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Sep. 24, 2020



Selling online enables retailers to connect with customers near and far. That's essential today, when stay-at-home orders can unexpectedly restrict brick-and-mortar sales for undetermined periods of time. And whether your client's customers

are located down the street or three states over, their ecommerce store needs to be

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sales tax only in states where you had a physical presence. That changed when the Supreme Court of the United States overruled the physical presence rule in its decision on *South Dakota v. Wayfair, Inc.* (June 21, 2018). While physical presence in a state still creates sales tax nexus, states can now base nexus solely on economic activity in a state. This is economic nexus.

In the two years since the decision, 43 states and the District of Columbia have adopted economic nexus laws or policies. Most have also imposed collection and reporting requirements on marketplace facilitators (e.g., Amazon, eBay, and Walmart) to capture more sales tax revenue.

The coronavirus (COVID-19) pandemic has made selling online essential for many businesses. Economic nexus and marketplace facilitator laws obligate many online sellers to register in states where they have no physical presence. It's a perfect storm for ecommerce businesses. To weather it, your clients need an online shopping cart optimized to handle the following six sales tax compliance factors.

1. Tax rates

There are more than 13,000 different sales tax jurisdictions in the United States, many of them overlapping: A sale sourced to one address may be subject to state, county, city, and one or more special jurisdiction sales tax rates. Ensuring all rates are accurate when they're all subject to change is a monumental task. If managed manually, it's also vulnerable to errors.

Because sales tax rates don't align with ZIP codes, the most effective way to determine the proper rate for any transaction is to use geolocation technology that bases rates on the exact location of the sale. When incorporated into an online shopping cart as part of a complete sales tax solution, rates can be determined in the blink of an eye. When changes occur, rates are automatically updated in the system.

2. Product taxability

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challenging areas for many businesses, and it's an issue more companies need to address now that many in-person transactions have shifted online because of the pandemic. While some states include shipping and delivery charges in the sales price (exempting shipping costs for exempt transactions while taxing shipping of taxable products), some states tax delivery and service charges separately. And for some transactions, it's not clear who is responsible for collecting the tax due on delivery or shipping services; sometimes it's the seller, sometimes the shipper.

It's important to get product taxability right because customers expect it and tax authorities demand it. Yet taxability can also impact your nexus footprint: Some states (e.g., Texas) include exempt transactions in their economic nexus threshold; other states (e.g., Arkansas) only count taxable sales. Having a sales tax solution that properly categorizes taxable and exempt transactions helps you to determine where your clients have sales tax economic nexus.

3. Selling across state and international lines

With economic nexus laws now in effect in 43 states and the District of Columbia, businesses that sell across state lines must vigilantly monitor their sales in all states. Once you cross a state's economic nexus sales or transaction threshold (i.e., the amount of sales or transactions in a state that triggers an obligation to collect sales tax in that state), you're required to register with the tax authority and comply with sales and use tax laws. Unfortunately, there's no one-size-fits-all set of rules — economic nexus thresholds differ from state to state.

Businesses that sell across international borders also need to consider customs duty and import taxes. This adds a whole different level of complexity. Whether it's a U.S.-based business selling into other countries or an international-based business selling into the U.S., your client's tax compliance solution should have cross-border capability.

4. Managing exempt sales

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platform allows for the digital collection and validation of exemption certificates, ensuring a smooth checkout. In the event of an audit, exempt transactions can be easily validated.

It's important to remember that exempt sales can impact nexus footprint because many states include exempt sales in their economic nexus thresholds. Once nexus has been established, a business is required to register, file returns, and validate exempt transactions.

5. Selling through multiple channels

When the pandemic shuttered brick-and-mortar sales, businesses with ecommerce stores were able to focus on online sales. When Amazon prioritized shipments of essential items, third-party sellers with their own ecommerce stores were better able to meet customer demand than those fully reliant on marketplace platforms. To succeed today, businesses need to consider selling through multiple channels.

Yet selling through more than one channel can also complicate sales and use tax compliance. You need to know whether sales made through a marketplace should be included when calculating an economic nexus threshold, and if those sales need to be reported separately. You also need to ensure all sales are reported. The more manual your client's sales tax management, from calculations to returns, the more onerous and error-prone the task.

6. Product returns

Every seller has to deal with returns at some point. The more streamlined the process — the easier it is for customers to return products — the more satisfied customers will be.

Can an online purchase be returned or exchanged at a brick-and-mortar store? Is the

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handles all of your client's compliance needs, including calculating sales tax, managing exempt sales, and facilitating returns.

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Gail Cole has been researching, writing, and reporting tax news for Avalara since 2012. She's on a mission to uncover unusual tax facts and make complex laws and legislation more digestible for accounting and business professionals — or anyone interested in learning about tax compliance. [Get more sales tax news from the Avalara blog.](#)

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