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How UK companies can crack the US e-commerce market

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Introduction

Home to more than 330 million people and the largest economy in the world, it's little wonder that so many UK businesses are keen to crack America.

For e-commerce sellers in particular, there's a real pot of gold to chase in the States, with online sales estimated to be worth more than \$540 billion in 2019 alone. And while it might be thousands of miles away, this land of opportunity feels well within reach.

A look across the pond reveals a sales market very closely aligned to our own in the UK. We share a similar culture, we speak the same language, and the trend for online shopping continues to grow on both sides of the Atlantic.

Just like in the UK, the US market is also home to digitally savvy, high-wealth consumers, served by sophisticated and affordable shipping networks, and driven by platforms like Amazon and eBay - only too familiar to UK sellers.

In many ways, 'breaking' America doesn't feel like breaking new ground at all - and that makes success in the States seem all the more achievable.

It's no great surprise then that UK e-commerce businesses want a slice of the US action. A recent study of 1000+ UK e-commerce sellers found almost two-thirds (64%) see the US market as their biggest e-commerce opportunity.

That opportunity might just be at its peak right now too, with the Brexit-weakened pound meaning British goods are more attractive to US customers than ever.

However, it's not all plain sailing. There are several challenges to selling products in the US, not least the recently introduced US sales tax nexus, which has left many UK e-commerce businesses liable for paying US tax.

It's also left many UK businesses scratching their heads as to how it all works.

In this eBook, we'll explore the tax implications of operating in the US and explain exactly what sales tax nexus is all about. We'll also look at shipping and return considerations, and strategies for penetrating one of the largest e-commerce markets in the world..



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Chapter One:

A platform for success in stateside sales

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It's estimated that half of all online spending takes place through e-commerce marketplaces - with 61 of the world's top 100 marketplaces based in North America.

To boost your chances of making sales in the states, it certainly pays to do your research on the right platform for you.

Leading marketplaces like eBay and Amazon provide ready-made access not just to the American market but to global markets, and can provide a solid foundation for international success. Yet it's important to remember that such behemoths of the e-commerce world are incredibly congested marketplaces, with fierce competition among sellers and products.

At the same time, selling into the US through your own website (powered by the likes of Shopify) may require considerable marketing investment to cut through the noise of the big players.

Whether you have your own website or not, smaller marketplaces can therefore be worthy of consideration - helping you to reach the US market in more targeted fashion...

The value of smaller, specialist markets

Jet, Wish and Bonanza are just some examples of the many smaller (but rapidly growing) marketplaces based in North America, providing worthy competition to the likes of Amazon.

While these particular sites cover a broad range of products, many other micro-marketplaces specialise in certain types of goods - such as Reverb, which specialises in musical equipment.

In the UK, video game leader Game is another interesting example, having recently developed its website to allow third-party sellers to sell gaming products to its customer base.

Clearly, for sellers of niche products, these specialist markets are especially important to seek out - potentially offering not just a route into a new country, but promotion to a well-established, tailor-made audience.

Often, utilising a number of different platforms and marketplaces - both big and small - is the right route to take, giving the widest coverage to your products and brand. Using only one means putting all your eggs in one online shopping basket - which comes with a degree of risk, particularly if you opt to sell through a less-established marketplace.



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Chapter two:

The tax implications of the American dream

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In recent years, the US government and local state governments have started to crack down on online sellers, aiming to recoup an estimated \$24 billion tax deficit from uncollected taxes on online sales.

This crackdown led to the concept of Sales Tax Nexus - obligating remote sellers to register for sales tax in the states they are selling to.

It means that however you choose to promote and sell your products to the American market, there will be tax implications to consider on both sides of the Atlantic.

Registering for tax in a country you sell into is nothing new. But as the US allows each state to control its own tax laws, you'll need to pay different rates of tax in every state you have 'Nexus' in (we'll explain what that means in a moment).

The complexity doesn't end there either. Within each state, there are a number of tax jurisdictions, which can charge their own local rates in addition to the basic state rate. It means in total, the States has more than 35,000 different tax codes.

What is sales tax nexus and how do you know if you have it?

Once upon a time, you would only need to register for sales tax in an American state if you had a physical presence there - a store or a warehouse for example.

Now, in recognition of the growth of e-commerce, those rules have been changed. You'll need to register, file and collect sales tax in any state in which you have 'physical or economic nexus'.

Today, 'physical' does not just mean bricks and mortar, it can mean digital presence too. If your website stores a cookie on a customer's device in the US, the presence of that cookie is determined to count as physical presence, and would require you to register in that state.

You'll have 'economic nexus' in a state if you sell sufficient products into a state to exceed its sales threshold. As you might anticipate, thresholds vary significantly between states, but the majority are set at \$100,000 or 200 transactions - whichever is exceeded first.

To determine if, when and where you have nexus, you'll need to closely monitor your sales activity into the states. Clearly, this can be incredibly challenging, and does support the argument for using marketplaces and sales platforms that can do the hard work for you.

Regardless of how you take on the challenge, there are thankfully five states where you won't need to worry about it. New Hampshire, Oregon, Montana, Alaska and Delaware are the only states which haven't adopted sales tax nexus laws - for now at least...



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Chapter three:

Delivering great service

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When you've found the right marketplace and mastered the minefield that is sales tax nexus, success rests on delivering a great customer experience. Fast delivery and returns certainly won't be easy if you're shipping products from the UK though.

Even if you're using a fulfilment partner like Amazon to localise shipping, it's important to remember the US is around 40 times bigger than the UK. Next-day delivery is virtually unheard of, and two-day delivery is considered fast.

While US customers might expect to wait a couple of days for delivery though, more than 50% of consumers also expect delivery to be free.

Meeting these expectations as a UK-based seller will clearly be challenging, but by offering a range of delivery options from premium to economy, you can at least allow the customer to choose between speed, convenience and cost.

Giving the customer the chance to expedite their delivery makes it vitally important to choose a delivery partner who can help you keep your promises.

Choosing the right delivery partner

The right fulfilment partner should be able to offer a variety of carrier services, provide clear tracking and visibility of products in transit, and help you with the handling of returns.

Crucially, they should also be able to provide assurances in terms of helping your deliveries clear customs. A hold-up at the border can cause deliveries to be seriously delayed - putting your reputation at risk in a world built on customer reviews.

Making sure your parcels are labelled and marked up correctly is critical to reduce the chances of any customs catastrophes. Parcels all need a unique barcode identifier on the label, and you must have a valid EORI (Economic Operators Registration and Identification) number - which, as of January 2021, will need to start with the letters 'GB'.

For every delivery, you should also make sure you have completed any necessary documents (such as FDA certificates for food and drink) and that the correct commodity code classification is being used.

The more accurate the customs data, the faster the parcel - and the more content the customer.



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Summary

Given its similarities to the UK market, and the opportunities opened up by the falling pound, cracking the US e-commerce space is almost a logical next step for Britain's online sellers.

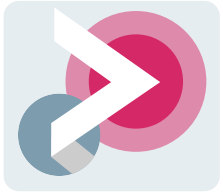
But successful navigation of the US market relies heavily on finding the right sales platforms and marketplaces for your products - and monitoring your business activities closely to ensure compliance with complex in-state laws.

Competition will be undoubtedly tough as you aim to break out stateside - and the sales tax laws may be more challenging still. Rest assured though, the potential rewards on offer are vast...

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