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Isaac M. O'Bannon • Jun. 11, 2013



Opinion

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.

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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 taxes. While the term “use tax” also applies to certain internal business transactions, where the rest of us are concerned, it is an equal tax on items we buy where sales tax wasn't collected by the seller.

In general, if you purchase something in person in a retail outlet, the seller of the product is (in most locations) required to add a certain percentage of tax to the transaction and collect it. That merchant then is responsible, under state laws, for reporting the transactions and sending the funds to the state/locality on a periodic basis (usually monthly or quarterly).

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

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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, purchasing something online may not result in any actual savings, but is resulting in more money going toward FedEx, UPS and the USPS.

Still, the use taxes are legally owed and not reporting the transaction and paying the taxes is illegal.

In short, all sales transactions should be treated the same, whether they occur online or in a store. You live where you live- if there is a sales tax there, then the residents of your state and city have voted to approve it, and have the ability to vote to change it.

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

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

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