



ECOMMERCE GUIDE

 volusion +  Avalara

The Expert Guide to Ecommerce Tax Compliance

2023

The Complex Landscape of Online Sales Tax

Until 2018's [South Dakota v. Wayfair, Inc.](#) decision from the United States Supreme Court, sales tax was added to online purchases only in places where the retailer also had a physical presence. This decision had sweeping implications for online sellers all over the world. Now, so long as the seller has surpassed their nexus threshold, U.S.-based consumers are subject to paying sales tax for their online purchases regardless of where the business they purchase from is located—with the onus resting on businesses themselves to calculate, collect, and remit these taxes.

Unfortunately, sales tax laws and thresholds vary greatly by state, city, and even county, which makes knowing when and how much sales tax to charge U.S.-based customers difficult—not to mention that these laws change constantly. Some businesses unwisely choose not to concern themselves with sales tax at all, figuring that with the estimated [12-24 million ecommerce businesses](#) across the world, their likelihood of getting caught is extremely small.

This is a huge risk, and becoming riskier by the day. Taxing authorities have noticed the influx of businesses joining the ecommerce sector during the pandemic, and are ramping up virtual audits to collect the money due to them—handing unsuspecting businesses large back tax bills. For this reason, it's more important than ever to ensure that your ecommerce business is compliant with sales tax laws.

Luckily, the ecommerce experts at Volusion and the tax experts at Avalara have joined forces to help reduce your risk of costly fines. In this guide, we'll cover:

- Understanding a business's tax responsibilities
- Determining a business's sales tax obligations
- Complying with local and federal ecommerce tax laws





Guide Outline

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- c. Determine How to Handle Exemptions
- d. Keep Track of Product Returns
- e. Report & File Taxes
- f. Monitor Legal Changes

Conclusion: Compliance Waits for No One

Simplify Your Tax Compliance

**Sales tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this guide is for informational purposes only and does not provide legal or tax advice.*



PART 1

Understand Your Business's Tax Obligations

While consumers in the United States pay sales tax on their online purchases, it is the responsibility of the business from whom they are buying to determine the correct amount. Each customer's sales tax rate depends on a variety of factors, including the business's location, the customer's location, the channel through which products are being sold, and more. We'll go into more detail about each in this section.



a. Physical Presence Nexus Laws

Tax rates based on a business's location depend on where the business has established nexus. **Sales tax nexus** is the connection between a business and a state—the word “nexus” actually comes from the Latin word for “to bind.” Therefore, nexus means that your business is bound to a specific state in some way.

If you own a brick-and-mortar storefront, then your business has established **physical presence nexus** where your storefront is located. And if your business has multiple warehouses across the country, you likely have established physical nexus in those locations as well. Even having an employee working remotely in another state or doing a trade show (even temporarily) in another state can potentially bind you to that location tax-wise.

Ultimately, the onus is on businesses to correctly determine where they have **established physical nexus**. **Check the physical presence nexus of any area you are affiliated with to make sure you are complying with their tax laws.**

