

GLOBAL TAX COMPLIANCE EXPLAINED WITH SOCKS

At every step of your global supply chain, there's likely to be tax compliance complexity to unravel. Even a basic staple like socks can complicate tax compliance if you're unaware of your obligations and how to manage them.

Whether you're a global business selling across borders, or a U.S. business selling internationally and across states, it's crucial that you understand how U.S. sales tax, VAT, GST, and customs work.

Follow a sock's journey from factory to foot to understand how to stay compliant.

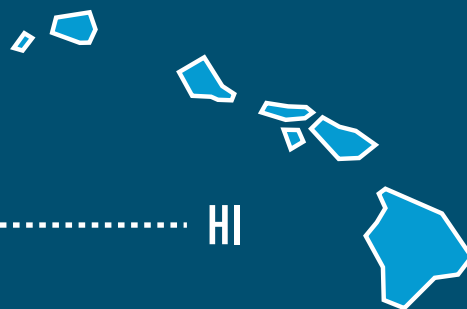


MAKING SOCKS

Cave dwellers used animal skins. The ancient Greeks used matted animal hair. Today's socks are made from more sensible materials like cotton, wool, and nylon.

Your obligations at the production stage may depend on the materials you use, where you import them from, and where your means of production are based. These factors could add a layer of complexity for manufacturers.

There could be some exemptions, such as in the U.S. where most states exempt manufacturers from paying U.S. sales tax on raw materials and packaging materials.



HAWAII IS NO PARADISE FOR MANUFACTURERS

Hawaii's general excise tax (its version of U.S. sales tax) ranks No. 1 for broad application – covering virtually all products and services, including manufacturing equipment and raw materials. Materials purchased by manufacturers for use in salable products are taxed at the wholesale rate of 0.5%.¹

¹ [Tax Foundation, State of Hawaii Department of Taxation](#)

MOVING SOCKS

Those socks aren't going to walk themselves from the production line to people's feet. They need to be shipped across borders or delivered across U.S. state lines.

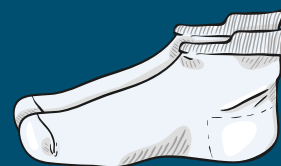
When shipping overseas, you need to consider the rules around customs duties and item classification. This task includes getting your Harmonized System (HS) codes and item descriptions right – vague classifications won't be accepted. Even the humble sock must be categorized correctly.

If you're shipping between two U.S. states – or into the U.S. from another country – you may trigger economic nexus obligations depending on the item or amount of items you're shipping, or in which U.S. state your customers or partners are based. The same is true if you're drop shipping into the United States.

Depending on where you're shipping to, you'll also need to ensure you're registered for VAT, GST, or U.S. sales tax everywhere you need to be. You may be obligated to appoint a fiscal representative to help deal with local tax authorities.

If you're a non-EU business selling into the EU, taking advantage of the Import One-Stop Shop (IOSS) means you can simplify the time-consuming registration process – you can register in a single EU country to sell across the EU.

Avalara can help



WHAT CAN AFFECT TAX

HOW YOU SELL	WHO YOU SELL TO
<ul style="list-style-type: none">• Wholesale (resale)• Retail	<ul style="list-style-type: none">• B2C• B2B
WHAT SALES CHANNELS YOU USE	WHERE YOU SELL
<ul style="list-style-type: none">• Ecommerce website• Online marketplace• Brick-and-mortar store• Social media	<ul style="list-style-type: none">• In a company's home state only• In multiple states• In the U.S. and internationally

SELLING SOCKS

If you're selling into the U.S., you don't have to foot the bill on sales tax, but it's your job to collect sales tax on qualifying purchases and remit it to the appropriate taxing authority. You'll also need to take steps to manage exemption certificates, including requesting, validating, and archiving them.

If you're selling on marketplaces such as Amazon or eBay – in any region – it may be that the marketplaces themselves shoulder much of the burden when it comes to collection, remittance, and exemption management – but this shouldn't be assumed.

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SELLING SOCKS (CONT.)

U.S. sales tax rules and regulations can vary by U.S. state. Some states, like New Jersey and Vermont, exempt clothing and footwear (including socks) from sales tax. Others, like New York, exempt clothing and footwear under a certain dollar amount. See [examples](#).

SOCK HOLIDAY

U.S. states that offer U.S. sales tax holidays often include socks among the items exempted. [Which states offer these holidays](#) varies as do dates and durations. These tax-free periods can complicate things for ecommerce sellers who have to honor them for qualifying buyers.

