

Navigating Sales Tax Compliance in 2021

6 steps to simplifying sales tax management
so you can reduce risk and save time

TaxJar

Table of Contents

03

Introduction

07

Step 1

Determine where you have sales tax nexus

11

Step 2

Verify if your products are taxable

13

Step 3

Register for a sales tax permit

16

Step 4

Set up sales tax collection on your online shopping carts and marketplaces

22

Step 5

Report how much sales tax you collected

23

Step 6

File your sales tax returns

Introduction

Owning and managing your burgeoning e-commerce business is both exciting and challenging. But sorting out sales tax can be a burden. It's one of those challenges that can make or break your ability to comfortably grow the business, avoid compliance risk, and ensure your employees are happy — not scrambling to file returns or living in a spreadsheet nightmare.

Post Wayfair, sales tax management is proving to be more complicated and time consuming than anticipated. You're contending with obscure and ever-changing tax laws, inconsistency across states, determining economic nexus, and the tedious filing processes.

All this results in stress, more work than you can manage, the possibility of noncompliance and accompanying fines if you can't keep up, and more importantly time spent on activities that don't grow the business.

Ignoring sales tax isn't an option and neither is manually handling it. What if there was a better way to effectively manage the confusion around economic nexus? Ensure employee efficiency? Reduce your exposure for sales tax liability?

Let's get started.

In this e-book you'll learn:

1. What is sales tax
2. 6 steps to sales tax compliance
3. How to automate sales tax with TaxJar



What is sales tax and why do online sellers need to deal with it anyway?

Click the map for detailed sales tax information about every U.S. state.

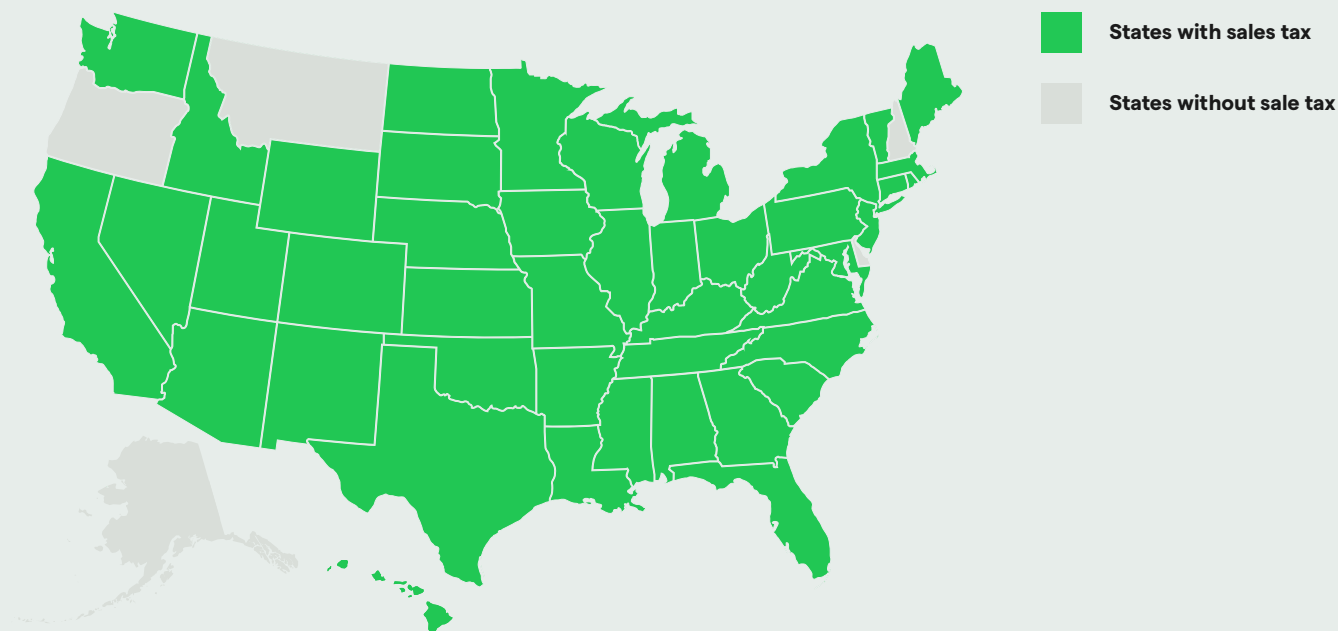
Forty-six U.S. states and Washington D.C. all have a sales tax.

States and localities use sales tax to pay for budget items like schools, roads and public safety. Sales tax is a “consumption tax” because it’s only charged when a buyer buys goods or services.

And it’s a “pass-through tax,” because even though a business charges sales tax to customers, they don’t get to keep it. It “passes through,” because a business then remits all sales tax to the state taxing authority.

Sales tax is governed at the state level, which means each state gets to make its own rules and laws — within the framework of the U.S. Constitution — when it comes to administering sales tax.

