

SALES TAX 101 FOR STORE OWNERS

GENERAL RULES OF SALES TAX

RULE #1: HEADACHES ARE COMMON



- No federal sales tax laws (yet)
- 45 states (and DC) = 46 sets of laws
 - Nexus
 - Taxability
 - Rates
 - Due dates

RULE #2: WHAT'S TAXABLE?



- Tangible items are taxable
 - Common exceptions are clothing and food
- Services are mostly not taxable
 - Are the tides changing?
- Shipping, gift wrapping can be taxable

RULE #3: NEXUS IS EVERYTHING



Your business has a presence or connection in a state that's significant enough for you to be required to comply with their sales tax law

- Got nexus = comply
- No nexus = go do something else

RULE #4: NEXUS VS. REMOTE SALES



- Sell to a state with nexus = collect sales tax
 - Live in CA means collect on items shipped to CA
 - Your state is the best place to start compliance
- Remote sales = no sales tax....yet
 - Remote sales are sales to any state you don't have nexus
 - Live in CA; don't have to collect on sales to WA (unless you have nexus)

RULE #5: PASS-THROUGH TAX



- Pay what you collect
- Never pay out of pocket!
- Sellers are 'collection agents'

RULE #6: THIS CAN BE AUTOMATED



Starting is the hardest part

WHERE DO I HAVE NEXUS?

WHEN YOU HAVE NEXUS...



- Register for a sales tax license
- Enable collection on your cart or marketplace
 - Collect sales tax when you have nexus
- File a return
- Pay what you owe

COMMON NEXUS TRIGGERS



- Retail store
- Employee
- Salesperson
- Affiliate
- Trade show
- Drop shipping

Common Nexus Types

Home or Office

- Where you live and/or operate your business
- Live in San Jose and sell out of your house
- Comply/collect in CA

Inventory

- Inventory is in a 3rd party warehouse
- Live in San Jose with inventory in PA
- Comply/collect in CA & PA



Dropshipping does NOT apply to either scenario

DROP-SHIPPING

- Two sales take place
 - Your vendor sells to you
 - You sell to your customer
- Who has nexus?
- Great time to speak with a tax professional

DROP-SHIPPING SCENARIOS



- Neither vendor or seller have nexus
 - No tax collected
- Vendor has nexus; seller doesn't
 - Seller provides exemption cert
- Vendor doesn't have nexus; seller does
 - Seller collects
- Both vendor and seller have nexus
 - Seller provides exemption cert & collects from customer

MULTI-CHANNEL NEXUS



- Nexus for one channel means nexus for your entire business
 - Ex – ‘FBA nexus’ gives your Woo business nexus
 - Collect on all your channels for the same states

COLLECTING SALES TAX

GOLDEN RULE OF COLLECTION



Collect sales tax when the item sold is shipped to a state where you have nexus.

MEET SALLY STORE OWNER



- Based in Akron, OH
- Only has nexus in OH
- Complying in 1 state

NEXUS SALE



Akron, OH



Lakewood, OH



Collect sales
tax

REMOTE SALE

Akron, OH



Waltham, MA



Collect sales
tax

SALLY'S BUSINESS IS GROWING!



- Uses a 3rd party fulfillment service
 - Stores inventory in NV
- Nexus in 2 states: OH, NV
- Complying in 2 states

NEXUS SALE

OH or NV



OH



Collect sales
tax

NEXUS SALE

OH or NV



NV



Collect sales
tax

REMOTE SALE

OH or NV



Stockport, IA



Collect sales
tax

CALCULATING SALES TAX

COLLECTION LOGIC



- Buyer's state determines tax rate (sourcing)
- Tax rate usually = sum of applicable rates
 - State
 - Local
 - Other (i.e., education, transportation)

ORIGIN VS. DESTINATION SOURCING



- Origin-based state
 - Tax rate = seller's location
 - One rate for entire state
- Destination-based state
 - Tax rate = where item is shipped
 - Variable rate

Origin: Sale in Texas



State: 6.25% Irving: 1.00% Dallas MTA: 1.00%

TOTAL RATE COLLECTED: 8.25%

Destination: Sale in New York



State:
4.00%

Erie County:
4.75%

TOTAL RATE
COLLECTED: **8.75%**

FILING RETURNS

FILING TO THE STATES



- Filing deadlines usually tied to sales volume
 - Annual, semi-annual, quarterly, monthly
 - Deadlines typically fall on 15-30th of the month
 - The more you collect, the more often you pay
- Combine and file a single return per state
 - Not separate returns per channel
- File zero returns!
 - When you've collected \$0 in sales tax

PAY ON TIME = \$\$



Some states have discounts
for on-time payment

- Generally between 1-2%
- It's free money!

PAY MORE IF YOU'RE LATE



All states have penalties for late payment

- Boo!
- Late payment charges
- Interest on what wasn't paid

FILING IN DESTINATION STATES



- Huge pain!
- States rely on you to divide up the money collected
- Calculate taxable sales & sales tax collected by jurisdiction
- Gets worse if you're multi-channel

AUDITS

Save everything in case of audit

- If you file it, you have to prove it
- Exemption certs are crucial
- Check taxjar.com/states

“HOW DO I GET STARTED?”

START HERE



- Comply in your home state
- Branch out to new states if necessary
 - What's your risk tolerance?
 - Voluntary Disclosure if you have a history
 - TaxJar can help
- Register, collect, and file
- New Year is perfect time to begin

WHO WILL KNOW?



- The decision to comply is up to you
- Risk tolerance is your guide
 - States are getting more desperate
 - eCommerce is growing
 - Legislation is looming

WOOCOMMERCE & SALES TAX

COLLECTING ON WOO



- Tax collection can be enabled
- Tax table (rates) has to be manually populated
 - All you need for flat rate charging
 - Doesn't account for rate changes
- Can view tax collected
 - Cannot view by state or jurisdiction

GET STARTED...FOR FREE!



- taxjar.com
- 30-day free trial (no credit card required)
- Monthly or annual subscriptions
- Pricing based on transaction/calculation volume
 - Starts at \$19/month for 1k transactions
 - \$19.95 per return