TruST
TRUE SIMPLIFICATION OF TAXATION

THE REAL-WORLD CHALLENGES IN COLLECTING MULTI-STATE SALES TAX

FOR MID-MARKET ONLINE AND CATALOG RETAILERS

SEPTEMBER 2013

By Larry Kavanagh and Al Bessin

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EXECUTIVE SUMMARY

Mid-market online and catalog retailers **($5-50 million in annual sales)** will spend **$80,000 to $290,000** in setup and integration costs for the so-called "free software" promised by advocates of the Marketplace Fairness Act (MFA). And every year, these retailers will also spend **$57,500 to $260,000**[1] on maintenance, updates, audits and service fees charged by software providers.

While MFA requires each participating state to offer some kind of free software solution, the result is hardly free; it is simply impossible for retailers to integrate 46 different software schemes with their in-house systems. This leaves retailers with only one real option: to use a Certified Software Provider (CSP) that is certified by most or all of the taxing states. Nothing in the MFA requires CSPs to make their services and software free to retailers, but it is expected that most states will offer compensation to one or more CSPs in order to fulfill their obligation to provide "free" software to retailers. Still, even using a CSP is hardly free either.

This document identifies five areas of costs that will be borne by online and catalog retailers and will not be reimbursed by states or covered by free assistance from Certified Services Providers (CSPs). Taken together, these costs will create significant expenses not faced by traditional brick and mortar retailers.

→ DIVERGING DEFINITIONS AND RULES ACROSS 46 STATES

An online and catalog retailer must determine the tax status for every customer and tax rate for every product across all taxing jurisdictions. This includes knowing specific product categories eligible for partial tax relief on "sales tax holidays" offered on certain dates.

Each CSP, however, has its own proprietary product coding system with hundreds of product and service codes to accommodate all states and all sellers. The CSPs use this coding system to determine the tax rate of an item and whether the item is eligible for partial tax relief on "sales tax holidays" offered on certain dates in most states.

A typical mid-market online or catalog retailer offers between 2,000 and 30,000 distinct products, each of which must be mapped to the CSP's proprietary coding. This initial mapping necessarily involves efforts by the retailer—who's familiar with his or her inventory—and the CSP—who knows the retailer's tax-coding scheme. This initial mapping will therefore require hundreds to thousands of hours of effort from both the retailer and the CSP. The MFA legislation does not require CSPs to perform setup or mapping services for free. Nor does MFA require states to compensate retailers for costs they incur in mapping inventory to CSP codes.

Moreover, retailers typically add 300 to 5,000 new items each year, which requires updates to the inventory mapping. Again, neither the retailer nor CSP costs are paid by states, so these ongoing mapping costs would be borne by the retailer.

Complying with as many as 10,000 different tax regimes is substantially more complex than compliance with a single taxing jurisdiction faced by a brick-and-mortar retail store.

→ THE MYTH OF PLUG-AND-PLAY INTEGRATION

A "plug-in" integration only works when using unmodified, out-of-the-box software. In the real world, where software has been in use for years and has been modified to fit the retailer's business, integration is substantially messy and expensive.

Most mid-market retailers have modified third-party order management software to fit their business processes or have developed their own software. They use these order management systems for call center order entry, customer service, returns and refund processing, inventory management and more. In many cases, these systems also integrate to separate accounting systems. In order to integrate with a CSP, the retailer must make architectural modifications to map to the coding system of the CSP, establish real-time communication, and create protocols to handle transactions when the real-time service fails to return a valid reply.

→ COST HEADACHES FOR MULTI-CHANNEL SELLERS

Mid-market online and catalog retailers use different software/modules for their website, "mobile-optimized" website, call center and customer service. Sometimes they have smaller "sub-brands" that use different

1 See table "Easy" Tax Integration on page 3.

e-commerce software than their "main brand." Further, many retailers accept orders through data feeds from external sites such as Amazon and eBay. The same issues occur here too. Customized systems and data feeds cannot accommodate a "plug-in" solution from a CSP. They will require significant architectural and integration work that can only be done by programmers familiar with systems and modifications the retailer has made over time.