Map of Physical Presence Nexus

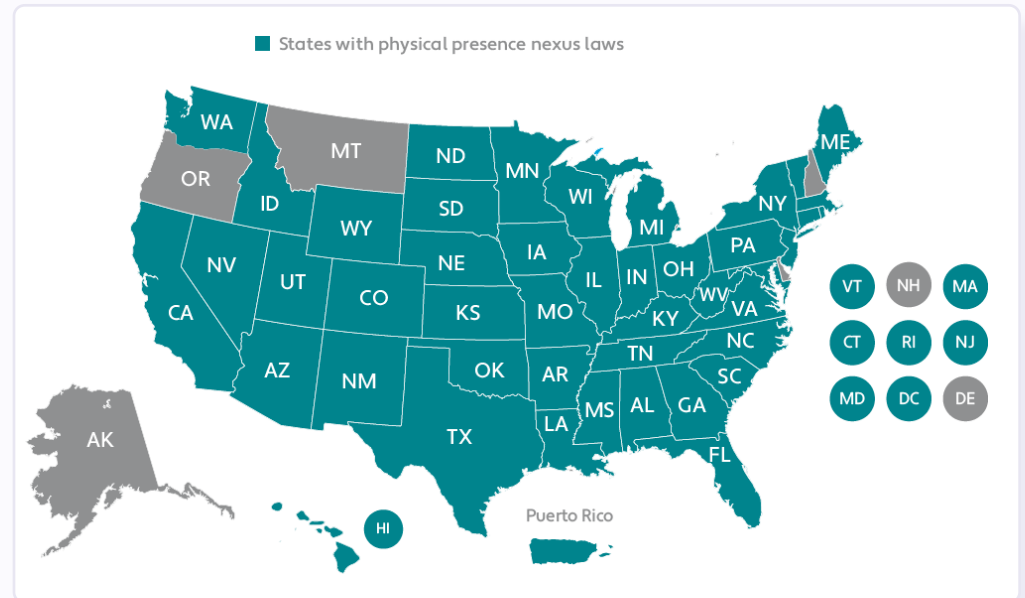


Image from avalara.com



b. Economic Nexus Laws

Due to the Wayfair decision in 2018, online businesses are now also subject to collecting taxes where they have established **economic nexus**, as well as physical nexus. Economic nexus means that your business has a significant economic presence in that state—that is, your business is conducting a certain threshold of sales in the state.

As of the publication of this guide, 46 U.S. states have economic nexus laws. But you don't necessarily have to collect and remit sales tax if you make one sale to one customer in a state—many states and territories have their own minimum thresholds at which sales tax must be collected. Arizona, for instance, has a threshold of \$100,000, while Texas has a threshold of \$500,000.

Other states have monetary and/or transaction-based thresholds. If you're selling to customers in South Dakota, for example, you must collect and remit sales tax once you have made \$100,000 in sales within the state OR 200 transactions with customers within the state. Again, the onus is on businesses to [determine economic nexus status](#), so **check your economic nexus status carefully to determine where you need to comply**.

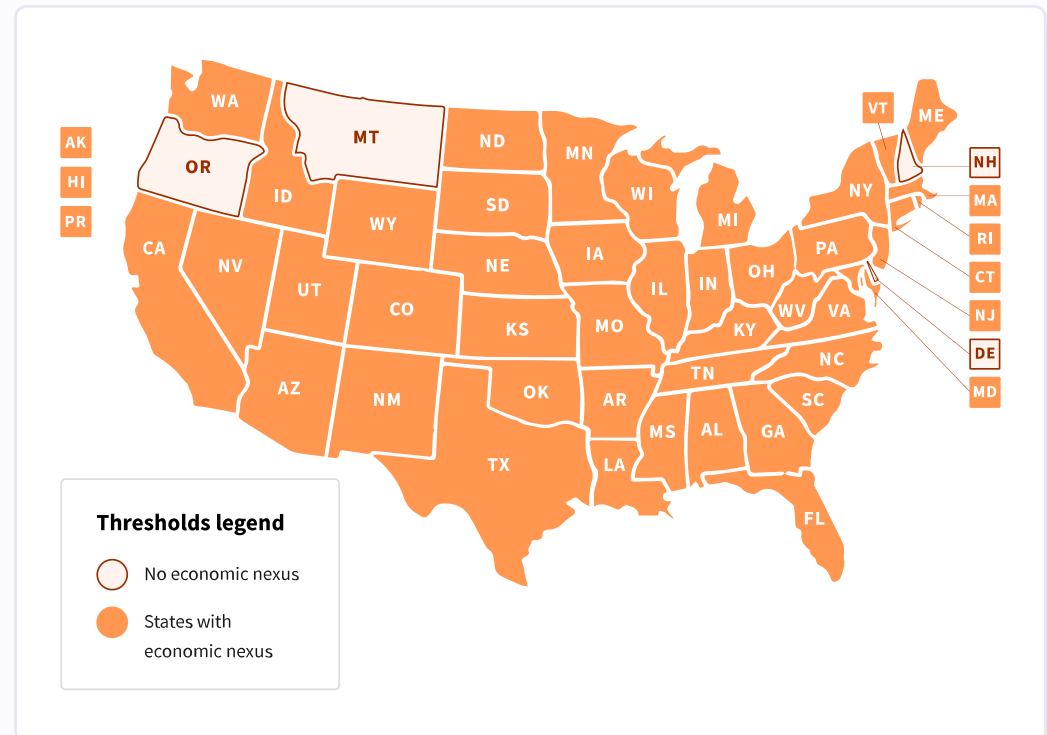


Image from avara.com

c. Marketplace Facilitator Laws

Every U.S. state except for Oregon, Montana, New Hampshire and Delaware now also have specific sales tax policies if you sell via a marketplace, like Amazon, eBay, or Etsy. Known as **marketplace facilitator laws**, these laws cover how sales tax is to be collected and remitted when items are [sold through a marketplace](#).

