## The Ultimate Sales Tax Guide for E-Commerce Businesses

Brought to you by Zamp



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## Sales Tax Overview

The US has one of the most complicated sales tax systems in the entire world.

For retailers, especially e-commerce sellers, this can mean you end up spending your valuable time trying to solve sales tax problems rather than doing what you do best: running your business.

Ever scratched your head trying to figure out in which states you're required to collect tax? Are you still confused about how much to collect from each customer?

Then you're in the right place. This comprehensive sales tax resource covers everything from what this ubiquitous tax is, to how to get compliant, to how to file a return in California (and every other state.)

#### Sales Tax, Defined

Sales tax is an indirect tax on goods and sometimes services. The sales tax is a percentage of the sales price, generally between 4 and 8%.

In the US, sales tax is paid by the buyer, collected at the point of sale by the seller, and later remitted to the state by the seller to be spent toward budget items like roads or public safety.



Sales tax is also sometimes referred to as a "pass through tax" since it is collected by a retailer but then passed on to the state. It's also a "consumption tax" since a buyer only has to pay sales tax on items they buy.

Forty-six US states and Washington DC all have a sales tax. And because of the way the US works, each state gets to make their own laws, rules and regulations when it comes to things like how much sales tax to charge, what products are taxable, and how merchants should collect and remit sales tax.

Four US states – New Hampshire, Oregon, Montana and Delaware – do not have a sales tax.



#### Use Tax, Defined

You'll often hear the phrase "sales and use tax." This is because sales and use taxes are two sides of the same coin.

A merchant charges sales tax on items that they sell. But in some cases the merchant isn't required to charge tax. This doesn't mean that the item isn't taxable. Instead, it means the consumer is required to pay a "use tax" on the item they bought and didn't pay sales tax on.

The use tax due is generally the same as the amount of sales tax the consumer would have paid had a tax been charged.

It's literally called "use tax" because they are paying the tax on an item they are using in the state.

Use tax, though, is very difficult to enforce on consumers. While state income tax returns generally have a field for consumers to report the use tax they should have paid, few taxpayers understand the concept of paying use tax.

Because of this, failure to pay use tax might go undetected unless the use tax is due on a large purchase such as a car.

Businesses, however, are another matter. The state expects businesses to keep up with your use tax obligations. In fact, if you don't report any use tax this may flag you for a sales tax audit.

States wanting their fair share of use tax is also a big reason that regulations such as "economic nexus" laws passed that require that high-volume e-commerce sellers charge sales tax on purchases to buyers in states where they make a significant volume or number of sales, even when the merchant doesn't have nexus in that state.

#### In summary:

- Sales tax is an indirect tax on goods and sometimes services. The sales tax is a percentage of the sales price, generally between 4 and 8%. It's collected by the retailer at the point of sale and remitted to the state.
- Use tax is the consumer equivalent of sales tax. If a consumer isn't charged sales tax on a taxable item, then use tax is due to the state on that item.
- States are serious about collecting the right amount of sales tax. They use it to pay for budget items like hospitals, highways and schools.

## Sales Tax Nexus: When & Where to Collect

Nexus means a connection or series of connections between two things. In the United States, states use the term "sales tax nexus" to mean that a retailer has some sort of connection with that state that requires them to collect sales tax from buyers in that state.

This could be an obvious connection, such as operating your store or business headquarters in the state. Or it could be less obvious, like triggering economic nexus in a state because you, as an online retailer, exceed the sales or transaction threshold set by that state.

Retailers who have sales tax nexus in a state and sell taxable products are required to collect sales tax from buyers in that state.

