outsourcing sales and use tax compliance to a trusted partner can be a valuable alternative. To learn more about advising your E-Commerce clients on sales tax compliance in ...

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2020 was a monumental year for e-Commerce businesses. The COVID-19 pandemic had detrimental impacts on several companies, prompting many to create or pivot to remote selling. This trend, combined with the increase of online shopping from consumers sheltering-in-place, forged the way for e-Commerce sales to achieve a $174B revenue boost in 2020.

As a result, several companies experienced explosive growth in a short period, leading to new – and sometimes neglected – sales tax requirements.

The Impact of South Dakota v. Wayfair on E-Commerce Businesses

In the historic South Dakota v. Wayfair case, the Supreme Court agreed with South Dakota that states should be allowed to require remote sellers to collect sales tax when an economic connection, or "nexus," exists in a state. Ever since then, 44 states and the District of Columbia have imposed economic nexus standards, with Florida and Missouri considering proposed legislation in 2021. Most states have implemented a $100,000 or 200 transaction threshold. However, several large states such as California, New York, and Texas have imposed thresholds of $300,000 – $500,000 with no transaction counts.

What Does This Mean for Your Clients?

The ruling by the Supreme Court applies to all remote sellers. And whether intentionally or unintentionally, businesses can no longer ignore the proverbial "elephant in the room" that is sales tax.

With states scrambling to make up for lost revenue, sales tax audits are a common tactic to reclaim uncollected funds back to the bottom line. The resulting interest and penalties can be equally painful, especially for small businesses.

While audits are not entirely unavoidable, it is essential to equip your clients with proper sales tax compliance strategies in order to mitigate their risks accordingly.

Sales Tax Considerations for E-Commerce Companies

Below are some initial steps and tactics to help your e-Commerce clients mitigate sales tax liabilities and risks:

1) **Perform an economic nexus analysis.** E-Commerce companies should evaluate their sales in the prior and current year to determine if they have economic nexus in each state. Companies need to understand the array of complex rules that have been put in place to properly determine if and when they need to begin to collect sales tax.

2) **Understand historical liability.** After step one, if an e-Commerce company

4) **Improve tax compliance processes.** For many e-Commerce companies, there are low-cost and streamlined technology solutions that will allow them to collect and remit tax efficiently. For companies with custom platforms, integration with one of the popular sales tax compliance software solutions should be evaluated.

For CPA firms that do not have the resources to execute these measures, outsourcing sales and use tax compliance to a trusted partner can be a valuable alternative. To learn more about advising your E-Commerce clients on sales tax compliance in a post-Wayfair world, visit our Sales Tax Nexus FAQs page.

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