

TOP 10

SALES TAX MISTAKES

E-Commerce Businesses Make

What sales tax experts wish you knew



MISTAKE #1

Failing To Collect Sales Tax in Nexus States

This is the big one. Businesses are required to collect sales tax in states where they have a “sales tax nexus.” In plain speak, “nexus” is some sort of tie to that state.

What is often considered normal e-commerce business activity—hiring contractors or using a 3rd party distribution center—creates a sales tax nexus in many states.

And that’s not to mention **economic nexus**, where even surpassing a certain sales or transaction volume in a state means you are required to collect sales tax from buyers in that state. (Example: Any e-commerce seller whose gross revenue in Illinois exceeds \$100,000 or who makes more than 200 separate transactions to buyers in the state are required to collect sales tax from all Illinois customers.)

Failing to collect sales tax in nexus states can create a host of issues. If a state finds and audits your business, they will send a bill for past due sales tax plus fines and penalties. Even if you manage to stay off the state’s radar (which is unlikely), if you ever plan to sell your business your buyer will expect you to be sales tax compliant. We’ve seen a lack of sales tax compliance tank more than one business sale.



SOLUTION

A nexus analysis. A sales tax expert like the team at Hands Off Sales Tax (HOST) will evaluate your entire business to determine where you have nexus. And if they determine you have nexus and owe past due sales tax, they can help you register and mitigate any fines and penalties coming your way. HOST uses multiple tools, such as our relationships with states and Voluntary Disclosure Agreements (VDAs), to make getting sales tax compliant as quick and painless as possible.

Start your nexus analysis today

MISTAKE #2

Forgetting To Collect in Nexus States On All Sales Channels

These days, most e-commerce businesses take advantage of multiple sales channels. You might have a Shopify or WooCommerce store, sell via Amazon FBA or Walmart's marketplace, and then make in-person sales at a brick and mortar store, or trade shows and craft fairs.

One mistake we frequently see is e-commerce retailers forgetting to collect sales tax on all channels in all nexus states.

Example: You established nexus in New York state by selling your products in-person at a weeklong craft fair there. Since you now have a sales tax nexus in New York, you are required not only to collect sales tax on those in-person sales, but also collect sales tax via your online store and any other sales channels.

Fortunately, these days large online marketplaces are required to collect and remit sales tax on your behalf. Even then, some states still require that you hold a sales tax registration and report sales or sales tax collected on our behalf even if you only sell via marketplaces.



SOLUTION

Evaluate your entire multichannel sales tax strategy each time you find yourself with sales tax nexus in a new state. This may mean "turning on" sales tax collection in Shopify, or including on your sales tax filings the sales tax collected on your behalf by Walmart or Amazon.

Start your nexus analysis today

MISTAKE #3

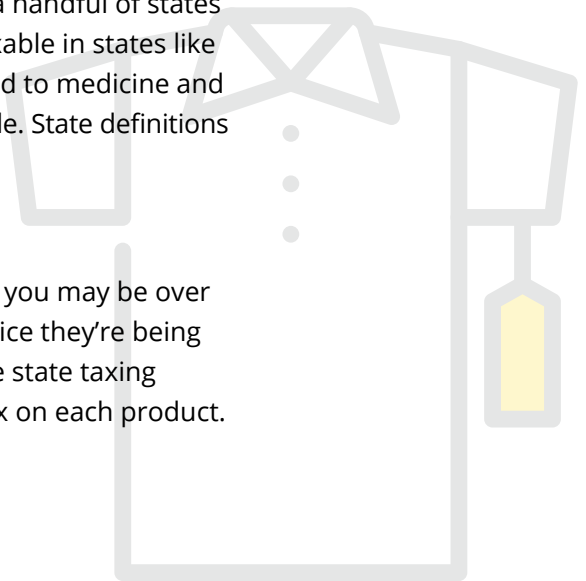
Collecting The Same Amount of Sales Tax On All Products

In most cases, the sales tax due on a transaction is a combination of the state sales tax rate plus any local (city, county, special taxing district) rates.