#### What business activities create a sales tax nexus?



Specific sales tax laws vary from state to state, but this is a general overview of business factors that create sales tax nexus for retailers:

- Locations This can include a store, office, home office, factory, warehouse, distribution center, or other physical presence
- **Employees** This can include employees, independent contractors, sales representatives, and other people working for your company in a state
- Inventory This includes simply storing inventory in a state, whether or not your business owns the warehouse or other location

- Click-through nexus In many states, having a 3rd party affiliate making sales on your behalf triggers sales tax nexus once your affiliate exceeds a certain sales threshold
- **Temporarily doing business in a state** Selling taxable items at a limited event such as a trade show, concert or craft fair can trigger sales tax nexus
- **Exceeding economic nexus thresholds –** Nearly every state requires that e-commerce sellers collect sales tax from buyers in their state once the e-commerce business exceeds a certain in-state sales threshold. In most states, this threshold is \$100,000 in sales and/or 200 sales transactions

Most "tangible personal property" is subject to sales tax. You generally don't have to register and collect sales tax if you sell non-taxable items, such as services, in a state. Skip down to "Product Taxability" for more about what items are taxable.

#### Marketplace Sales Tax: A Special Exception

If you sell on a large marketplace like Amazon, Walmart or eBay then chances are good that the marketplace collects and remits sales tax on your behalf.

As of January 1, 2023, every state now has a "marketplace facilitator law" which requires that marketplaces over a certain size collect sales tax on behalf of the 3rd party sellers who sell via the marketplace.

Marketplace facilitator laws help sellers who only sell on marketplaces like Etsy or Amazon because you're no longer required to figure out sales tax on your own.

But it's vital to keep in mind that marketplaces only collect and remit sales tax on their sales. If you sell on a marketplace and other places, such as via a Shopify or WooCommerce store or at a brick and mortar location, you are still responsible for collecting and remitting sales tax on those sales.

Read more about marketplaces and sales tax here.

#### I have sales tax nexus. What do I do now?

When you discover that you have sales tax nexus in a state, that means that you must comply with that state's sales and use tax requirements.

In a nutshell, this means:

- Register for a state sales tax permit This is generally done with the state's Department of Revenue or equivalent government agency.
- Collect sales tax from buyers in that state Once you have nexus in a state and are registered to collect sales tax, you're legally obligated to collect sales tax from all buyers in that state. (This is with the exception of marketplaces like Amazon or Walmart, which are required in most US states to collect sales tax on your behalf.)

■ **File and remit sales tax** – Your state will assign you a sales tax filing frequency and due dates. A state's due date generally falls either monthly, quarterly or annually, depending on your sales volume. Be sure to file a sales tax return and remit the sales tax you've collected to the state.

#### In summary:

- Businesses with sales tax nexus in a state are required to collect sales tax from buyers in that state.
- After the 2018 South Dakota v. Wayfair Supreme Court decision, more businesses than ever are required to collect sales tax from buyers in more states.
- Nexus requirements vary from state to state but generally apply when a retailer has either a physical presence or economic nexus in the state.

#### How do I find out where I have nexus?

Zamp handles that!

We connect with the channels you sell on and show you where your business activities have created sales tax nexus.

We also show you where you are approaching nexus thresholds so you can prepare to register and collect. Best of all, Zamp handles the registration, too!

Find Out Where I'm Required to Collect Sales Tax



## Registering for a Sales Tax Permit

Now that you know you're required to register for a sales tax permit, your next step is to visit your state's taxing authority and sign up.

Forty-six US states (and the District of Columbia) have sales tax. Each of these states is allowed to make their own sales tax rules and regulations, and that means that signing up for a sales tax permit is different in each state.

In general, you'll visit your state's taxing authority's website to register for a sales tax permit. This is often called the "[State] Department of Revenue," but may go by another, less intuitive, name such as the Texas Comptroller or the California Department of Tax and Fee Administration (CDTFA). (Similarly, sales tax permits can go by different names. They are sometimes just referred to as "business registration," but can also be called sales tax licenses or reseller's certificates.)

From here, navigate to the Sales and Use Tax portion of the website to register.

Find your nexus state(s) to see instructions for registering for a sales tax license in every state here.

