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Gail Cole • Jul. 28, 2023



By [Gail Cole](#)

Is sales tax based on shipping address or billing address? Understanding [how sales tax works](#) is fundamental for every retailer.

If you're doing business in a state with a sales tax, you may know you need to register for sales tax, then collect and remit tax as required by law. But if you're selling online and shipping items all over the state or country, you may not know what sales tax rate to charge.

This blog post can help you understand your sales tax requirements by answering the following questions:

Is sales tax based on shipping address or billing address?

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sales tax jargon, this is known as destination sourcing, because sales tax is sourced to the destination of the goods, the place where they're delivered.

For example, if you ship a rolling pin to 333 Apple Lane, Pie Town, New Mexico, 87827, and if you're registered for New Mexico sales tax, you'd have to charge the sales tax rate in effect at 333 Apple Lane, Pie Town, New Mexico, 87827. Currently, the [sales tax rate for Pie Town, New Mexico](#), is 6.19%, so that's the rate you'd charge. (Fun fact, [New Mexico sales tax is actually a gross receipts tax](#).)

Pie Town is a small town with just one ZIP code, one sales tax jurisdiction, and one sales tax rate. Since larger cities, and even smallish large cities, often have multiple ZIP codes, multiple sales tax jurisdictions, and multiple sales tax rates, you must be sure to find the [sales tax rate in effect at the actual delivery address](#) — not next door or across the street.

Can I use a ZIP code to find a sales tax rate?

[Beware of relying on ZIP codes for sales tax](#): Five-digit ZIP codes were created by the U.S. Postal Service to facilitate mail delivery and have nothing to do with sales tax.

There are more than 13,000 sales and use tax jurisdictions throughout the country and often two or more sales tax jurisdictions within one ZIP code. Though ZIP codes and tax boundaries sometimes line up, they often don't, so [it's not advisable to base sales tax rates on ZIP codes](#).

Using [sales tax software with geolocation technology](#) generates the most accurate rates for the least effort. You can get a taste of how the technology works with our [sales tax calculator and tax rate lookup tool](#).

Is sales tax ever based on billing address?

In certain situations, sales tax is based on the billing address rather than the

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that's required to process a credit card payment, but as noted above, relying on a ZIP code for sales tax can lead to an incorrect rate.

If you don't know the location where a buyer first accessed or benefitted from a digital product or service, it's sometimes appropriate to [source the sale to the buyer's billing address](#). However, sales tax rules vary by state. Read our [state-by-state guide to the taxability of digital products](#) for state-specific details.

Can sales tax be based on the seller's address?

Yes, sales tax is sometimes based on the seller's address rather than the shipping address or billing address. In sales tax lingo, basing sales tax on the seller's location is known as origin sourcing.

Origin sourcing is usually the rule of thumb for in-store sales when the buyer walks out with bags in hand. If a shopper can't find their size at the store so orders it for delivery, the sales tax rate in effect at the delivery address would typically apply. However, in Utah, in-state retail sales of tangible personal property are generally [sourced to the seller's fixed place of business](#), even if the goods are delivered.

Sales tax can also be based on the seller's address if a buyer makes an order online for curbside pickup at the seller's place of business. This is also known as click-and-collect or buy online pickup in store (BOPIS).

Some states use origin sourcing in certain scenarios, such as sales by in-state sellers. For example:

[Ohio requires Ohio vendors to source internet, mail order, or phone sales](#) to Ohio consumers to the location where the order was received, if known.

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charges. Unfortunately, there's rarely a simple, straightforward answer when sales tax is involved. Shipping charges are subject to sales tax in some states and situations, and shipping charges are exempt from sales tax in some states and situations.

Whether sales tax applies to shipping, handling, and delivery charges often depends on the delivery method, whether the products being shipped are taxable or exempt, or whether shipping charges are separately stated or included in the sale price. In many states, charges to ship taxable goods are taxable while charges to ship exempt goods are exempt.

Our [state-by-state guide to the taxability of delivery charges](#) has more details.

If you engage in drop shipping, you'll want to know [how drop shipping affects sales tax](#). This on-demand [webinar about drop shipping sales tax](#) is full of helpful information.

Do I have to collect sales tax?

Of course, you don't need to worry about sales tax if you aren't required to collect and remit sales tax in the first place. The question is, are you required to collect sales tax in the states where you sell?

The answer depends on [sales tax nexus](#), which is a connection between a business and a tax jurisdiction that enables the jurisdiction to tax the business. In other words, a state can only require you to collect and remit sales tax if you have nexus with that state.

Having a physical presence in a state is a surefire way to create nexus, but you can also have nexus in states where you don't have a physical presence.

All states with a general sales tax have economic nexus laws that base sales tax on a

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Gail Cole is a Senior Writer at [Avalara](#). She's on a mission to uncover unusual tax facts and make complex laws and legislation more digestible for accounting and business professionals.

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