

Sales Tax Guide for Online Sellers

Sales tax is one of those run-of-the-mill administrative hassles that online sellers have to deal with in the course of business. This guide will walk you through the basics of collecting, reporting and filing sales tax from your eCommerce customers so you can get back to doing what you do best – running your business!

What is sale tax and why do online sellers have to deal with it?

At it's simplest, sales tax is a small percentage tacked on to the sale price of an item. This percentage – usually between 4-8% -- is used by states and local areas to pay for budget items like roads, schools and public safety.

Forty-five U.S. states and Washington D.C. all have a sales tax. Because there is no “national” sales tax, sales tax is governed at the state level. But for retailers, and online sellers are included in that number, that means that there are 46 different sets of sales tax rules, laws and due dates.

To complicate matters, most states allow counties, cities and other local areas to add on sales tax. So you may find yourself collecting a combined state sales tax rate, county sales tax rate, city sales tax rate and special taxing district sales tax rate. But no worries – we'll get to that a little later.

Who has to collect sales tax?

An online seller is required to collect sales tax if they meet two criteria:

- They have nexus in a state
- The items they are selling are taxable

Let's look more closely at these two concepts.

Sales Tax Nexus 101

Sales tax nexus is just a fancy legalese way to say “significant connection” to a state. If you have nexus in a state, then that state considers you on the hook for charging sales tax to buyers in the state. You'll always have sales tax nexus in your [home state](#), but you may find that certain business activities create nexus in other states, too. They include:

- **Location** – an office, warehouse, store, or other physical place of business
- **Personnel** – an employee, contractor, salesperson, installer or other person doing work for your business
- **Inventory** – Most states consider storing inventory in the state to cause nexus even if you have no other place of business or personnel

- **A drop shipping relationship** – If you have a 3rd party ship to your buyers, you may create nexus
- **An affiliate** – Someone who advertises your products in exchange for a cut of the profits creates nexus in many states
- **Sales at a tradeshow or other event** – Some states consider you to have nexus even if you only sell there temporarily, such as at a tradeshow or craft fair

To help you determine whether or not your business activities give you sales tax nexus, you can [find out what every state's laws have to say about nexus here](#).

Item Taxability 101

The vast majority of tangible products that you sell are taxable, though in some states things like groceries, clothing or textbooks may either be non-taxable or taxed at a reduced rate.

For example, say you have nexus in Kansas and Nebraska. This means you are required to collect sales tax from your buyers in both states. But one of your items is grocery product. Groceries are taxable in Kansas, but they are non-taxable in Nebraska. So you would charge sales tax to your Kansas customers on grocery products, but you would not charge sales tax to your Nebraska customers.

If you are unsure whether or not one of your products is taxable, you can [check with your state's taxing authority](#).

To sum it up, if you are selling taxable products and have sales tax nexus in a state, then you are required to collect sales tax from buyers in that state. If you have any questions about whether or not you should collect sales tax from customers, we recommend contacting a [sales tax expert](#).

How to Register for a Sales Tax Permit

Once you have determined you need to collect sales tax from buyers in a state, your next step is to get legal with that state. Do this by registering for a sales tax permit with the state's taxing authority (usually called the "[State] Department of Revenue.")

You can find [instructions on registering for a sales tax permit in each state here](#).

When you receive your sales tax permit, you will also receive instructions on sales tax filing deadlines and how often you should file. You will generally be required to file a sales tax return either annually, quarterly or monthly. As a general rule, the more sales tax you collect from buyers in a state, the more often that state will require you to file a sales tax return.

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How to Collect Sales Tax from Buyers

Just like with everything else sales tax related, how much sales tax you collect varies state to state.

You may live in an origin-based state. In origin-based states, you charge all of your in-state customers the sales tax rate at the origination point of the product (i.e. generally your home or store.)

But in a destination-based state – and most states are destination-based! – you are required to collect sales tax at the sales tax rate at your buyer’s ship to address. In some states, there are hundreds of taxing jurisdictions, so that means you may collect 5% sales tax from one buyer, but 8.5% sales tax from another buyer in another taxing jurisdiction.

You can read [all about origin-based and destination-based sales tax states here](#).

How you collect sale tax from buyers depends on the platform on which you sell. For example, Amazon FBA has a very robust sales tax collection engine. On the other hand, eBay only allows online sellers to collect one sales tax rate per state.

Reporting and Filing Your Sales Tax Due

So you’re all set up and collecting sales tax. Before you know it, your monthly, quarterly or annual sales tax filing due date will come around. Your next move here is to report how much sales tax you’ve collected from buyers in your state.

Sadly, most states don’t make this easy. They want to know how much sales tax you collected from buyers in each county, city and other special taxing jurisdiction within the state.

But on a brighter note, sales tax technology comes to the rescue! A [sales tax automation app like TaxJar](#) will connect with all of the online shopping carts and marketplaces on which you sell. We’ll download your sales daily and present you with a return-ready sales tax report that you can use to quickly and easily fill in all the boxes on your sales tax return. We’ll even [AutoFile](#) your sales tax returns for you in most states, so you never have to look at a sales tax return again!

Speaking of filing sales tax, there are a couple of important things to remember when it comes time to file:

- 1.) **Always file a return** – File a return even if you didn’t collect a penny in sales tax. States consider this a “check in” and failing to file, even if you don’t owe anything, can result in a penalty or even the loss of your sales tax license

2.) **Take your sales tax discounts** – About half the states with a sales tax will allow you to keep 1-3% of the sales tax you file. While this is a small amount, it's free money! Here's a [list of states with sales tax discounts](#) for on-time filers.

And that's it! You've mastered the basics of sales tax filing. If you have questions, feel free to check out our [Sales Tax 101 for Online Sellers Guide](#) or start a conversation over in the [Sales Tax for eCommerce Sellers Facebook group](#)!

TaxJar is a service that makes sales tax reporting and filing simple for more than 7,000 online sellers. Try a [30-day-free trial of TaxJar](#) today and eliminate sales tax compliance headaches from your life!