#### When do I register for a sales tax permit?

States generally require that a retailer hold a valid sales tax permit before making your first sale into the state.

For example, as an e-commerce seller, you'll generally always have sales tax nexus in your home state. That's because you live and work in your business there. Unless you live in a state with no sales tax, you should generally always register first for a sales tax permit in your home state.

But there are more confusing factors at play about where an e-commerce seller should register.

Take economic nexus. As an e-commerce seller you trigger economic nexus when you meet a state's economic nexus threshold. This is generally \$100,000 in sales or 200 transactions over the period of a year. However, thresholds vary by state. And, unfortunately, there is no magic buzzer to tell you when you've met a state's economic nexus threshold.

For that reason, it's vital to keep a close eye on your sales amounts and number of sales transactions in each US state and register for a sales tax permit once economic nexus has been triggered.

#### Registering for a Sales Tax Permit under the Streamlined Sales and Use Tax Agreement (SSUTA)

#### In summary:

- Retailers (including e-commerce sellers) are required to hold a valid sales tax permit in states where they have nexus and sell taxable products
- You're generally always required to register for a sales tax permit in your business's home state (even if you operate your business at your kitchen table)
- Each state's sales tax permit registration process is slightly different, and there are no uniform rules around how to register for a sales tax permit

### Ready to register for a sales tax permit?

Zamp handles that!

Not only do we show you where you have nexus, we also register you with each state with just one-click.

Register my Business to Collect Sales Tax



## How to Collect the Right Amount of Sales Tax

Forty-six states and the District of Columbia all have some form of sales tax on purchases.

Each state sets a statewide sales tax rate. This rate is generally between 4% and 7.25%. On top of that, counties, cities and other special taxing districts are allowed to set their own rates. These jurisdictions use the sales tax they collect on purchases to pay for budget items.

For example, a state may allocate sales tax funds to support roads. A county or city may use the sales tax collected on their behalf to pay for the local school system. And a consortium of cities and/or counties may band together to create a special taxing district.

One example of this is New York's metropolitan commuter transportation district (MCTD). A portion of sales tax collected on purchases in the MCTD goes to fund mass transit in New York city and surrounding areas.

The fact that states, counties, cities and special taxing districts all levy a sales tax is why the sales tax you see on your receipt at the store sometimes shows a complicated number like 8.515%.

These combinations also mean that there are more than 11,000 tax jurisdictions in the US alone.

As if that weren't confusing enough, rates are also subject to change. States sometimes raise or lower the statewide sales tax rate, and counties, cities and other local areas sometimes pass new sales taxes.

#### E-Commerce Retailers' Guide to Charging Sales Tax

As a retailer, it's important to note that sales tax is levied as the sales tax rate where the sale takes place. For brick and mortar retailers, this process is fairly simple. Charge sales tax at the total combined sales tax rate where your store is located.

But if you sell online, sales tax calculation becomes more complicated. With e-commerce sales, the buyer's ship-to address is considered the point of sale. So while brick and mortar retailers can generally charge just one combined sales tax rate per location to all of their customers, online retailers are required to calculate sales tax rates wherever their buyer is located. (Granted that the online retailer has sales tax nexus in the buyer's state.)

An online retailer located in Marathon, Texas who has nexus in twelve states may need to be able to accurately calculate the correct combined total sales tax rates for a buyer in the rural Upper Peninsula of Michigan and in crowded New York city, where the sales tax rate can change between two city blocks.