States with sales tax



Some aspects of sales tax that can vary from state to state include:

- Which products and services are taxable
- How much sales tax is charged
- When and how often businesses are required to file sales tax returns
- Dates sales tax returns are due
- Many states allow local areas to require a sales tax, too

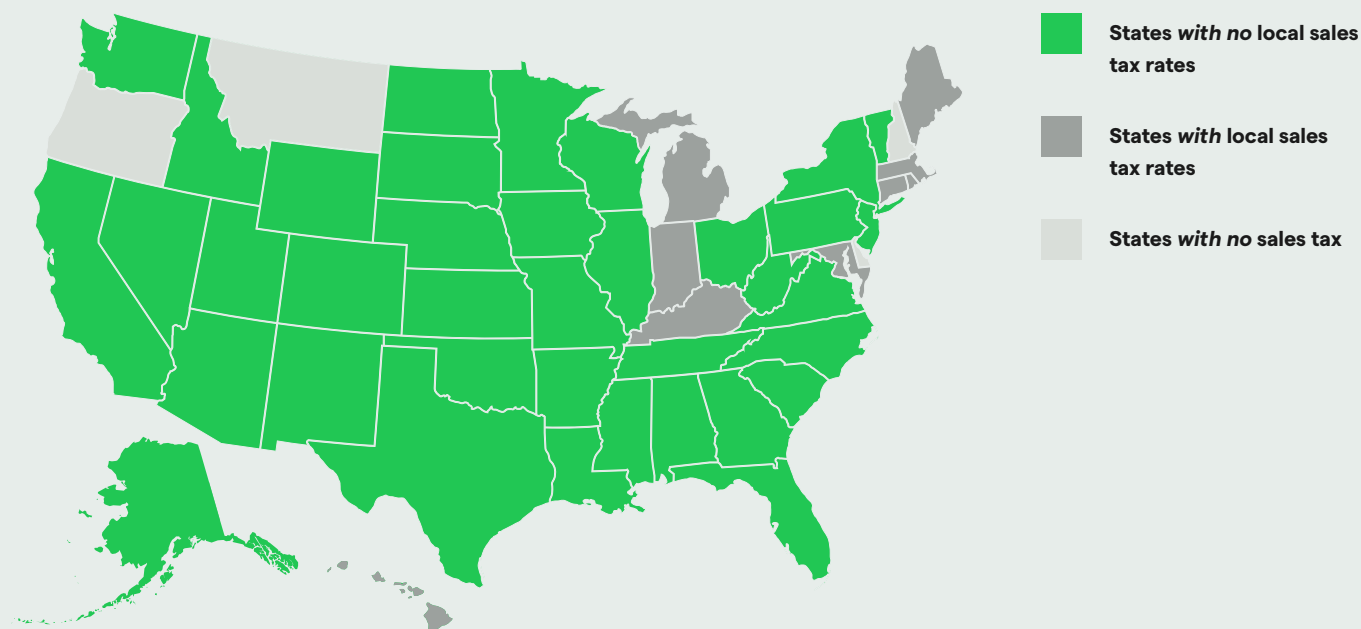
Sales tax fact:

You can easily remember the five states with no sales tax by their acronym **NOMD**: New Hampshire, Oregon, Montana, and Delaware.

Key points to remember:

- Sales tax is governed at the state level.
- 46 states and Washington D.C. have a sales tax.
- Every state's sales tax laws and rules are different.

The U.S. states that have a local sales tax



6 steps to sales tax compliance

To get the full picture of sales tax for e-commerce businesses, work through these steps or jump ahead if you have a specific question:

1. **Determine** where you have sales tax nexus and are required to collect sales tax.
2. **Verify** if your products are subject to sales tax.
3. **Register** for sales tax permits.
4. Set up **sales tax collection** on all your sales channels.
5. **Report** how much sales tax your business collected.
6. **File** sales tax returns.

Is your plate already full?

Learn how you can automate sales tax compliance with [TaxJar](#)!



Step 1

Determine where you have sales tax nexus

Find out where you have a sales tax requirement

"Nexus" originates from a Latin word meaning "to bind" or "to tie." If you have **sales tax nexus**, think of your business as having a "tie" to the state.

How to determine where you have sales tax nexus

In the U.S. retailers are required to collect sales tax from buyers in states where they have "sales tax nexus."

The following business activities may create sales tax nexus:

- **A location.** This includes an office, warehouse, store or other physical place of business.
- **Personnel.** An individual who is an employee, contractor, salesperson, installer or other person doing work for your business falls under personnel.
- **Inventory.** Most states consider storing inventory in the state to cause nexus even if you have no other place of business or personnel.
- **Affiliates.** Someone who advertises your products in exchange for a cut of the profits creates nexus in many states.
- **Selling products at a tradeshow or other event.** Some states consider you to have nexus even if you only sell there temporarily.
- **Economic nexus.** When your business meets an individual state's sales or transactions threshold. (We'll cover this more in the next section.)

