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Isaac M. O'Bannon • Aug. 19, 2013

Are you paying all of your taxes? There's a good chance you're not.

Tax professionals know it. Most accounting professionals know it. When it comes to businesses, most follow at least the letter, if not the spirit, of the law. But most other Americans still don't seem to understand that they are probably a tax cheat.

I'm not talking about 1040 returns and April 15. This isn't about federal income taxes... it's about [sales taxes](#). Which actually still has something to do with April 15.

[Opposing view: [Taxing Internet Sales is Wrong and Doesn't Help Main Street](#)]

More than 60 percent of Americans have, at some time, made a purchase online, according to data from the Pew Research Center and other organizations. More than 20 percent have purchased something online via their smartphone. The statistics for casual internet usage and social media are much higher, of course. The key point, however, is the sales issue.

If you have a local or state sales tax where you live and you have bought something online that was not charged sales tax, the odds are that you're a tax cheat. That's because almost all states and cities that have a sales tax also have something called a "use tax." If so, then you are required by law to self-report and pay taxes on the purchases you made online (or by other means) where you weren't already charged sales tax. Most state income tax forms (and online tax programs) have a place for you to report this information.

When it comes to everyday consumers, use taxes are the identical step-sister of sales

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While the consumer is the one paying the tax on local sales, it is the merchant who is required to charge, collect and report those taxes. The ultimate tax obligation, however, is with the purchaser, and just because a person bought something online, that does not excuse them from their obligation to pay those taxes.

Consider it this way: If your employer does not withhold anything from your paycheck, or perhaps just not enough of your pay to cover your income taxes, then when you file your return you will owe those taxes. Those taxes are your debt, not your employer, and just because somebody else failed to collect and submit the funds for you doesn't decrease your responsibility to pay them.

Why the Online Sales Tax is Fair

As the law currently stands, states cannot enforce their own "collect and report" sales tax laws on most companies that are based outside of their state, but who nevertheless sell goods to residents of their state.

We all dislike parting with our money. I know people from conservative, liberal and in-between politics and policies, and nobody I've met believes in zero taxes either at the local, state or federal level. We all share at least the belief that some things should be paid for as a group, such as highways, police, firefighters, the military, schools, etc.

As more and more sales transactions are taking place online, states and local governments are losing sales tax revenue they are legally due, but that they have little chance of recovering. Not because online sales are a tax-free loophole, but because consumers aren't following the law and reporting those purchases.

This puts online-only retailers at an advantage, because consumers believe they are not having to pay sales taxes on the products they put in their online shopping cart. However, unless they are very frequent users of a particular online merchant, or pay a

membership fee, most still have to pay shipping costs for their purchases. So,

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Although there are approximately 8,000 different sales tax jurisdictions in our country (states, counties, cities, special districts, etc), having retailers collect the taxes, based on the jurisdiction you live in, is no longer rocket science. The same technologies that have made online sales simple and effective, have also made determining online sales tax rates just as simple and effective, and not cost prohibitive for even small online retailers.

The [Marketplace Fairness Act](#) (also sometimes called the Main Street Fairness Act) is a bipartisan bill that [passed in the U.S. Senate](#) and is next up for consideration in the U.S. House of Representatives. It would simplify sales taxes by having retailers (online or brick and mortar) collect sales taxes on all sales, just as most local retailers already do. It includes protections and exemptions for small-retailers (those with gross receipts under \$1 million annually).

The bill is a rare act of sanity when it comes to taxes. For consumers who argue against it because they think it will cost them more, well... the truth is they probably haven't been paying the "sales and use taxes" they already owe. And those are taxes that go to their local governments, not some "bridge-to-nowhere" project in another state or frog research in some federal lab.

And since the bill gives people the right, through their local governments, to decide whether and how much to tax sales transactions, it's truly representative of Americans at the local level. It's not a new tax, it's not an "internet sales tax," it's simply enforcing the sales taxes that already exist.

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