#### Longmont, Colorado Combined Sales Tax Example

Let's say you sell a product through your online store to a customer in Longmont, Colorado. This is a breakdown of the sales tax you'd be required to charge your customer:

| SALES TAX JURIDICTION                              | SALES TAX TYPE          | SALES TAX RATE |
|--|-------------------------|----------------|
| Colorado (state)                                   | State                   | 2.9%           |
| Boulder (country)                                  | Country                 | 0.985%         |
| Longmont (city)                                    | City                    | 3.53%          |
| Greater Denver Regional Transportation<br>District | Special taxing district | 1%             |
| Scientific and Cultural Facilities District (SCFD) | Special taxing district | 1%             |
| Longment, CO Total Combined Sales Tax Ra           | ite                     | 8.52%          |
|  |                         |                |



#### **Determining Sales Tax Jurisdictions**

One of the trickiest aspects of collecting sales tax as an e-commerce seller is determining the sales tax rate at the buyer's location. Sales tax jurisdiction boundaries are often not the same as city boundaries or county lines. In fact, two buyers who live on opposite ends of the exact same street with the exact same zip code+4 can fall into two different taxing jurisdictions and be required to pay two different sales tax rates!

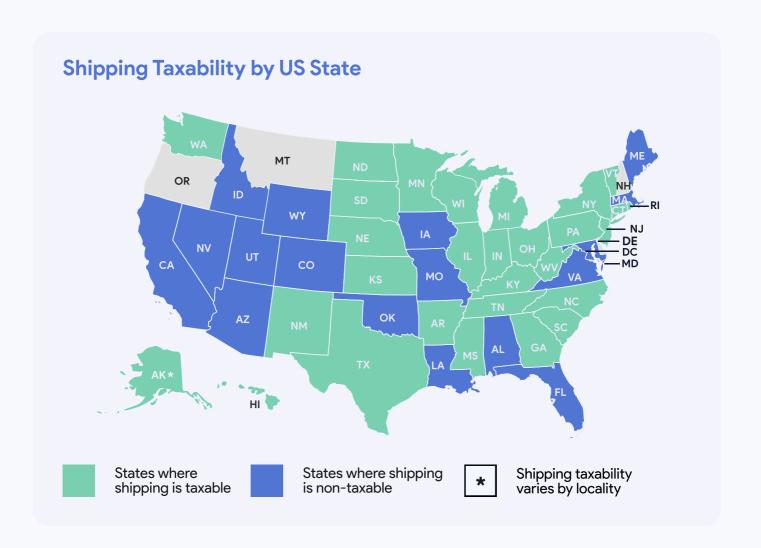
That's why it's vital that your e-commerce business's sales tax engine be able to determine sales tax rates at the rooftop level.

#### **Shipping Taxability**

Some states also consider shipping charges taxable. For example, if you charge your customer \$2.99 in shipping, states with taxable shipping will require you to charge sales tax on the products and the shipping charge. Other states do not consider shipping a taxable part of a retail sale.

Charging sales tax on shipping can get complicated when some items in a parcel are taxable and some are

Read more about sales tax on shipping charges here.



#### **Product Taxability: Some Product Types are Taxed Differently**

Most tangible personal property (and some services and digital goods) are taxed at the combined sales tax rate.

But, there are exceptions. Just as states and local areas set their own sales tax rates, they can also decide which products are and are not taxable.

For example, many states don't tax grocery items, since these products are considered a necessity. Other states tax these items, but at a lower rate. For example, Illinois' state-level sales tax rate for most products is 6.25%. But for grocery items, this rate is reduced to just 1%.

In yet other states, a state might decide that an item is tax exempt, but still allow local areas to tax that item.

For example, groceries are tax exempt in Georgia, but they allow counties and cities to decide on their own sales tax on these items. So while groceries are considered non-taxable at the 4% Georgia state rate, counties are allowed to charge sales tax. If you sell a grocery product to a customer in Cherokee County, Georgia, you would only charge the 2% county sales tax rate on that item.

You'll often find that necessities like food, clothing, and medication are not taxed or taxed at a lower rate. But states can also use sales tax to emphasize political priorities. For example, some states that do not tax groceries tax sweets like candy and soda in an effort to encourage healthy choices.