Economic Nexus

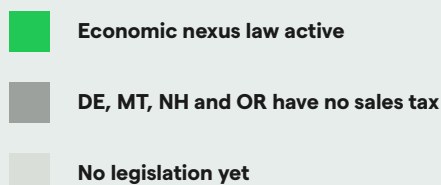
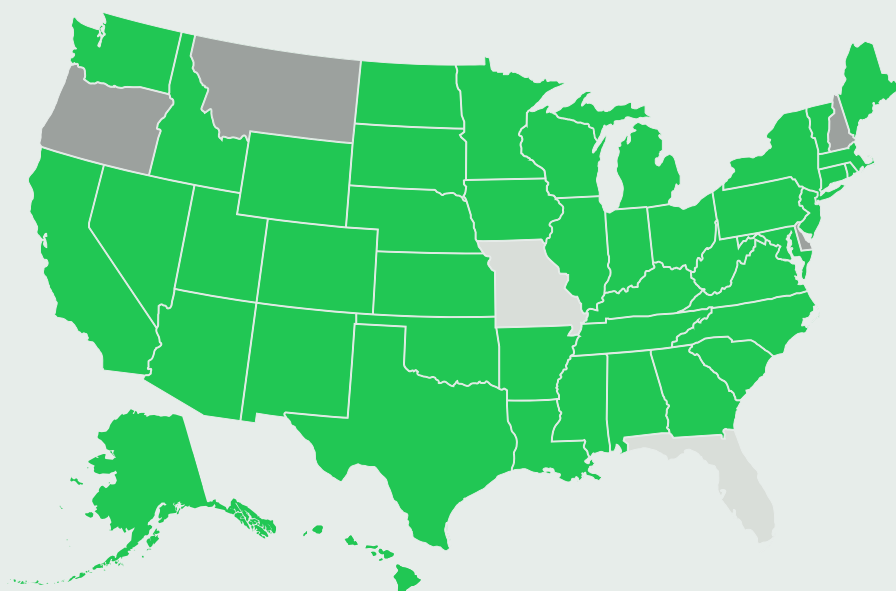
In addition to the activities listed previously, which create physical nexus for a business, businesses must also consider whether or not their sales into a state trigger economic nexus as well. In June 2018, the landmark South Dakota v. Wayfair Supreme Court decision overturned a decades-old case, Quill v. North Dakota, which initially defined sales tax nexus.

Now, not only does physical presence or activity trigger nexus, but economic activity in a state creates sales tax nexus as well. Even if you don't have a physical presence in a state, if you pass the economic threshold for total revenue or transactions in a state, you're legally required to collect and remit sales tax to that state.

States can set their own thresholds based on sales and/or transactions, so it's important to follow **each state's laws** to know when and where you have nexus.

Meeting State Sales Tax Requirements

1. Your business has a presence in a state significant enough that you're required to comply with state sales tax law
2. Register your business
3. Collect sales tax on orders shipped to that state
4. Pay what's been collected



- ✓ **Nexus**
Your business has a presence in a state significant enough that you're required to comply with state sales tax law
- ✗ **No Nexus**
No nexus in a state means you don't have to collect

To determine if you have nexus, ask yourself these questions:

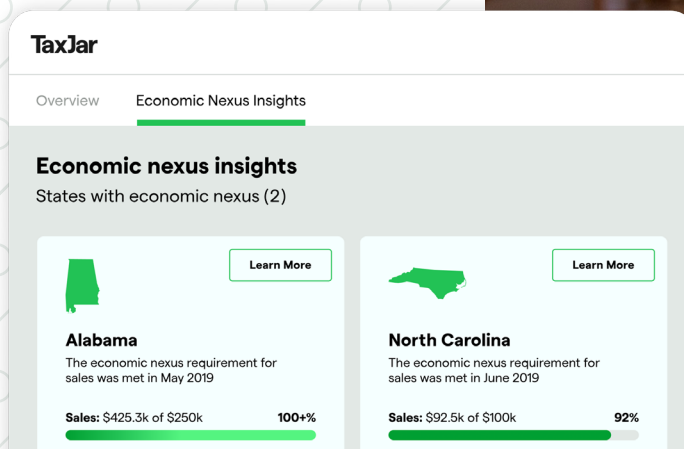
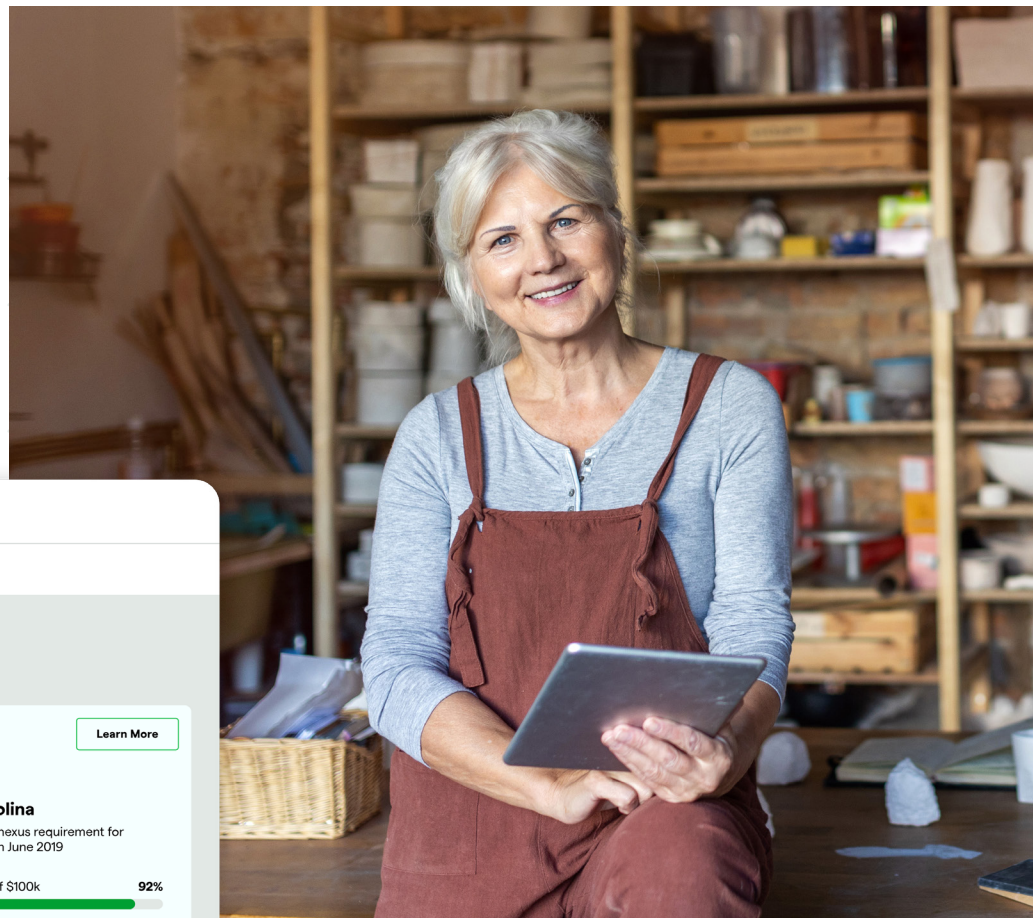
1. Do I have a location, warehouse or other physical presence in a state?
2. Do I have an employee, contractor, sales person, installer or other person working for me in a state?
3. Do I have products stored in a state?
4. Do I have an affiliate program with affiliates in various states?
5. Do I cross state lines to sell my products at a tradeshow, craft fair or other event?
6. Do I have qualifying sales or transactions that exceed the state's economic nexus threshold?