→ ANSWERING CUSTOMERS AND AUDITORS FROM 46 STATES

Today, nearly every online and catalog retailer collects and files sales tax for the one or two jurisdictions where they have physical presence. This obligation creates costs to handle customer support questions about sales taxes on purchases and credits, costs to file and remit to state tax authorities, and costs to respond to tax auditor questions and visits. An extensive survey by a national public accounting firm pegged those costs at over 5 percent of taxes collected, for retailers up to **$10 million in annual sales**.[2]

But under MFA, each retailer in America becomes accountable to all 46 taxing states—plus over 550 tribal organizations. So a retailer currently collecting for its home state will face at least 46 times more questions and exceptions from customers and state tax authorities. Economies of scale and software will help to contain the explosion of costs, but retailers will still be forced to answer phone calls and emails from 46 times more customers and tax authorities.

Moreover, tax authorities can simply demand payments—plus penalties and interest—from any retailer in the centralized seller registration database created by the Streamlined Sales Tax Project (SSTP). Any retailer receiving a demand letter is compelled by law to respond—requiring additional time and expense from in-house staff, systems consultants, accountants and attorneys.

Beyond demand letters, each state and tribal organization can demand regular audits from each retailer in America. MFA does *not* require the states or tribes to consolidate audits or respect audits conducted by other states. When a state auditor visits, several people on the retailer's staff, plus outside accountants, need to be on hand to answer questions about item classifications, tax exempt certificates from particular customers, returns, credits, discounts, order adjustments, etc.

As a conservative assumption, we forecast that additional annual costs for customer support, reporting and auditing to state tax authorities will increase from **$20,000 to $100,000**; far less than a proportional increase of handling 46 times as many state tax regimes.

→ NO SUCH THING AS 'FREE' SOFTWARE

While CSPs are likely to receive compensation by some states for providing their software, there is no requirement in MFA for states to pay any CSPs. We have heard that some states believe that the software they have provided satisfies the requirements of the MFA. But as noted above, it is completely impractical for a retailer to integrate directly with each state's software, so the only answer is to use a CSP. And the only services a CSP will provide for free are for those states that are paying the CSP. For any taxes due to states that do not compensate CSPs—including the retailer's home state—the retailer must pay CSP service fees, shown as "CSP Annual Fee" in the table below.

→ INCREASED 'FRICTION' AT CHECKOUT

Online retailers lose about 15 percent of orders at checkout due to integration failures, browser incompatibility and complexity. The more code that exists on a checkout page, the more opportunity for a shopper to encounter an error, get frustrated and abandon their shopping cart. Even something as simple as logging into an e-commerce site to call up a shopper's address causes "exits" from the checkout page.

SUMMARY CHART

→ "EASY" TAX INTEGRATION

SETUP EXPENSE	LOW	HIGH
CSP Setup Fee	$5,000	$10,000
Retailer Setup of Item Tax Flags	$5,000	$80,000
Website Implementation	$30,000	$100,000
OMS Architecture/Integration	$40,000	$100,000
TOTAL FOR "EASY" INTEGRATION	$80,000	$290,000

