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Mary C. Thomas • Mar. 20, 2017



Should sales tax be included as part of the price of a product or service? When does (or doesn't) this make sense?

The question is deceptively simple. There are a few things to establish first.

1. **Are you registered to collect sales tax?** If the seller is not registered with the state taxing authority to collect sales tax, the seller should not collect it. A seller with no active sales tax account has no mechanism to remit sales tax collected to the state.

2. Is the item or service you provide subject to sales tax? If the item/ service

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When you choose to make the election to include the sales tax in the price, not all jurisdictions give the seller the right to choose not to separately state sales tax. The states of Alabama, Florida, Washington, New York, and others do not allow the election. Make sure the election is available.

If the response is “yes” to all four queries, the billing option employed is a matter of preference. When a taxpayer collects sales tax, by either separately stating it or including a statement that sales tax is included, the taxpayer must remit the sales tax collected to the state taxing authority. The failure to do so is fraud.

Simplicity is key. If sales tax is charged separately, the amount designated as sales tax is given to the state tax authority. If a statement that sales tax is included appears on the invoice, the seller calculates the amount of sales tax due and remits it to the taxing authority. Illustrations are:

Option 1: Tax Separately Stated

- Price \$100.00
- Sales tax (8.25%)* 8.25
- Amount due \$108.25
- The taxpayer retains \$100 and must remit \$8.25 to the tax authority.

Option 2: Sales Tax Included

- Price \$100.00
- Sales tax included*
- The taxpayer retains \$92.38 and must remit \$7.62 to the tax authority. The seller must ensure the disclosure that sales tax is included meets tax authority policy.

* – Sales tax rates vary by jurisdiction. 8.25% was chosen for illustration only.

The tax rules, simplicity, and industry-related issues are a few practical matters to

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Mary C. Thomas is a TX CPA/attorney who works in state and local sales/use tax. As a principal of Thomas, Thomas & Thomas, PC, she helps business owners and accountants comply with sales/use tax regulations. When she is not solving tax puzzles, Mary enjoys taking Ella (her dog) on social dates, gardening, and walking off good meals.

Sales Tax

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