

# SALES TAX 101 FOR STORE OWNERS



## **GENERAL RULES OF SALES TAX**

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### **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

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• 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



#### Dropshipping does NOT apply to either scenario

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#### Inventory

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

### **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

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- 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

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Only has nexus in OH

Complying in 1 state

#### **NEXUS SALE**

#### Akron, OH



Lakewood, OH



#### **REMOTE SALE**

#### Akron, OH



Waltham, MA



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#### SALLY'S BUSINESS IS GROWING!



Uses a 3<sup>rd</sup> party fulfillment service
Stores inventory in NV

• Nexus in 2 states: OH, NV

• Complying in 2 states

### **NEXUS SALE**

#### OH or NV



OH



### **NEXUS SALE**

#### OH or NV



NV



#### **REMOTE SALE**

#### OH or NV



Stockport, IA





## **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**

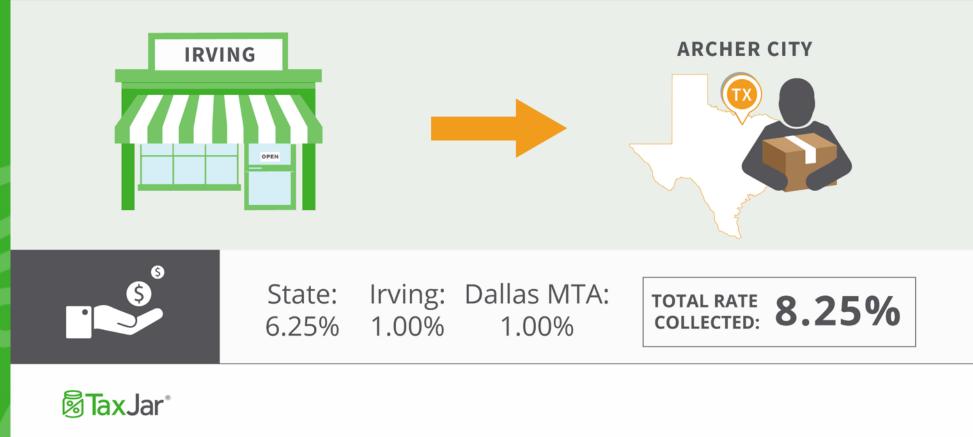


#### • Origin-based state

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

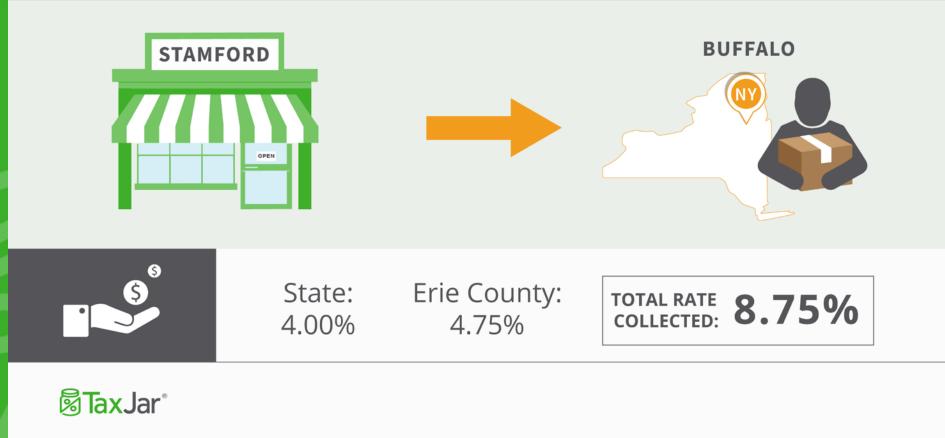


#### **Origin: Sale in Texas**





#### **Destination: Sale in New York**





# **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

• Booo!

- 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**

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### **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