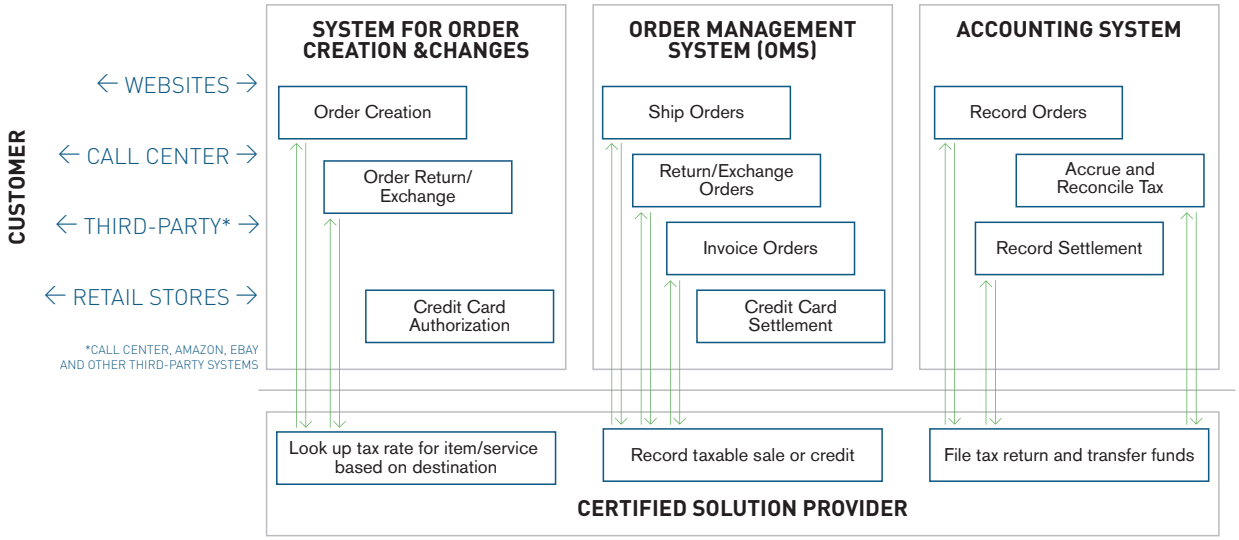
ANNUAL EXPENSE	LOW	HIGH
CSP Annual Fee	$25,000	$50,000
Managing Item Tax Flags	$2,500	$10,000
Reporting/Auditing	$20,000	$100,000
Lost Sales From Checkout Friction	$10,000	$100,000
TOTAL ANNUAL IMPACT	$57,500	$260,000

Most successful online and catalog retailers have net operating income ranging from 5 to 10 percent of gross sales. This means a **$5MM** retailer has **$250K-$500K** of operating income left to pay non-operating costs, do product research and make investments. From this narrow margin, retailers would have to pay for the tax system integration and annual costs as previously outlined.

2 See Joint Cost of Collection Study, by Price Waterhouse Coopers, 2006. Available at http://www.netchoice.org/wp-content/uploads/cost-of-collection-study-sstp.pdf

CURRENT SITUATION FOR MID-MARKET ONLINE AND CATALOG RETAILERS

→ INTEGRATION OF ONLINE AND CATALOG RETAILER SYSTEMS TO CERTIFIED SOLUTION PROVIDER



→ COMPLEXITY OF POINTS OF ORDER ENTRY AND RETURNS/EXCHANGES

Mid-market online and catalog retailers sell between $5-50 million annually through their websites, call centers and third-party points. These businesses have many different "points of sale", including:

- Websites, including:
  - A "desktop/laptop" optimized website
  - A mobile phone optimized website (often a different software application than the "desktop/laptop" website)
  - A tablet optimized website (sometimes a different software application)
- A call center (plus, often, a third-party remote call center) that takes orders from the website, catalogs, magazine advertisements, radio ads, TV infomercials, television shopping channels
- Amazon, EBay or other third-party stores
- One or more retail stores

Most of these order entry, e-commerce, mobile commerce and other "point of sale" systems have been in place for many years and, often, have been heavily customized to suit the particular companies' businesses. This means that there is no simple approach for integration to CSPs that could be scaled across large numbers of mid-market companies.

→ BACK-END SYSTEMS

Order Management Systems (OMS) lie at the core of most online and catalog merchants businesses, typically being the system of record for customer and transaction information and either managing accounting as well or integrating to accounting systems. Different web channels (website, mobile site, Amazon store, etc.) feed order information to OMSs for processing, customer service and information storage. OMSs either manage order fulfillment, or, in the case of larger businesses, integrate with warehouse management systems for that process.