TaxJar's free [Sales and Transactions Checker](#) will alert you when you've crossed a state's threshold and triggered economic nexus based on your activity.

If you answered yes to any of these questions, explore whether you have nexus by doing one or all of the following:

1. Find out about nexus by reading the [state's sales tax nexus laws](#).
2. [Contact a vetted sales tax expert](#).

Remember: Collect sales tax from **all** buyers in states where you have sales tax nexus. (Unless a marketplace collects on your behalf.) Nexus is slightly different in every state, so check with the state or a [sales tax expert](#) if you are not sure whether you have nexus.



Step 2

Verify if your products are taxable

What products are taxable?

In the U.S., most “tangible personal property” is taxable. In other words, most items like furniture, jewelry, toothbrushes, coffee mugs, etc. will be subject to sales tax.

However, some items considered to be “necessities” may not be taxable in all states.

Here are a few examples:

- **Grocery items** are not taxable in many states, though prepared food bought at a restaurant generally is taxable.
- **Clothing** is not taxable in some states, though luxury clothing is often taxable even in states where most clothing is considered non-taxable.

Product taxability is not always “all or nothing.”

For instance, in New York, only clothing priced under \$110 is exempt from state sales tax. However, clothing may not be exempt from local sales tax. In Illinois, grocery items are taxable, but they are only taxable at a reduced rate of 1%. You can [read more about product taxability here](#).

Here’s a list of common item types that may not be taxable in some states:

1. Grocery food
2. Clothing
3. Certain books (textbooks, religious books, etc.)
4. Prescription and nonprescription medicine
5. Supplements
6. Magazines and subscriptions
7. Digital products (books, music, movies, etc.)

If the items you are selling are not taxable, then you are not required to collect sales tax on those items.

States with no sales tax

Find your state to read their exact rules and regulations around grocery items.

1. Grocery items taxed at a reduced rate
2. Grocery items exempt from state tax, but still subject to local tax
3. Limited to "grocery staples"

- An identical product may be taxable in one state, and non-taxable in another state.

- A product may not be taxable at the state level, but may still be taxable at the local level.

- Be sure to set up your online shopping cart or marketplace to avoid collecting sales tax on non-taxable items. How to do this varies by sales channel, and you can **[find sales tax guides for the most common sales channels here](#)**.

Step 3

Register for a sales tax permit

How to register for a sales tax permit

Now that you have determined you have sales tax nexus in a state and that the products you sell are taxable in that state, your next step is to legally collect sales tax by registering for a state sales tax permit.

Each state's taxing authority — usually called the [State] Department of Revenue — handles sales tax registration. You can **register for a sales tax permit yourself**, or **hire a professional** to register for your state sales tax permits for you.

When filing online, you will sometimes receive your sales tax permit number instantly, or at least within 10 business days. If you register on paper, it may take 2-4 weeks to receive your sales tax permit.

Don't skip this step! It is unlawful to collect sales tax from buyers without a valid sales tax permit. While collecting sales tax without a valid permit may be an honest mistake on a business's part, some states view this as tax fraud and take it very seriously.

When are sales tax due dates?

When they send your sales tax permit, the state will also assign you a sales tax filing frequency and due date.

