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business recently and are confused about the state sales tax implications. Now all of you (or at least most of you) can put your hands down.

Ken Berry • Jun. 12, 2015

Raise your hand if you have one or more clients who recently started up an online business recently and are confused about the state sales tax implications. Now all of you (or at least most of you) can put your hands down. The number of small businesses that are Internet-based has exploded the last few years as budding entrepreneurs create new business models opportunities that could only have been dreamed about in the not-so-distant past. But with opportunity comes sales tax obligations that may befuddle the uninformed.

So what should you impart to [eBay](#) sellers and others trolling for business profits online? Here are some of the key rules to discuss with your clients.

Start with the basic premise that the states sales taxes levied on purchasers of goods or services are pervasive. At last count, 45 states and the District of Columbia impose sales tax on businesses located within their borders. Only Alaska, Delaware, Montana, New Hampshire and Oregon are exempt. In addition, states with sales taxes have a use tax mirroring the image of the sales tax. The use tax applies when the business doesn't collect sales tax but has merchandise delivered into the state.

If a business in one of the 45 states or Washington D.C. orders merchandise online and has it shipped into its home state, it pays the use tax. This is generally reported on the state income tax for the appropriate tax year. But online sellers that collect sales taxes save the business the trouble of reporting the use tax.

Business clients with bricks-and-mortar operations are probably all too familiar with the rules for collecting sales tax from consumers. Now the landscape has been

changed by the proliferation of online sellers. In a landmark case (Quill v. North

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online sellers as a way to fill their dwindling coffers. In the meantime, entrepreneurs face a bewildering array of laws in different states.

Legislation proposed in Congress would resolve the confusion, but several measures have stalled out before they ever reached the President's desk. The Marketplace Fairness Act of 2013 – which had gained some traction – required Internet retailers and other remote sellers with more than \$1 million in annual sales to collect sales taxes. Then these entities would have to deposit the money with the states. Now another version of this law circulating in the nation's capital seems to be picking up steam. The Marketplace Fairness Act of 2015 gives states the option to require out-of-state Internet sellers to collect sales taxes owed under state law in the same manner as in-state businesses do.

Remind clients that sales tax is treated as a liability, not an expense. The business is collecting the sales tax is an agent of the state and must remit the money to the state shortly after collecting it. Then it reduces its cash and sales tax liability. Your clients will rely on you for the nitty-gritty, but they should have at least a basic understanding of the process.

Ken Berry, Esq., is a nationally-known writer and editor specializing in tax and financial planning matters. During a career of more than 35 years, he has served as managing editor of a publisher of content-based marketing tools and vice president of an online continuing education company in the financial services industry. As a freelance writer, Ken has authored thousands of articles for a wide variety of newsletters, magazines and other periodicals, emphasizing a sense of wit and clarity.

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