→ COMPLEXITY OF MERCHANDISE ASSORTMENT

Mid-market online and catalog retailers sell different merchandise in different channels. For example, it is very common today to have "web exclusive" items differ from the products sold in other channels. They grow their business by adding different types of merchandise to their product mix. While it is typical for very small retailers to sell only a single product line, mid-market companies generally have a much more complicated merchandise mix.

→ CHALLENGES CREATED BY THE MFA

The Marketplace Fairness Act (MFA) specifically outlines requirements that have significant implications on the complexity and cost of compliance. These requirements drive needs on the part of vendors and systems supporting those merchants, including:

> "D) Provide—
> (i) information indicating the taxability of products and services along with any product and service exemptions from sales and use tax in the State and a rates and boundary database;
> (ii) software free of charge for remote sellers that calculates sales and use taxes due on each transaction at the time the transaction is completed, that files sales and use tax returns, and that is updated to reflect rate changes as described in subparagraph (H); and

(iii) certification procedures for persons to be approved as certified software providers.
For purposes of clause (iii), the software provided by certified software providers shall be capable of calculating and filing sales and use taxes in all States qualified under this Act."

MFA requires each state to give the retailer software, but some states believe they already satisfy this with their online tax lookup and online filing portal. Current online lookup and filing facilities are grossly inadequate for use by online and catalog retailers, who would have to determine taxes for hundreds, thousands, tens of thousands, or more orders and merchandise returns on a daily/weekly/monthly basis. Given the "hidden" integration costs, it is cost prohibitive for these retailer to use the "free" software provided by the states to satisfy the requirements. Certainly, with this volume of orders, it is impractical to handle this work manually.

Instead, mid-market retailers will use vendors like TaxCloud, FedTax, Avalara, and Taxware (CSPs), which offer software and services that collect sales tax for all states. The CSPs charge for their services and even more significantly, these services still have to be integrated into websites and order management systems. As will be explained in more detail below, this integration is anything but free!

The MFA does not require states to pay for CSPs; it only requires states to have certification procedures for CSPs. Only Streamlined Sales Tax Project (SSTP) member states have agreed to compensate CSPs, and only for costs associated with collections for SSTP member states.

THE REAL COSTS

→ 1) PRODUCT CLASSIFICATION

Because goods and services are not classified as taxable or non-taxable the same way across states, online and catalog retailers would need to pass through their inventory files and identify each as taxable or non-taxable for each jurisdiction. Mid-market retailers typically have between 2,000 to 30,000 separate items to maintain on their systems—many of which change each year.

Identification of taxable and non-taxable status for items cannot typically be done at merchandise category levels, because merchants categorize their products and services based on customer and purchasing needs and not necessarily the way states would group them for taxing. For example, a granola bar might be classified as non-taxable food in one state and taxable candy in another, but a merchant might classify it as "Trail Food" with no relation to whether it is candy or not.

States also offer sales tax holidays for narrow product categories that they have uniquely defined. This means what is defined as a school supply, for example in one state, may be different than another. Here is a small example of the Virginia's rules:

"School supply" means an item commonly used by a student in a course of study. For purposes of the sales tax holiday, the term includes "school art supply," "school instructional material," and "school music supply." The term does not include, "school computer supply."

"Sport or recreational equipment" means items designed for human use and worn in conjunction with an athletic or recreational activity that are not suitable for general use. "Sport or recreational equipment" is not included within the definition of "clothing," and does not qualify for the sales tax holiday.

Initial classification requires a review and setup of several different tax flags for all items. Estimating a time of 3-5 minutes per item to update all the rates, a process that would require from 100 to 2,500 staff hours for initial setup.