These filing frequencies are generally monthly, quarterly or annually. Be aware that some states have other filing frequencies like semi-annually or even twice-monthly for very large retailers. You can see **each state's general sales tax filing frequency here**. (States reserve the right to change this, so always file and pay based on the due date the state assigns you.)

Due dates will fall on a different day of the month depending on the state. In most states, sales tax is due by the 20th day of the month following the taxable period.

However, states reserve the right to set their own due dates. Sometimes sales tax is due on the 15th of the month, the last day of the month, the 25th of the month or even on some other date. High-volume businesses may also be assigned a different sales tax filing due date.

Here's an example sales tax filing scenario for an e-commerce business:

Jo's Furniture has sales tax nexus in three states: Georgia, California and Maine.

- Her Georgia sales tax returns are due every month by the 20th.
- Her California sales tax returns are due every quarter on the final day of the month.
- Her Maine sales tax returns are due annually on the 15th day of the month.

As you can see, it's tough to get into a rhythm when filing sales tax when the due dates and filing frequencies vary. If it's challenging to keep track of sales tax due dates, **TaxJar AutoFile** will automatically file for you on time, every time.

Have this information handy when registering for a sales tax permit:

- Your personal contact information
- Your business contact information
- Social security number (SSN) or Federal Employer Identification Number (FEIN) also known as Employer Identification Number (EIN)
- Business entity (sole-proprietor, LLC, S-Corp, etc.)
- Your NAICS Code (Hint: The NAICS code for online stores is 454110)

Individual states may ask for additional information.

Key points to remember:

- Always register for a sales tax permit before you begin collecting sales tax.
- States don't have the same sales tax filing frequency and due dates. In fact, some may have multiple filing frequency and due dates based on sales volume.
- Keep track of your sales tax filing frequency and due dates. These will be assigned to you by the state.
- Your sales tax permit often also serves as a resale certificate that you can use to buy items tax-free if you intend to resell them. Always follow each state's individual rules for using a resale certificate.

Resale certificates

In most states, your sales tax permit also serves as a resale certificate. If you hold a valid sales tax permit with the state, you can buy from wholesalers, and also often buy items tax-free at retail as long as you intend to resell the items. Each state is a little different when it comes to how you can use and accept a resale certificate as a retailer.

- Read our [Resale Certificate FAQ](#).
- See [resale certificate rules for each state](#).
- Has one of your buyers presented you with a resale certificate?
You can [verify the authenticity of their resale certificate here](#).

Remember:

In general, the more sales tax a business collects in a state, the more often the state wants the business to file a sales tax return. The states use this money to pay for budget items like schools and roads. Thus, they want to pocket the sales tax businesses have collected as soon as they can!

Example: The monthly taxable period in Colorado is January 1-31. Your Colorado monthly sales tax return for January would be due by February 20.

Pro Tip:

Some businesses have had success asking the state to allow them to file sales tax less often. You can try this yourself by calling the state's taxing authority. Find the best [phone number to contact each state's sales tax department](#). To avoid long hold times, we recommend calling in non-quarterly months.

**Ready to register for a
state sales tax permit?**

[Get DIY instructions](#)

[Hire a sales tax pro](#)

Step 4

Set up sales tax collection on your online shopping carts and marketplaces

Origin-based and destination-based sales tax collection

Once you have your valid sales tax permit, your next step is to begin collecting sales tax from your customers.

Each online shopping cart and marketplace allows you to set up sales tax collection. Here's where you can [find guides on how to set up sales tax collection](#) on the major shopping carts and marketplaces.

States generally require online sellers to collect sales tax in one of two ways:

1. Origin-based sales tax collection
2. Destination-based sales tax collection

This concept is also commonly referred to as "sales tax sourcing."

Important to note:

If your business has sales tax nexus in a state, then you are required to collect sales tax from **all** buyers in that state on **all** your sales channels.

Origin-based sales tax collection

Online sellers who are based in states with origin-based sales tax sourcing are required to collect sales tax at the seller's business location.

If your business is based in an origin-based state like Texas, you would determine the sales tax rate at your home, warehouse, store or other headquarters. Then, charge all your buyers in Texas that single sales tax rate.

This type of sales tax collection is simple. You're only required to know and charge a single sales tax rate to all buyers in the state.

Origin: Sale in Texas

The Irving sales tax rate should be applied to this transaction: **8.25%**

State:		Irving County:		Dallas MTA:		Total Rate Collected
6.25%	+	1%	+	1%	=	8.25%

Important to note:

The examples only apply when selling to buyers in a state where your business is based. If you have nexus in a state for another reason — such as having employees there, inventory stored there, or attending a tradeshow there — then charging sales tax is different.

In many cases, when selling to a buyer outside your "home" state, you would charge that buyer the sales tax rate at their "ship to" location. This can get a little tricky, but you can [read more about origin and destination-based sales tax collection here](#).

Destination-based sales tax collection

Online sellers who are based in states with destination-based sales tax sourcing are required to charge the sales tax rate at the buyer's "ship to" address.

As a seller, you are required to calculate and charge the state, county, city and other local sales tax rates where your buyer is located. Most states have destination-based sales tax collection.