Another type of product that is often taxed differently are digital goods, like books and ebooks, films, music and video games. Some states define these products as "tangible personal property" (even though you can't literally touch them) and consider them subject to the same tax as their physical counterparts. Other states consider these items nontaxable.

Sales tax exemptions are up to the individual states and local areas, and are also subject to change depending on state rules and regulations.



#### **Product Taxability by State**

Take a look at four of the most common product categories that are taxed differently in different states.

#### **Grocery Taxability**



Most states consider groceries like green beans and flour non-taxable. But some states tax groceries at a reduced rate, or only require grocery sellers to charge local rates. Other states tax groceries fully.

See our complete guide to sales tax on groceries by state.

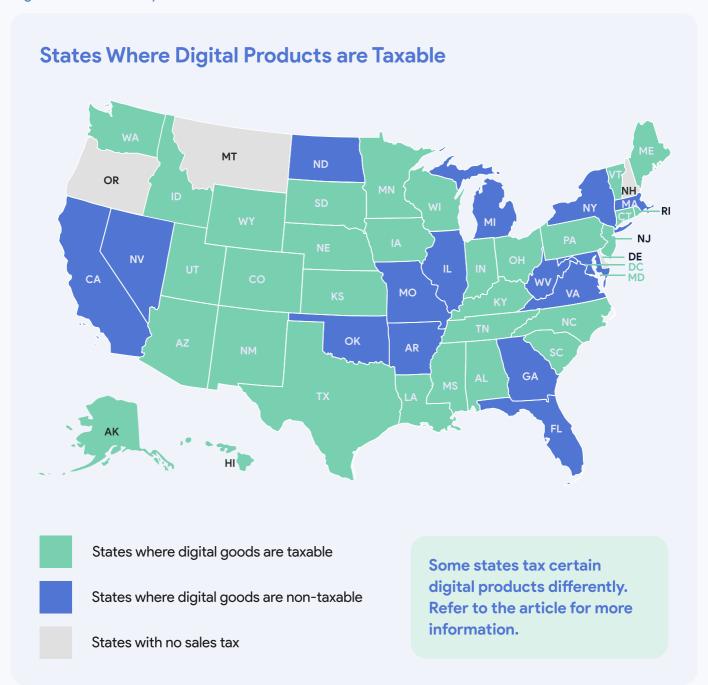
#### **Clothing Taxability**



Clothing is taxed like any other item in most states. But a handful of states consider clothing non-taxable. Though there are exceptions, generally athletic gear, protective clothing and fur, but these vary. New York, Massachusetts and Rhode Island don't require sales tax on clothing if it is taxed under a certain price per item. (Though again, there are exceptions.)

See our complete guide to sales tax on clothing.