There is an ongoing cost here as well. Assuming mid-market retailers add 300-2,000 new items a year, an additional 15-167 hours would be required on an annual basis. This is a higher burden than a "main street" retailer faces since the online/catalog retailer needs to maintain 46 state and 10,000 other taxing jurisdictions, not just the one a bricks and mortar store is located in. And, while CSPs will help with tax rate lookup and filing, they can't help with the classification.

→ 2) "HIDDEN" INTEGRATION COSTS FOR "POINTS OF SALE" AND OMS (CUSTOMER SERVICE, RETURNS, ETC.)

All of the "points of order entry and returns/exchanges" listed above, as well as the order management and accounting systems, need to have their own integration with a CSP.

There are two types of changes that need to be made to all of these systems in order to use software from a CSP.

A) ARCHITECTURE

The first type of change is architectural (i.e. the data, structure and maintainability). In order to determine tax, CSPs require that the retailer pass information about all of the products and services on an order. Any system used by the retailer, including the website, mobile site and order management system must be modified so that these characteristics are stored and can be imported, updated and deleted. Most of these characteristics are tax codes assigned by the CSP. A good architectural design will include drop down menus with all of the valid tax codes and the ability to store, import, update and delete tax codes as the CSP makes changes.

Some retailers use third-party companies who create proprietary software for their different order entry and returns/exchange systems. In the mid-market, front-end website systems include Market Live, Kalio, Commerce V3, Order Dynamics, Demandware, ATG and Bridgeline Digital. Order management systems include, JDA/Escalate/Ecometry, Micros-Retail/CommercialWare, Microsoft, Dydacomp, New Haven, Mach, and DataMann. NOTE: mid-market retailers will use one of each, plus often have other systems for mobile websites, accounting, etc.

For their clients paying to be "on-support," these firms may absorb some or all of the architectural expense. As an example, Kalio, an e-commerce platform provider used by websites with between $2-40MM in online revenue, recently spent in excess of $50,000 to modify its underlying architecture to map to Avalara.

Unfortunately, most mid-market online and catalog retailers are either not "on support," have developed their own software, use a third-party software that is now out of business, or are on an open source platform for at least one of their systems. These retailers use either internal resources or third-party, independent contractors for their IT and software support. These retailers will bear the burden of these architectural changes on their own. Given that most mid-market retailers use at least three different systems, almost all have at least one system for which this will be true, and many will have more than one.

B) IMPLEMENTATION

Once the underlying data structure (architecture) has been created, the retailer must integrate each of the points of sale with the CSP software. This creates a number of challenges.

The first integration challenge is the other integrations already present on a particular system. A new integration often causes a conflict with other existing integrations. That's because the third-party software applications are all developed independently of one another.

Here is what mid-market online and catalog retailer Montessori Services recently encountered while trying to integrate a relatively light software tool called Optimizely into their Magento e-commerce site.

> *Subject: Optimizely conflict with superfish drop-down menus in IE 8/9*
>
> ---
>
> *MAY 03, 2013 | 03:24PM PDT*
> *Hi Matt/Jeremy,*
> *So I've figured out what the problem is here. Montessori Services' site is using another JavaScript library that references the $ variable (prototype.js). This is not a problem as long as Optimizely loads before this file, but will cause problems if Optimizely loads after it. When we load afterwards, the conflict with the $ library that loaded before us cannot be avoided.*

Every integration uses unique code that was written without any knowledge of other pieces of code that a website might use. Conflicts like the one listed above are common and need to be debugged on an individual basis. The retailer's development staff and contractors will have to do this debugging work.

Kalio just launched a new e-commerce site that had the following third-party integrations:

- MyBuys—Recommendation engine (i.e. "people who bought this also bought that" software)
- SLI—Onsite search
- PowerReviews—Customer rate and review of products
- PayPal—Payment method
- Chase PaymentTech—Online authorization of credit card
- BuySafe—Consumer confidence tool and insurance
- QAS—Address validation
- VAI—(their proprietary ERP)
  - Orders
  - Order history/detail
  - Inventory
  - Serialized coupons
  - MDR—School district lookup
- Blue Hornet—Bulk email service provider
- Custom Personalized Product Builder—a custom built software

No matter how "easy" an integration looks in isolation, it's made exponentially more difficult by the ecosystem of integrations around it.