Destination: Sale in New York

The Buffalo sales tax rate should be applied to this transaction: **8.75%**

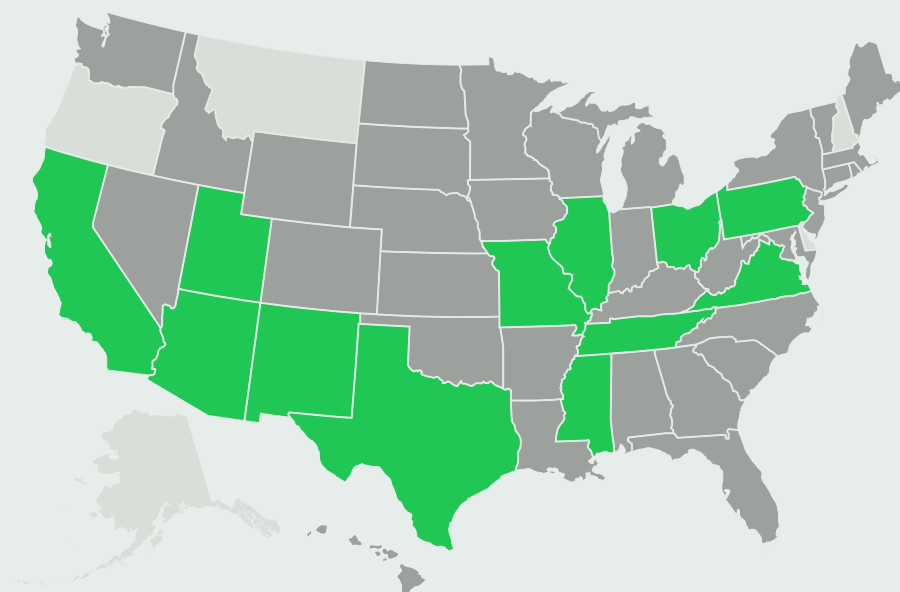
State:		Erie County:		Total Rate Collected
4%	+	4.75%	=	8.75%

When do I charge sales tax on shipping?

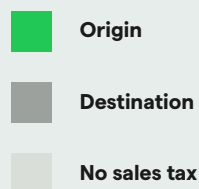
Do you charge your customers for shipping? In some states, shipping is considered a necessary part of an e-commerce transaction, and the state requires that you charge sales tax on the amount you charged for shipping. In other states, shipping is considered a separate charge and is not considered taxable. **Every state's rules on shipping tax are slightly different.**

Note: In e-commerce, the point of sale is generally your buyer's "ship to" address. **Always** follow sales tax rules and laws in the state where your buyer is located. **Never** charge a customer another state's sales tax. Example: A seller has nexus in Florida and Texas. That seller would never charge a Texas sales tax rate to a Florida customer.

Here's a map of the origin- and destination-based sales tax states:



Find your **home state** to determine whether you should collect sales tax based on your location or the location of your buyer.



Shipping taxability example:

Jo's Knick Knacks sells a coffee mug for \$10 and charges \$5 for shipping.

The total of the product price and shipping is \$15. Since shipping is taxable in the state where Jo is shipping the product, she charges 5% sales tax on that \$15 total. This equals .75 sales tax. So, the total price the customer pays would be \$15.75.

But now Jo is **selling the same items for the same price, but she is not required to collect sales tax on the shipping charges.** She only charges the 5% sales tax on the \$10 price of the mug. So, the total price of the mug is \$10.50 (\$10 + 5% sales tax.) She then adds the \$5 shipping charge. The total amount the customer pays is \$15.50.

Fortunately, when setting up sales tax collection on your sales channels, most channels allow you to indicate whether you want to charge sales tax on shipping charges.

Here's a list of states where shipping is considered taxable and non-taxable.

$$\begin{aligned} \$10.00 + \$5.00 &= \\ \$15.00 \times 5\% \text{ sales tax} &= \\ \mathbf{\$15.75} \end{aligned}$$

Invoice

Mug	\$10.00
Sales Tax	\$0.55
Subtotal	\$10.50

Shipping	\$5.00
Total	\$15.75

$$\begin{aligned} \$10.00 \times 5\% \text{ sales tax} &= \\ \$10.50 + \$5.00 &= \\ \mathbf{\$15.50} \end{aligned}$$

Invoice

Mug	\$10.00
Sales Tax	\$0.55
Subtotal	\$10.50

Shipping	\$5.00
Total	\$15.50

Is shipping taxable in your state?

Collecting sales tax when drop shipping

Drop shipping and sales tax

Drop shipping — where you have your vendor ship an item directly to your customer — can be a lucrative business model. However, it can create complications when it comes to collecting sales tax.

Drop shipping example:

You sell phone cases on your website, but use a third-party printing company to print your design on the cases and ship them to your customer.

In this example, three things are happening:

1. Your customer buys the item from you.
2. You buy the item from your vendor.
3. Your vendor ships the item to your customer.

In this case, if your vendor has nexus in your state, they'll be required to charge you sales tax on that purchase... Unless you present them with a resale certificate stating that the item you bought from them is for resale. And if your customer is in a state where you have nexus, then you'll be required to charge sales tax to your customer.

Drop shipping can get complicated. It depends on where the three parties — you, your vendor and your customer — are located and have sales tax nexus. You may be required to charge sales tax to your customer, and your vendor may charge sales tax to you.