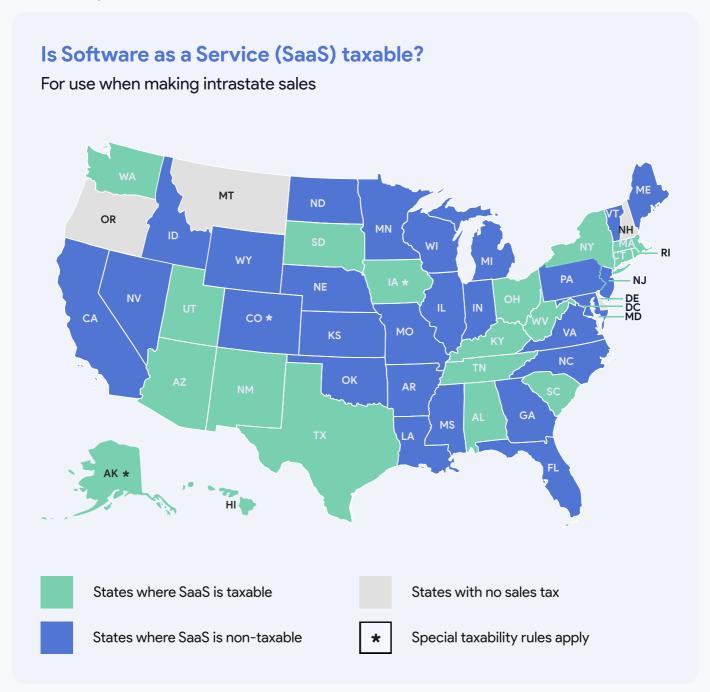
#### **Digital Goods Taxability**



There's no consensus among states on how digital goods like an e-book or a downloaded movie or song should be taxed. A little more than half of the US states with a sales tax consider these "tangible personal property" and thus taxable.

See our complete guide to sales tax on digital goods.

#### SaaS Taxability



SaaS is another area of disagreement between states. A little more than half the states consider it a nontaxable service. But some states, like Ohio, even tax SaaS differently depending on if the software is for business or personal use.

See our complete guide to sales tax on SaaS.

#### Sales Tax Holidays

Some states have periodic sales tax holidays. These are a period of a few days when states declare certain items sales tax free.

Sales tax holidays are often designed to encourage consumers to make certain purchases. For example, many states have "Back to School," "Disaster Preparedness" and "Energy Efficiency" sales tax holidays.

For retailers, some states (and local areas) require vendor participation in sales tax holidays while others allow vendors to opt-in. This means you're required to understand when sales tax holidays occur in your sales tax nexus states and if any of the products you sell are subject to the holiday. From there, you'll want to ensure that your sales tax collection engine supports the sales tax holiday.

Read our comprehensive sales tax holidays overview here.

#### In summary:

- US sales tax rates are made up of a combination of state, county, city and other special taxing district rates
- Because of this, the US has more than 11,000 tax jurisdictions
- Collecting the correct sales tax rate is complicated for e-commerce sellers because you are required to calculate and collect the correct sales tax rate for your buyer's ship-to address
- Some states require e-commerce sellers to collect sales tax on shipping charges
- Some products (such as groceries, clothing and medication) are non-taxable in some jurisdictions, or subject to special lower sales tax rates

#### It's too much. Can you take charging sales tax off my plate?

Yes! Zamp handles that.

Zamp's state-of-the-art sales tax engine ensures that you charge the right amount of sales tax from every customer, every time. No more trying to determine in which taxing district your customer is really located. No more keeping up with rates in more than 11,000 taxing jurisdictions.

Collect Sales Tax for Me



## Filing and Paying Sales Tax

When a merchant registers for a sales tax permit, the state assigns you a filing frequency and sales tax filing due dates. When your sales tax filing due date approaches, you need to do the following:

- Figure out your sales tax filing frequency and due date
- Figure out how much sales tax you collected in every jurisdiction in every state during that filing period
- File your individual state sales tax returns

It sounds simple, right? But due to the fact that all forty-six states (plus Washington DC) that have a sales tax make their own sales tax rules and regulations, this can get complicated fast. Let's take a look at each step toward filing a sales tax return.

#### Sales Tax Filing Frequency and Due Dates

When you receive your sales tax license from a state, you'll also receive your sales tax filing frequencies and due dates.

#### Sales Tax Filing Frequency

Sales tax filing frequencies are generally based on your business's sales volume. Filing frequencies are generally monthly, quarterly or annually, but can also be semi-annual. Also keep in mind that not all quarters are created equal. New York's sales tax filing quarters, for example, fall from March 1 to May 31 and so on.

In most cases, a very small hobby e-commerce business that only makes a few hundred dollars per year has an annual reporting period, meaning they are generally only required to file once per year. But a large business like Wayfair or Amazon is generally required to file sales tax monthly. Some states require very highvolume businesses to file and pay even more frequently in some states.

That said, just because your sales tax filing frequency is quarterly in one state does not mean it will be quarterly in every state in which you are required to file a sales tax return.