SOCK EMPORIUM SAN FRANCISCO, CA	
SALES RECEIPT	
Red wool socks	\$14.00
Black cotton socks	\$10.00

SUBTOTAL	\$24.00
SHIPPING	\$0.00
SALES TAX 8.5%	\$2.04
ORDER TOTAL	\$26.04
=====	

SOCK EMPORIUM NEW YORK, NY	
SALES RECEIPT	
Red wool socks	\$14.00
Black cotton socks	\$10.00

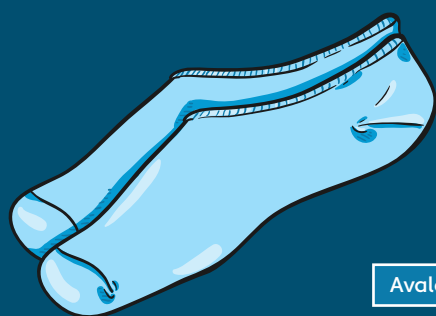
SUBTOTAL	\$24.00
SHIPPING	\$0.00
SALES TAX 8.5%	EXEMPT
ORDER TOTAL	\$24.00
=====	

EXAMPLE A

Clothing and footwear are subject to San Francisco sales tax and California state sales tax.

EXAMPLE B

Clothing and footwear under \$110 are exempt from New York City sales tax and New York state sales tax.



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MEN'S OR BOYS' COTTON SOCKS CROSS-BORDER CLASSIFICATION



USA

HS code: **6115.95.9000**
General duty rate: 13.5%



CANADA

HS code: **6115.95.0010**
General duty rate: 16%



ITALY

HS code: **6115.95.0000**
General duty rate: 12%

GOING GLOBAL

Socks are a staple of fashion, culture, and tradition globally, so all world markets have potential buyers. But cross-border sales carry complex trade and tax compliance rules. It's easy to hit a snag with customs duty and import tax, item classification, and tariff codes.

HS codes and duty rates can change, as can registration requirements. [Sellers must stay up to date on any regulatory changes](#) in the markets they're operating in, and they can familiarize themselves with tax systems they might not be used to such as GST.

SELLING SOCKS (CONT.)

DDP vs. DAP

Communicating all costs to international customers up front (DDP) is more likely to result in repeat business, whereas surprising customers with unexpected costs upon delivery (DAP) could mean they refuse the shipment – which could be returned at your cost – and the customer takes their business elsewhere. See examples.

Silk stockings	\$40.00
Athletic socks	\$12.00
Argyle dress socks	\$20.00

SUBTOTAL	\$72.00
SHIPPING	\$25.00
TAX*	----
ORDER TOTAL	\$97.00

INVOICE TOTAL \$119.73

* Total may change. Import duties and taxes not included. Additional fees on delivery.

EXAMPLE A

- Shipping charges apply
- Import duties and taxes are not calculated in the shopping cart
- Customer is surprised with a \$22.73 COD (cash on delivery) charge

Silk stockings	\$40.00
Athletic socks	\$12.00
Argyle dress socks	\$20.00

SUBTOTAL	\$72.00
SHIPPING	\$25.00
TAX*	\$22.73
ORDER TOTAL	\$119.73

INVOICE TOTAL \$119.73

* Import duties and taxes.

EXAMPLE B

- Shipping charges apply
- Import duties and taxes are calculated in the cart

Silk stockings	\$40.00
Athletic socks	\$12.00
Argyle dress socks	\$20.00

SUBTOTAL	\$72.00
SHIPPING	\$25.00
TAX*	\$0.00
ORDER TOTAL	\$97.00

INVOICE TOTAL \$97.00

* Import duties and taxes included. No additional fees on delivery.

EXAMPLE C

- Shipping charges apply
- Import duties and taxes are paid by the seller



SOCK MARKET CLASSIFICATION

TYPE	MATERIAL
<ul style="list-style-type: none"> • Casual • Dress • Athletic • Specialty 	<ul style="list-style-type: none"> • Nylon • Cotton • Polyester • Wool
END USER	DISTRIBUTION
<ul style="list-style-type: none"> • Women • Men • Children • Unisex 	<ul style="list-style-type: none"> • Wholesale • Supermarkets • Hypermarkets • Online stores

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this infographic is for informational purposes only and does not provide legal or tax advice.

BUYING SOCKS

If everyone in the supply chain is doing their job correctly, the only thing the consumer should have to worry about is choosing the best socks for the best price. But even then, they're knee-high in choices from styles to sellers.

WE'RE GOING TO SOCK IT TO YOU STRAIGHT

The modern supply chain is global, so your thinking when it comes to tax compliance should be too. Click on the link for your region below to take a U.S. sales tax risk assessment as a starting point to understanding your obligations. Do you have questions about VAT, GST, or customs and duties? Contact Avalara today to speak to us about VAT, GST, and other cross-border considerations.

Avalara provides tax automation solutions for every stage of compliance from tax registration to rate calculation to returns filing. Avalara expertise and technology covers U.S. sales tax, exemption certificate and tax document management, VAT, GST, and cross-border sales, to ease your compliance burden and enable you to focus on what you do best.