You can read more about drop shipping and sales tax. This post walks you through several scenarios to help you determine who charges sales tax. It will also explain how to use a resale certificate to buy items for resale without paying sales tax to your vendor.

01

You design and sell
phone cases



02

A third-party printing
company prints your
designs onto the
phone cases



03

After printing,
they ship the item to
your customer

Do you offer gift wrapping?

In some states, gift wrapping is also considered taxable. Platforms like Amazon FBA allow you to choose whether to tax gift wrapping. **You can see a list of states where gift wrapping is taxable here.**

Other sales tax collection solutions

If you have built your own shopping cart or marketplace, you should consider a sales tax collection solution at checkout. **TaxJar's Sales Tax API** is one example that allows you to collect sales tax at the correct rate from buyers in your nexus states, set shipping and product taxability, and automate sales tax reporting and filing. It's easy to use and developer-friendly.

Key points to remember:

- Set up sales tax collection on all your online shopping carts and marketplaces.
- Though some states have "origin-based" sales tax collection, you will — for the most part — collect the sales tax at the rate at your buyer's "ship to" address.
- eBay and PayPal only allow an online seller to collect one sales tax rate per state. We've put together workarounds for collecting sales tax on **eBay** and **PayPal**.
- Shipping charges are taxable in some states. Be sure to indicate whether you want to charge sales tax on shipping when you set up sales tax collection.
- Drop shipping relationships are some of the most complicated in sales tax. You'll need to work with your drop shipping vendor to determine who is responsible for collecting sales tax.
- You can look up sales tax rates using **TaxJar's Sales Tax Rate Calculator**.

Step 5

Report how much sales tax you collected

Soon enough, a sales tax filing due date will roll around. When preparing to file a state sales tax return, you need to determine how much sales tax you collected from buyers in not only the entire state, but in each county, city and other special taxing district.

Why is reporting sales tax important?

States rely on sales tax dollars to pay for infrastructure, public safety and other budget items. But they won't know to which city or other local area to allocate those funds unless you break down your transactions for them.

In a small number of states, like origin-based states or states that only have a single statewide sales tax rate, filing sales tax isn't very difficult. But, in most cases, breaking all your transactions down manually is a time-consuming chore, especially if you are a high-volume seller or you sell on multiple channels.

Below, is a small portion of California Schedule B. And Schedule B is just one part of the multi-part California sales tax return! [\[Source\]](#)

Key points to remember:

- A handful of states, like origin-based and single-rate states, have an easy sales tax filing process
- Most states require that you break down sales tax by county, city and other special taxing district
- Sales tax can be automated

Spending too much time filing sales tax returns? You can [TaxJar](#) to automate the process!

CDTFA-531 (FRONT) REV. 9 (5-18)

SCHEDULE B - DETAILED ALLOCATION BY COUNTY OF SALES AND USE TAX TRANSACTIONS

STATE OF CALIFORNIA
CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

DUE ON OR BEFORE

YOUR ACCOUNT NO.

PLEASE READ INSTRUCTIONS ON BACK BEFORE PREPARING THIS SCHEDULE

A	B	C	A	B	C
COUNTY IN WHICH TRANSACTION OCCURRED	CODE	TRANSACTIONS SUBJECT TO TAX	COUNTY IN WHICH TRANSACTION OCCURRED	CODE	TRANSACTIONS SUBJECT TO TAX
ALAMEDA	01	.00	PLACER	31	.00
ALPINE	02	.00	PLUMAS	32	.00
AMADOR	03	.00	RIVERSIDE	33	.00
BUTTE	04	.00	SACRAMENTO	34	.00
CALAVERAS	05	.00	SAN BENITO	35	.00
COLUSA	06	.00	SAN BERNARDINO	36	.00
CONTRA COSTA	07	.00	SAN DIEGO	37	.00
DEL NORTE	08	.00	SAN FRANCISCO	38	.00
EL DORADO	09	.00	SAN JOAQUIN	39	.00
FRESNO	10	.00	SAN LUIS OBISPO	40	.00
GLENN	11	.00	SAN MATEO	41	.00
HUMBOLDT	12	.00	SANTA BARBARA	42	.00
IMPERIAL	13	.00	SANTA CLARA	43	.00
INYO	14	.00	SANTA CRUZ	44	.00
KERN	15	.00	SHASTA	45	.00
KINGS	16	.00	SIERRA	46	.00

Step 6

File your sales tax returns

Your next step is to file your sales tax returns with the state. Most states allow you to file sales tax online, and some require it. If you wish to file manually, login at your state's taxing authority website to file.

At TaxJar, we recommend filing at least a few days early to avoid any problems with your filing and to deal with any state idiosyncrasies.

For example, while the sales tax due date in Florida is technically the 20th of the month after the taxable period, Florida requires that a seller pays via electronic funds transfer (EFT) and that his payment hits their bank account by that date. So, to file "on time" in Florida, the seller needs to know how much he owes, and transmit his funds to the Florida Department of Revenue several days before the stated due date.

Failing to file on time in Florida will result in a \$50 fine, plus interest on the outstanding amount of sales tax owed. Other states have similar fines, and require sellers to pay interest when filing late.

