplaces B2B to see high end reached sellers, manufacturers and distributors. And really, these themes are across all industries? No. Regardless, so when you are selling cross border, there's a few really highlighted key items that merchants and retailers need to be aware of when they're trying to facilitate the shipments so suddenly cross border that number one is obviously a tax calculation, so being able to calculate that local tax whether you're importing something into the UK or Australia or Canada.

You need to be able to accurately assign tax rates based upon the rules and jurisdictions you need to take into account free trade agreements in the US we have

the U. S. M. C. A, which is the new NAFTA agreement. We are in the EU with Brexit and the new change is coming here in July, there are free trade agreements that apply to certain products based upon where those products are manufactured. There are duty calculations, so that's the actual tariff. That is a sign. So this is different from the attack calculation. This is actually a tariff to import into a country.

There are thresholds. The minimum thresholds are actual revenue thresholds by shipment that if you exceed that revenue threshold, therefore the tariff applies.

You have to manage exchange rates, Currency rates on and lastly, you have to really understand what your product is to the global harmonization Tariff code system. So this is what the W T O created to make trade more accessible

Challenges faced by sellers(09:53-12:13)

We found that the really the top three challenges here are shipments, dilated, customs added supply chain cause and accurately calculated international duties and taxes. And all three of these really stem from one source. It is an inaccurate classification of an item. So we call this the harmonization code organization system code.

So interact. Inaccurate classification really leads to delay that a supply chain costs so maybe a few of you on the phone are like what is a what is the harmonization? So let's kind of take a step back and just talk at a high level about what an NHS code is. This system is a global trade language. It's a good way to think about it. So it is a numerical system.

That allows customs officials to understand what is being imported and exported out of the country. And six digits of that code is universal. So no matter what country I send this orange, too, it will always have the first same six digits.

This describes what the actual product is that is being important, but each country will add on their own flavor of the last four digits here. So these are the national digits that are specific to the country that you want to import your goods into. So this code is applicable for important to the U. S. But if I was important to Canada or into Australia or into Brazil

These last four digits would be different. And so what NHS code really drives is he drives what the terror afraid is gonna be so we will be terrified. It fluctuates depending on you know, in the U. S to point on the administration that is currently in office, it could be dependent on trade.

You know conflicts that are going on. So the tariff free of these classifications will change. But the code itself does not change that office.
Let's talk a little bit more about this because I think it really helps.

Understanding HS codes in detail (12:14-17:16)

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Is really a huge factor in the guy's cross border trade. So six digits again are universal. So in this example that I'm showing you I have a leather sandal.

It's 64 or five nineties, but if I wanted to import it into Australia, they had a 001.

With a 5% tariff rate in the U. S. It is 9067 12.5% tariff rate, and Japan only has three digits.

So another example. I have a low for these loafers. You know leather with a leather sole and in classification there really key factors is material and it is used in that product. So here's an example if I wanted the imported to Canada

There could be multiple child classifications, depending on the use case of this product, so if it was classified to medical or for medical or ballet reasons, if it was classified as a female orphans classify the slippers.

Drastically changes. What that fear is going to be

So incredibly important to go down to that country specific level when you choose to import goods into other countries to really accurately again because back to the three pillars, right? We want a transparent frictionless experience to be able to stand what that true cost is to import goods from one country to another. You really want to understand what that territory is going to be?

So this sounds complicated. What are your options to actually assigned care if it's

You know, the shipping company is FedEx DHL, a freight forwarder. They typically do this service. It is a value add to win the shipping business.

And they usually require a certain amount of shipping in order to do the HSE classifications for you.

You could use a customs broker. This is the third party that actually facilitates the relationship between customs and the retailer so they can actually fill out your customs declaration. They do this, but it is highly expensive and highly manual.

And then the third, you know, common option that we see a lot of companies. Just do it, do it themselves. I used to be studying to become a customs broker in my previous role, and I could tell you that the book was just too important to the U. S. Is about foot and a half thick, and it is incredibly complicated in terms of what

What each is code for what product, So there's a new and better way to do it.

Automation. Lyra has an automation tool that will allow you to do it easily.

Take your catalog of items description about your items. You know what materials are in those items, and then we're able to run that through our

Automation solution to be able to pump back to our customers. What the customs grade country specific HS photos.

So again, HS codes are

Would say the tip of the spear with regards to cross border trade and really allow you to facilitate a good experience because those HS pills are not only going to be used to calculate the duties and taxes in a shopping cart experience.

But they're also going to be used to clear good. So if you provide a good HS code to customs into your shipping brokers, then they will be able to facilitate that good. So it clears customs without any delays or surprise fees or rejected orders from your customers because they didn't know this was coming.

So there's a new and better way to do it to be able to display what that true landed cost in a checkout experience. Real time inside of your e-commerce cart. No matter what car you're using, whether it's a Magento platform, or, uh,

There. You can have that customs duty and local tax easily displayed collected up from your client and really again curate that brand experience that you want to facilitate with your customers. So this is what we call it delivered duty paid methodology.

We're seeing a big shift in the market from delivered duty, DDP or from, you know, just shipping the box out and having your customers be responsible for paying any taxes on arrival. We're seeing a big shift in the e-commerce world to a delivered duty paid methodology, which really again highlights the ease of that experience of a canoe.