#### Sales Tax Filing Due Dates

In most states, sales tax is due on the 20th day of the month after the filing period ends. So for example, if you are required to file monthly in Colorado, your April 2023 sales tax return would be due on May 20, 2023. Or if you are required to file quarterly in Georgia, your Q1 (January-March) 2023 sales tax return would be due April 20, 2023.

However, not every state adheres to this rule of thumb either. Some states set their sales tax due dates to the last day of the month after the taxable period. But still other states have a different due date, such as the 15th or 23rd.

The trouble here is that it's very easy to confuse sales tax return due dates between states and accidentally file late in one state.

#### **Zamp Sales Tax Fact**

When you register for a sales tax permit, the state assigns you a filing frequency. You may file monthly, quarterly, semi-annually or annually. Generally, the more sales you make in the state, the more often you're required to file sales tax.



#### Reporting Your Sales Tax Collected

Once you've confirmed your sales tax filing due dates and frequency, your next step is to determine how much sales tax you collected in each state over that taxable period.

This would be simple if you only had to tell the state a single number such as "I collected \$5,097.77 in sales tax in California this quarter."

But sales tax is rarely that simple.

Most states require that you not only tell them how much sales tax you collected, but they require that you report how much sales tax you collected in each of the state's taxing jurisdictions.

# California Sales Tax Schedule B Total taxable transactions for all counties listed above Total taxable transactions reported on CDTFA-530, Schedule C Total taxable transactions reported on CDTFA-531-F, Schedule F Total taxable transaction reported on CDTFA-531-H, Schedule H, line H; ies B1-B4 and enter the total here. The sum of lines B1-B4 should ine 12 on CDTFA-401-A, or line 12 on CDTFA-401-GS, or line 1 on CDTFA-401-E

Why? Because states and local areas use sales tax to pay for budget items like roads or public education. They want to ensure that the right amount of sales tax is allocated to each city, county or other special taxing district so that that jurisdiction gets their due.

For a brick and mortar seller, this is easy. Sales tax is collected at the point of sale, and a brick and mortar retailer stays in one place. But in most cases, an e-commerce business's point of sale is the buyer's ship-to address.

That means that even the smallest e-commerce seller may be required to figure out in which city, county, and other special taxing district each of their customers resides. You should have already calculated the right amount of sales tax when making the original transaction. But when it comes time to file your sales tax return, you now have to break that down by state, county, city and other special taxing jurisdiction.

#### Filing Sales Tax Returns

Once you've gathered up your sales tax collection info, your next step is to file sales tax.

Every state allows (and encourages) you to file online, but state sales tax filing websites vary in user experience and complexity.

A handful of state sales tax filings, generally those in states with just one statewide sales tax rate and no local rates, are fairly simple. But most are complicated because they require you to break down sales tax collected by state, county, city and other special taxing jurisdiction.

#### **Zero Returns**

Didn't collect any sales tax? Don't forget to file sales tax anyway. Most states require registered sales taxpayers to file "zero returns" even if you didn't collect any sales tax during the taxable period.

Unfortunately, failing to file-even when you don't owe a cent in sales tax-can result in fines.

#### Penalties for Late Sales Tax Filing and Payment

Speaking of fines, be sure to pay on time.

Filing to file and pay on time can result in penalties and interest.

Penalties generally include a one-time fee for failing to file. But interest begins accruing on the amount of sales tax you failed to remit. If you realize that you've failed to file and pay on time, take steps to get up-todate as soon as possible, since interest continues to accrue.

Tip: If this is your first time filing or paying late, give the state's taxing authority a call. Sometimes they'll forgive first time late filers as long as you've gotten your account up to date in a timely manner. (But remember! This generally only works once.)

Tip: If this is your first time filing or paying late, give the state's taxing authority a call. Sometimes they'll forgive first time late filers as long as you've gotten your account up to date in a timely manner. (But remember! This generally only works once.)