If a seller is accidentally late filing and receives a penalty, then the seller can often contact the state's taxing authority and ask for a penalty waiver. This generally only works the first time a seller is late. However, it may even depend on the mood of the customer service agent that day! You can find here the **[list of phone numbers for every state's taxing authority](#)**. (Even though we live in the digital age, many states prefer that you call rather than ask for help online.)

Late filing?

If you know you are going to need to file late, some states allow you to request a last-minute filing extension. But keep in mind that most don't extend your time to pay sales tax. A seller may still end up with fines and penalties even when granted a filing extension.

Here are two key things to remember when filing a sales tax return:

File “zero returns.” Do file a sales tax return every time you have a filing due, even if you didn’t collect any sales tax over the taxable period. States consider your sales tax filings to be a “check in.” If a seller fails to file, the state could charge a penalty or even revoke the seller’s sales tax license. Be prepared to file sales tax returns by the due date, every time.

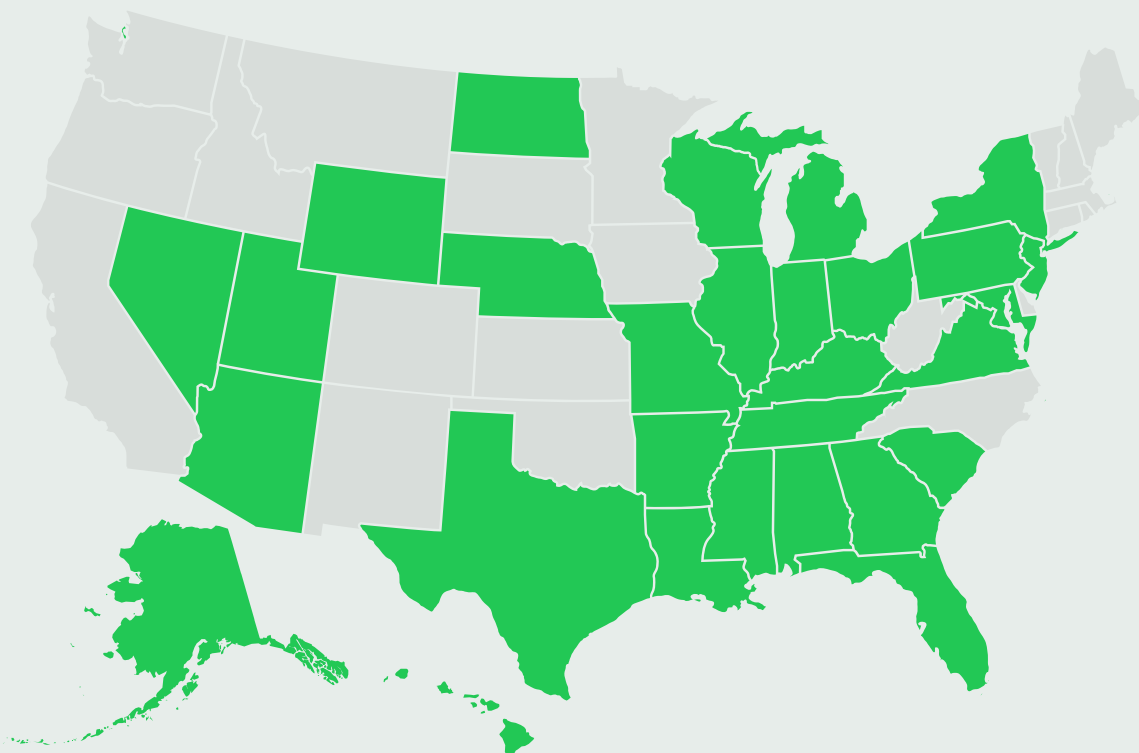
Don’t discount sales tax discounts. About half the states with a sales tax allow on-time sales tax filers to keep a very small amount (usually 1-2%) of the sales tax collected. While this amount may be small, it’s free money! Here is a list of states with sales tax discounts.

Here is a list of states with sales tax discounts.

Key points to remember:

- Always file zero returns – failing to do so will result in fines or even losing the sales tax permit
- Check and see if your state offers sales tax discounts. It’s free money!
- If you’d rather never look at a sales tax filing again, automate sales tax filing with **TaxJar AutoFile**

States with sales tax discounts



Don't let sales tax drive you out of business

Automate your sales tax with TaxJar

Sales tax is tricky and not a revenue driver for your business. Finding the time to collect, remit and understand the nuances around sales tax takes away from growing your business. Rapidly changing laws, knowing where and when you must remit taxes, and setting up multi-state payments can be enough to cause some store owners to hang their hat.

Don't let sales tax drive you out of business. Automating your sales tax through a trusted solution not only saves time and headaches but allows you to focus on what's most important: running your business. Swap the hours you'd spend navigating multi-state payment processes with automatic monthly reports, on-time filings, and friendly support when you need it the most.

Why TaxJar

When you need full access to complete sales tax data, a knowledgeable team of experts, white-gloved support, and automated monthly, quarterly, or annual filings in multiple states, TaxJar is here to help.

Built to support businesses with complex sales tax needs, TaxJar was created to simplify sales tax for e-commerce businesses so compliance is never an issue again.

TaxJar

Give us 30 minutes to show you how we can help and [schedule a demo today.](#)