The second integration challenge is that there are multiple modules on each point of sale system that need to be integrated. There are a number of different choices a shopper can make that will cause a point of sale to change the order totals, including tax. Here are a few of the situations that impact different modules:

1. Changing shipping from standard to second day (which changes the shipping cost…as some jurisdictions tax shipping)
2. Adding a service, such as gift wrapping or gift messaging
3. Adding or subtracting the quantity ordered of an item
4. Entering a different shipping address
5. Using a promotional code for free shipping, a coupon or special pricing (that different taxing jurisdictions treat differently!)
6. Returning an item (have to notify the CSP of the change so the tax filing is correct)
7. Customer service adjustment to the price of an item

The third integration challenge is situations that significantly complicate the logic needed to calculate, adjust and manage applicable sales tax collection and refunding. Consider the following examples:

EXAMPLE 1. DROP SHIPMENT

A merchant offers gifts that can be drop shipped. A shopper places an order for a number of people living in different states on their gift list, taking advantage of the merchant's shipping and handling fee policy that bases the rate on the value of the order and lowers the effective rates (percent of sales charged for shipping and handling) at higher order values, and applying a coupon to the order.

Challenges:

- Some states calculate sales tax before application of coupons and some after—how does tax get calculated when a coupon applies across this mix of destinations?
- Some states tax shipping and handling fees, and some do not—how should the tax be calculated for an order that has mixed destinations?

EXAMPLE 2. PARTIAL ORDER RETURN
A merchant receives the return of part of an order.

Challenges:

» Was the item taxable?
» Was a coupon applied to the total order, and what portion of the coupon should be applied in calculating the tax to be refunded?
» What portion of total shipping and handling fees was due to the returned item and was this service taxable?

EXAMPLE 3. TAX EXEMPT CUSTOMERS
One of the complexities confronted by retailers comes when a purchaser claims they are exempt from sales taxes. Each state has its own rules about what kinds of information a seller must retain about a transaction when the purchaser claims to be exempt from sales tax for their state of residence.

State tax audits frequently require signed proof of exemption certificates for sales where tax was not collected. Sellers are held responsible for the tax if state auditors aren't satisfied with the documentation.

Challenges:

» States have differing requirements and eligibility for the exemption of sales tax for these businesses—what customers/products are not taxable?
» States have record-keeping requirements that differ—what records need to be kept for each tax-exempt customer and how is this information maintained in the merchants' web and order management systems to ensure that taxes are charged appropriately?

The fourth integration challenge is the real-time internet connection to the CSP. There will be times when the connection fails to respond within a reasonable time or returns an invalid response. The retailers' website needs to recognize this situation, track how much time it is taking for the CSP to respond and program a fail-over option. As well, based on the data passed, the CSP may not be able to determine a rate, which means programming in another set of messages back to the customer or customer service staff.

The fifth integration challenge is software changes. Mid-market retailers are constantly working to optimize their e-commerce site(s). These optimizations can mean modifying, retesting or even recreating their integration if the optimization is on a module that uses that integration. For example, if a retailer wants to test a new checkout process (a multi-step checkout versus a one-page checkout) the integration work must be copied and revalidated on the new version. As well, most mid-market retailers completely overhaul their e-commerce website every 3-5 years, forcing a reimplementation of the CSP.

Integration Costs. As noted above, Kalio spent $50,000 modifying its architecture. A retailer who is not "on-support" for a particular point of sale software will bear this burden internally. Kalio charges $5,000 to $10,000 to implement an integration.