Conquering cross border compliance (17:17-21:02)

So I'm gonna jump into how Apple Eric and help in terms of this cross border trade compliance. Because there there are a lot of you know what Brexit happened in July? The EU changes and in July that they haven't lost one stop shop for

They were now requiring that all shipments going

And really, we got our start until DDP tax and have slowly expanded into unending and compliance. Solution from health and our clients get registered in these jurisdictions all around the globe to help them calculate their duties. His taxes are.

To actually facilitate those returns. You know the actual sales tax or that returns back into the local jurisdictions.

And then there's some countries that require physical representation. An invoice.

We can handle anything from a transactional tax standpoint. We now have a cross border solution that allows us to help our clients accurately classify those classifications. Those HS codes.

Then help drive that duty calculation. So we are currently the only provider in the market today that has all four pieces of this puzzle under one word. We have some

Providers in the market that just focus on the transactional tax and some that focus just on cross border and again. We're the only solution on the market today that does all four pieces

And when we talked about cross border there's really two unique solutions that Apple Eric everybody. We have an item classification, a really powerful artificial, intelligence driven solution that classifies hs codes and then we have a real time duty and tax calculations.

So let's talk about how we classify items from a high level. So I think this is, uh, this tells the story very well. We have a wherever your product data stored, whether that's inside your erp, P. Whether you have a separate solution, that is a him.

Or whether it's in your e-commerce card. Wherever that information lives, we extract those details. Those catalog details

In a variety of ways. We can do it in an API format where you just push us the information or we can simply do excel files. CSP File Batch Service re just drops it through and keeps the site.

The engine. Then it's going to take that information, strip down the important pieces of information and predict what the HSE code is. But because technology and the wages codes are subjective, it could be, you know, one code or the other, And that is the nature of the business. Unfortunately, we pair

That artificial intelligence solution with human expertise, So we actually have humans. We call him our experts to the service that comes in.

Review what the engine provided and put that second level audit on it before we return those codes back to you.

It just increases the accuracy of that classification, which is really important to our clients.

Avalara:Tax compliance solution

Our holistic total solution. You know, we have a classification service, right? We've seen this exact information engine does its magic experts come and validate the info passed back to the system. We can also store those HS codes inside of your Avalara account. Now you have a consumer who's coming into your online store. They are reviewing in a cart.

They choose to check out. You send that transaction with all the transactional information to Avalara line items on the order shipped from ship to

Were able to calculate any applicable customs duty import tax sales news attacks in both they delivered duty paid methodology. So if you want to just present it as investment or if you prefer to actually collect that from your customer. What we see a lot in the beat of the space is, you know? Hey, Evan, I don't want to actually collect the customs duty from my client because we're selling, you know. Define that. Um, that product. We can actually predict what the import tax and customs duties will be in real time on that invoice. So what that's doing is actually looking at that data. It could upset a variety of HS codes. The engine is going to select the most appropriate code and provide that back real time. So we see this a lot with customers with huge catalogs of items and part distributors. We work with a lot of auto manufacturers as well as marketplaces. They have a huge catalog. They want to sell to every country around the world.

But it doesn't make financial sense to reclassify the entire catalog. This is a perfect solution for our customers that fall into that bucket. So what makes it, you know, different and why we should be integrated into your cross border strategy. We really are a complete solution. So we are the one stop shop for sales news tax domestically. Import Tax. So that's that bad GST. We calculate tax and every country around the world as well as customs duty, and we plug in, in a plug and play environment into all of the major shopping cards as well as have pre built FBI's and best case or those homegrown solutions. We have the most amazing content team we have is about 350 people in our content.

Engineering and Content research group. We do not source any content from third parties. This is our secret sauce. We have this amazing content team that is constantly researching tax rules, tax rates, jurisdictional boundaries, and tax content. All of the data that is driving that calculation is real time. So the rules changed. Rates change. You know, Every time you're getting our FBI, you're getting the latest and greatest content.

The ease of integration again. I touched on it briefly, but those pre built integrations and then flexibility and control the fact that we are open and modular. You could bring your own shipping provider to the table. We don't force you to use one shitty service over the other. It allows you the best in class freedom to be able to easily bend over within your commerce side.

So you know, really , to summarize here.

Like really going through and checking the boxes on a

- Mapping your HSE codes

- automation, tooling place
- calculate duties and taxes. A lot of these top challenges that customers are facing are easily overcome. So shipments get delayed in customs at it's flashing cause accurately calculate international text duties, lack of product demand.

No customers. Rejecting orders are all solved through Avalara's automation process. So I want to take the time to just say that again. Curating that brand experience makes it a convenient frictionless experience and really what Avalara is. We've taken a historically expensive, inefficient, slowed manual process and made it cost effective, efficient and automated. I think that really checks all the boxes.

In regards to those three pillars that I wanted to hit on today. And if you have any questions at all, you know, we have a website so avalara.com/goglobal and here's the phone number. Give us a call. We're more than happy to help and look at your scenario and specifically cater a solution to you.

Wrap up: (27:00-27:52)

So I really want to thank the DCKAP community and really appreciate the time that you guys allowed me to come and speak here to your community again. Thank you to all of our sponsors Avalara as a planet sponsor. Then APS payment as our gold sponsors dot digital, that's the silver sponsors. So thank you so much for that. That's all we have for now, and hopefully they get to stay tuned for next week's summit in November. We do have these sessions on a monthly basis. Specific case study examples, I think the one for June will be more on the Jan San industry. Thank you guys so much for your time, and you guys get to stay safe out there.