In general, the marketplace facilitator is responsible for collecting sales tax accurately; however, it is the business's responsibility to report and remit these taxes to the IRS. This, like many other tax laws, also varies by state and location, so you'll want to make sure you have a clear idea of how much sales tax the marketplace is collecting on your behalf before tax season.

Another note on marketplace sales tax: if you store any of your products in the marketplace facilitator's warehouse out of state, in most cases that counts as establishing physical nexus in that state. In short, even if you're relying on a marketplace to take some of the work off your shoulders, you still need to **keep track of where and how all of your business operations are taking place**.



Navigating sales tax requirements for marketplace sellers

New sales tax laws create challenges for businesses that sell via an online marketplace

Avalara
Tax compliance done right

Marketplace Facilitators Overview Guide

[Read this guide to learn more](#)



PART 2

Comply with Ecommerce Tax Laws

With general online sales tax knowledge and knowledge specific to your business at your fingertips, it's time to put your sales tax plan into action. You will first need to register in any area in which you are required to collect sales tax. Once registered, you will collect, report, file, and remit sales tax to the appropriate parties. Finally, you'll want to keep track of any tax policy changes that occur that may change the way you are required to collect sales tax. Read on for detailed instructions about each step.



a. Register for Permits

Your first order of business will be registering in the states for which you have nexus. Without automation, to ensure you are filling out and filing the correct forms, you would have to use the government website associated with each location.

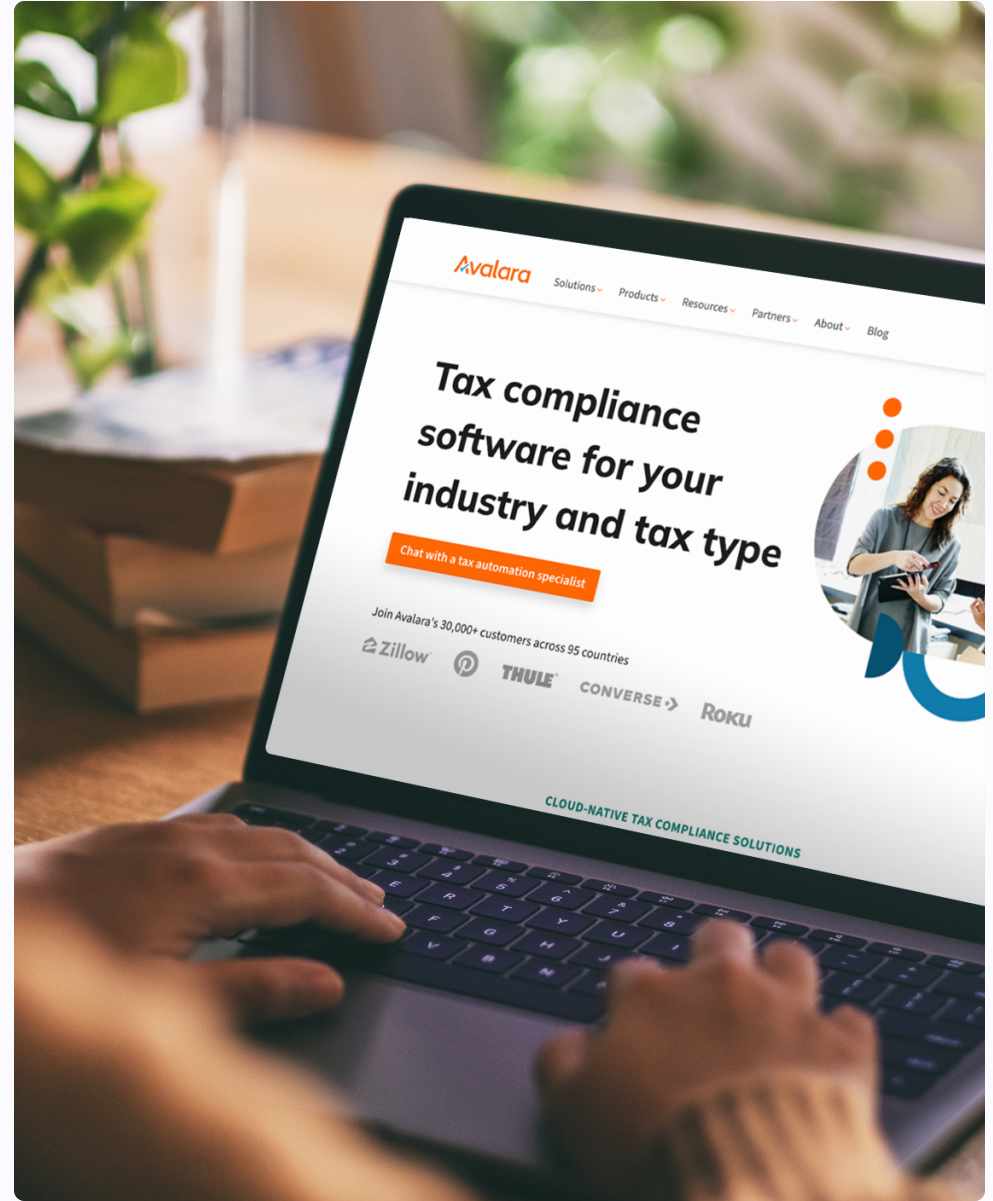
You may be wondering what happens if you have established nexus in one location now, but fall below the threshold or physical presence requirements at a later time. In most cases, once you prove that your business no longer qualifies, you can go back to the government website for that location and deregister your business.