We polled several OMS providers and their rough estimate of cost to integrate to a single CSP's tax interface ranged from $40,000 to $340,000[3], the broad range due to the complexity of the existing OMS, influenced by the number of different versions and customizations of the base product in use in the marketplace. At the high end of the estimate, the cost could be borne by multiple merchants that use the same OMS, so long as they use the standard, un-customized version of the application. For the sake of conservatism, we've reduced our high-end estimate to $100,000 for this cost.

Note that most mid-market retailers have at least three order entry/returns systems that need CSP integration. To be conservative, we have estimated only that the website and the OMS system will need integration with a CSP. As noted above, though, there are many other systems that could require integration as well.

→ 3) REPORTING/AUDITING

Ongoing, sales tax charged and collected has to be reconciled and audited. Today, for most merchants, this is a simple process. Larger retailers with stores in many states have to support sales tax reconciliation and auditing with whole departments. Small to mid-market online and catalog merchants end up with virtually the same complexity without nearly the same revenue to cover the cost. At a minimum, we would expect the cost of reporting and auditing to take one-half of an additional full-time equivalent for a very small merchant to a staff of several. For the purpose of estimating cost, we would estimate a range from $20,000 to $100,000 per year (0.5 to 2.5 FTEs at $40,000 per year fully burdened).

This method generates a much lower cost estimate than would be obtained by extrapolating the SSTP Cost of Collection Study to 45 additional states. That survey[4] documented sales tax collection and servicing costs for retailers already using automated software for the one or few states where they had physical presence. Categories of costs in the survey included:

1. Training of personnel on sales tax
2. Documenting tax-exempt sales
3. Customer service relating to sales tax issues
4. Sales tax-related software and license fees
5. Programming and servicing cash registers
6. Returns preparation and related costs (remittances, refund credits, and sales tax research)
7. Dealing with sales tax audits and appeals
8. Other compliance costs

For firms with annual sales up to $10 million, the survey showed that retailers incurred costs of more that 5 cents for every dollar of sales tax collected. Since MFA requires each of these retailers to collect for 45 additional states, this 5-cent cost would extend to nearly all sales made to customers in the 46 taxing states. If costs were linear, that would raise annual compliance expenses for a $50 million retailer by over $150,000. The estimated costs used in this report are less than two-thirds of that

3 Polling JDA/Escalate/Ecometry and Micros-Retail/CommercialWare, May 9, 2013.
4 See Table E.3 on page E-4, Joint Cost of Collection Study, by Price Waterhouse Coopers, 2006. Available at http://www.netchoice.org/wp-content/uploads/cost-of-collection-study-sstp.pdf

number, demonstrating this is a conservative estimate when compared to extrapolated numbers from the most authoritative study of tax collection costs available.

→ 4) CHECKOUT FRICTION

Checkout is the most sensitive page on a retailer's website. Kalio recently found that 15 percent of shoppers exited the website at final checkout when confronted with an error message (such as invalid zip code). Below is an example of a checkout error report for a mid-market online retailer. An exit means that a visitor completed shopping, was in the process of final checkout and left the site without completing the checkout.

The Marketplace Fairness Act mandates that a shopper's full shipping address needs to be matched against a database to determine the taxing jurisdiction. This introduces additional new points of friction that will cause some shoppers to abandon their shopping cart without completing their order:

» A valid mailing address that is not matched in the tax software would cause an error message and prompt the shopper for another address.

» Worse, the tax software could return a tax rate that is not properly matched to the shipping address and any sales tax holiday exceptions in place on that day.

» Finally, a slow reply or timeout error from the CSP causing a checkout page to "hang" for the shopper.

One of the reasons most retailers currently use permanent tables on their internal systems for shipping charges and tax is that there is virtually a zero percent fail rate from lookups to a local table. Introducing a third-party software lookup on the checkout page guarantees that there will be some failures and errors—increasing checkout "friction" and decreasing website orders.

For purposes of this analysis, we've estimated additional checkout friction due to using external tax and address services at 0.2 percent of sales—which is the lowest of the frictions documented above for current users of our software.

