

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

and service providers for more-or-less immediate delivery. Think less eBay or Etsy and more DoorDash, Upwork, and Lyft.

Oct. 18, 2023



By [Dawn Moser](#).

Ah! On-demand service marketplaces: great for midnight ice-cream cravings or last-minute school project supplies; complicated for tax compliance.

And with [marketplace facilitator laws](#) in effect, more and more on-demand service providers are responsible for managing taxes for the transactions on their platforms. Depending on how varied your offerings are and how many markets you operate in, complying with tax regulations can get timeconsuming and expensive.

To help you [understand tax compliance for on-demand service marketplaces](#), we'll

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

and service providers for more-or-less immediate delivery. Think less eBay or Etsy and more DoorDash, Upwork, and Lyft.

Essentially, a customer places an order via an on-demand service marketplace and a third-party delivers goods or services upon request.

And it's a growing market. While online shopping has been trending toward more immediate fulfillment expectations, the effects of the COVID-19 pandemic and the prevalence of the gig economy certainly contributed to the success of emerging on-demand service platforms.

For example, [2020 was a boom year for grocery delivery](#), often fulfilled via on-demand service marketplaces like Instacart. And despite COVID-19 restrictions lifting, people are still continuing to order online when the pantry gets bare — albeit, at significantly lower year-over-year growth.

What are the compliance challenges for selling on-demand services?

With 13,000+ sales and use tax jurisdictions in the United States, just calculating sales tax correctly can be challenging. But for on-demand service marketplaces, [knowing what to tax, when, and how much](#) can be even more complicated.

For example, when a customer places an order via Drizzly, they aren't just paying sales tax. The platform is also responsible for [collecting excise taxes](#) on beverage alcohol. The person delivering alcohol on behalf of the marketplace may also be [responsible for verifying the age](#) of the purchaser.

Say someone places a Kroger order that includes milk, diapers, domestic beer, wine, a candy bar, and a rotisserie chicken. Each of those six products can have its own sales tax rate (or exemption), with the beer and wine also incurring different excise taxes.

Tax rates on services are similarly varied. Some states tax services, others don't. So

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

- Registrations
- Licenses
- Exemption certificates

When a business establishes nexus with a state, or an obligation to remit sales tax, it must register to collect sales tax in that state. Registration requirements are determined by each state and have different costs, application processes, and expiration dates.

Licensing requirements not only depend on the location, but also the type of business. Handyperson services often require licensing, as does home care, health services, or liquor sales.

For both registration and licensing, your marketplace must adhere to the rules governing the jurisdictions where your customers and vendors transact.

If your customers are tax exempt, you'll need a way to collect exemption certificates at the point of sale. These documents should be easily accessible in the event of an audit. Missing or invalid certificates can lead to hefty fines and fees.

Each state has its own rules about which certificates are valid. Some have certificates for specific industries, including various services. You're responsible for making sure the certificates you collect are valid for the service, location, and reason for the exemption.

Automation is your always-on solution for on-demand services compliance

It's an exciting time for services marketplaces. Customers are all in on apps or sites that let them order everything from food delivery to home repair or advice or even therapy. Don't let compliance keep your marketplace from thriving.

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

Sponsors.

© 2024 Firmworks, LLC. All rights reserved