Failed to file or pay over multiple taxable periods? You might want to consider a Voluntary Disclosure Agreement (VDA).

#### **Sales Tax Discounts**

On a brighter note, some states offer a discount to merchants if you file and pay sales tax on time. Basically, they allow you to keep a very small percentage of your sales tax collected if your filing and payment is on time.

#### In summary:

- Filing sales tax is complex or difficult depending on your sales volume and the state in which you are filing
- Sales tax filing due dates and frequencies vary from state to state and business to business
- To file sales tax, you'll need to break down in which state, county, city and special taxing jurisdiction you collected sales tax
- Be sure to file sales tax on time, every time. States expect to see "zero returns" even if you didn't collect sales tax over the taxable period

#### Can Zamp file my sales tax returns?

You bet! That's exactly why we created Zamp. Zamp takes every aspect of sales tax off your To Do list. From registering you with the states, collecting the right amount on every product from every customer, to filing with the state and remitting the tax due.

Get Started with Zamp

## **About Zamp**

#### Sales Tax Discounts

When running his previous business, the last thing Zamp's co-founders expected to find in their mailbox was a \$250,000 sales tax bill.

The assessment was only the latest in a long line of frustrations when it came to sales tax compliance with each of their companies.

Zamp's co-founders needed a solution that mapped their products to the right sales tax rates, ensured they were collecting in the right states, charged the right amount in each of the United State's more than 11,000 taxing jurisdictions, and filed and remitted their sales tax due on time.

But none of the legacy sales tax solutions on the market checked all the boxes when it came to end-to-end sales tax compliance for their businesses.

They were either made up of cobbled-together features, took weeks to implement, or sent monthly invoices full of surprise fees. They knew there could be a better way.

And that's why they created Zamp.

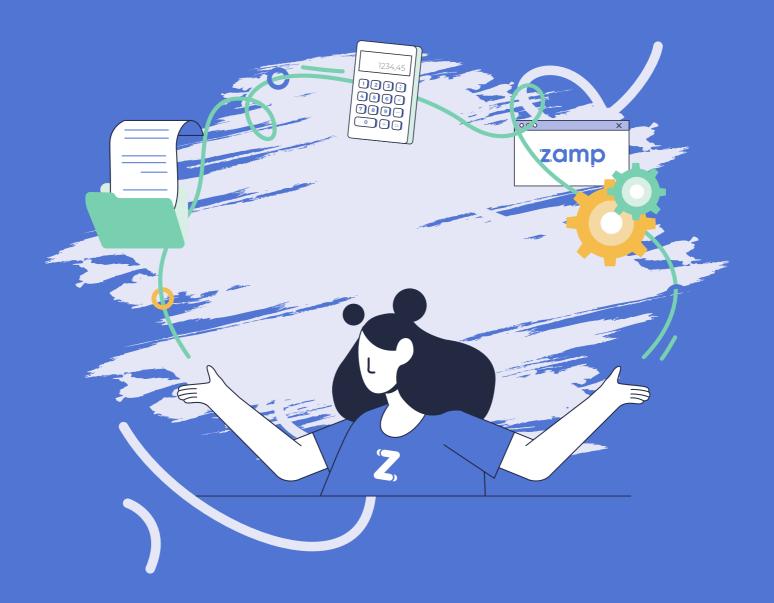
#### The Zamp Team

The Zamp team is what happens when entrepreneurs in search of the perfect end-to-end sales tax solution team up with the experts who have built sales tax software before. To round out the team, we added sales tax specialists and state auditors (the type who would normally be on the other end of that \$250,000 tax bill.)

This team of experts understands not only what entrepreneurs need when it comes to a sales tax solution but how to build it, and how to eliminate all the uncertainty and fear around sales tax compliance.

**Get Started with Zamp** 





Zamp is the all-in-one sales tax solution for multichannel businesses.

We take sales tax off your plate!

Find out more at www.zamp.com