MESSAGE	UNIQUE PAGEVIEWS	SECONDS ON PAGE	CUSTOMER % SEEING MESSAGE	DIRECT EXITS	EXIT RATE
Sign in failed. Please check your sign in information and try again	521	68	16%	73	4.0%
Billing Phone is required	1144	9	36%	14	0.8%
Billing Email is required	182	120	6%	14	0.8%
Billing Confirm Email does not match	270	108	9%	13	0.7%
Shipping Phone is required	255	27	8%	11	0.6%
Payment Card Number is required	218	91	7%	11	0.6%
Billing Valid Email is required	184	40	6%	10	0.6%
Payment Verification Number should be at least 3 characters long	134	31	4%	8	0.4%
Payment Verification Number required	153	17	5%	7	0.4%
Payment Name on Card is required	229	51	7%	6	0.3%
Billing Zip is required	123	32	4%	5	0.3%
Billing Street Address is required	92	53	3%	4	0.2%
Billing Last Name is required	72	43	2%	3	0.2%

CONCLUSION

As currently written, the Marketplace Fairness Act would impose a formidable and unfair burden on mid-market retailers. The first year costs would consume half, if not all, of the net operating margins of many of these companies. Most mid-market online and catalog retailers believe that it is fair and appropriate that their customers pay a sales tax. What we're asking is for a simple system of definitions, rules, remittance and auditing that closely resembles what brick-and-mortar stores do today, where all their sales are governed by just the single jurisdiction where their store is located. That kind of simplification would create fair and equal burdens on all retailers, while increasing the amount of sales tax collected on purchases by out-of-state customers.

ABOUT THE AUTHORS

→ LARRY KAVANAGH

Larry Kavanagh is regarded as an industry expert on internet marketing for mid-market eCommerce companies. He speaks frequently at conferences on topics ranging from technology, online optimization and eCommerce organization and staffing. He has authored many articles for eCommerce and Direct Marketing industry publications.

Kavanagh has deep roots in the eCommerce and Direct Marketing industry. From 1991 to 1999 Larry was the VP of Marketing and General Manager of Gardens Alive!, a large, multi-title catalog and eCommerce business. He founded D.M.insite in 2000, one of the nation's first eCommerce platforms for mid-market companies. D.M.insite made the INC 500 list in 2006. He merged D.M.insite with Moyo Group in 2011 to form Kalio, and served as the company's first CEO.

He is currently a member of the Kalio board and a board member of Melasa Group, a startup service provider that works with mid-market online retailers. He is also the incoming Chairman of the Parents and Family Leadership Council at University of Chicago. Kavanagh continues to provide strategic ecommerce guidance to a number of Internet Retailer 500 companies, including Dover Saddlery, Touch of Class and Gardens Alive!.

→ AL BESSIN

Al Bessin is an entrepreneurial executive with over 30 years in Specialty Retail. He brings extensive experience with mid-market, growing firms, having built a successful consulting practice and working in every aspect of catalog, e-commerce and retail operations, at strategic and executive as well as hands-on levels.

Al founded Bessin Consulting in 2005, a marketing services and consulting practice. He joined LENSER as a consulting partner. Al provided management, marketing and operations consulting to specialty retailers, working with over 80 companies as diverse as Bliss (skin care), Performance (bicycles and gear), J&P Cycles (motorcycle aftermarket), Artful Home (art and home décor), Bass Pro Shops (outdoor gear) and Lehman's (non-electric goods and traditional home products). In 2011, LENSER was acquired by Merkle, where Al served as VP of Specialty Retail, providing CRM and marketing database services to specialty retailers.

Al has been co-CEO of The GolfWorks, COO at Musician's Friend/Guitar Center, a VP at Golfsmith, overseeing operations and store development in the US, Europe and Canada, in Channel Development for Apple Computer, and in regional and store management for ComputerCraft.