Again, the *how* varies by location. Some states will allow you to deregister with immediate effect, while others require trailing nexus—that is, remaining registered for a certain amount of time after nexus has ended.



b. Collect Sales Tax

Your next order of business will be determining how to set up sales tax collection on your online store. Some ecommerce platforms offer their own built-in sales tax solutions, while others offer seamless [integrations with tax tools](#) that can handle this for you. Whichever route you choose, make sure that your tax collection software handles your needs and that your employees are well versed in how it works to avoid hiccups.



c. Determine How to Handle Exemptions

Regardless of where you are selling, you'll likely run into some customers and entities that are exempt from paying sales tax completely. This also varies widely by location; for example, religious entities are exempt from paying sales tax on online purchases in South Dakota, but not in North Dakota.

Sales tax exemption can become complicated in any transaction that is not taking place in person. You will need to make sure to provide clear instructions at checkout so that tax exempt customers know what amount of the total price they're seeing is sales tax and what steps they need to take to avoid being charged, whether that be contacting you directly for a phone order, entering their tax exempt information in designated fields, or emailing you a copy of their certificate for a sales tax refund after the fact.



d. Keep Track of Product Returns

Thankfully, sales tax when it comes to product returns is easy compared to the complexity of determining how much sales tax to charge for the purchase. As a business, you'll refund the same amount of sales tax you charged the customer originally and make sure that your sales tax returns are amended to reflect this action.

Keep in mind, though, that if you're using separate systems for charging and remitting sales tax, your process will be more manual and, therefore, prone to error. Make sure you keep meticulous records so that your numbers balance correctly at the end of the tax year.



e. Report & File Taxes

When it comes to reporting, filing, and remitting sales tax, each state has its own process. Many states require you to do this on a monthly basis, while some allow you to do so quarterly. The government website for each area in which you must remit sales tax provides instructions on how and when to do so.



f. Monitor Legal Changes

Finally, you will need to either stay on top of news and developments related to sales tax or check back periodically to determine whether any laws where you do business have changed. That means you can't simply download a tax table to check each transaction against; you'll need to find a live tax table or work with a tax advisor to make sure that your business is up to date on the sales tax it is charging.



Compliance Waits for No One

Your online business can change constantly due to increased demand, planned expansion, and other factors. Add to that the fact that state and local jurisdictions continue to implement new ecommerce tax laws and requirements, and you'll likely need to revisit your tax compliance process regularly. After all, tax compliance is a critical component of online sales.

If you're overwhelmed by the amount of work required to comply with sales tax laws, you're not alone. Luckily, your tax compliance strategy doesn't *have* to be handled manually by you or your accountant. Fast, easy, and accurate tax compliance software is available to help your online business stay compliant without having to do extra manual work.

Simplify Your Tax Compliance

Avalara AvaTax automatically calculates sales and use tax for transactions, invoices, and other activity on your ecommerce site. AvaTax is updated regularly to reflect changing rates and rules in the 13,000+ U.S. sales and use tax jurisdictions, which means you can spend less time monitoring sales tax rates and more time growing your business. Speak with a tax specialist at Avalara today to see if your business could benefit from automating your sales tax process.

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About Avalara

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in the U.K., Belgium, Brazil, and India.



About Volusion

Volusion is an all-in-one ecommerce solution that helps entrepreneurs build and manage successful online businesses. Since 1999, our dedicated team of developers, marketers, designers, and technical support experts have been passionate about helping merchants operate and grow their stores, whether startup or established. Two decades later, Volusion has earned dozens of accolades and powered over 150,000 successful online businesses.