Grocery items are non-taxable in most states. Though, in some states they are taxed at a reduced rate or only taxed at local rates. Clothing is non-taxable in a handful of states like Pennsylvania. Clothing priced under a certain sale price is non-taxable in states like Massachusetts and New York. Other products including but not limited to medicine and medical devices, digital items, and textbooks are sometimes non-taxable. State definitions also vary on what is considered taxable and non-taxable.

In other words, sales tax can vary by product and by state.

So if you're collecting the same amount of sales tax on every product, you may be over collecting. This can get you in hot water with customers, who may notice they're being taxed on something they're not supposed to pay taxes on. Or with the state taxing authority, which requires that you collect the right amount of sales tax on each product.



SOLUTION

Take the time to ensure you are collecting the right amount of sales tax on every item on each of your sales channels.

Most sales channels, like Shopify or Amazon, have a "Tax" page or option where they allow you to choose a tax category for each product. Though this sounds time consuming, in general you are only required to categorize your products on each sales channel one time.

Some tax categories get very granular, and HOST is here to help if you are having trouble deciding which sales tax categories your products fall into.

Get in touch
with HOST

MISTAKE #4

Collecting The Same Amount Of Sales Tax From All Customers

Similar to mistake #3, some customers are also taxed differently or not at all.

Government agencies and some registered nonprofits are not required to pay sales tax on purchases. These include but aren't limited to the state and federal government, and entities like hospitals and churches.

While the federal government and state governments are generally always exempt from sales tax, rules and laws about what other entities are exempt vary by state.

As an e-commerce retailer, if you do business with any of these exempt entities, you're also required to obtain and keep an exemption certificate.



SOLUTION

Know each of your nexus states' rules and laws when it comes to exempt nonprofits. Gather exemption certificates from each entity you do business with. Beware of organizations that misrepresent themselves as tax exempt. If your state's laws regarding exempt entities are confusing (and they often are), HOST is here to help you determine if you should or should not collect sales tax from your customer.

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MISTAKE #5

Dropshipping Sales Tax Mistakes

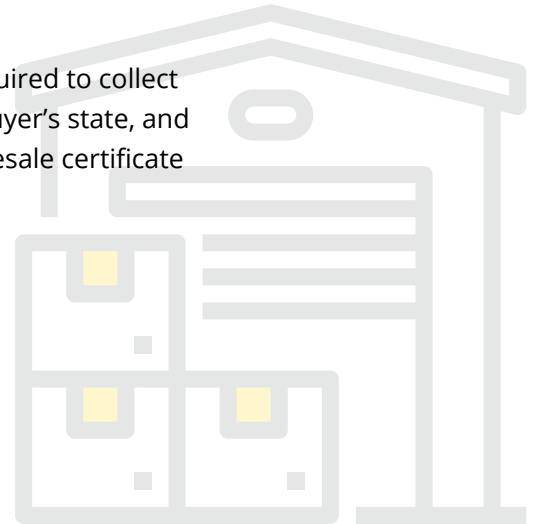
Dropshipping is where a Buyer places an order from a Retailer, but that Retailer turns around and orders the item from a Supplier who then generally ships the item to the Buyer. This is a common e-commerce business practice, but also one of the most confusing when it comes to sales tax.

Dropshipping is confusing because it involves three (or even more) entities, any one of whom may have a sales tax obligation.

And for every dropshipping transaction, you must gather some information, such as:

1. Are you the Retailer or Supplier in this situation?
2. Does either the Retailer or Supplier have a sales tax nexus in the state where the item is being shipped to the Buyer?

Generally, if the Retailer has nexus in the Buyer's state, the Retailer is required to collect sales tax from the Buyer. But if the Retailer does not have nexus in the Buyer's state, and the Supplier does have nexus, then the Retailer is required to provide a resale certificate to the Supplier. Confused yet? We don't blame you.



SOLUTION

Work with a sales tax expert to ensure you understand which party you are in the dropshipping equation. (Pro tip: You should never pay sales tax if you are ordering items from a supplier to dropship to your customer!) A sales tax expert can also help ensure you handled sales tax correctly on previous dropshipping transactions.

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MISTAKE #6

Making Common Filing Mistakes

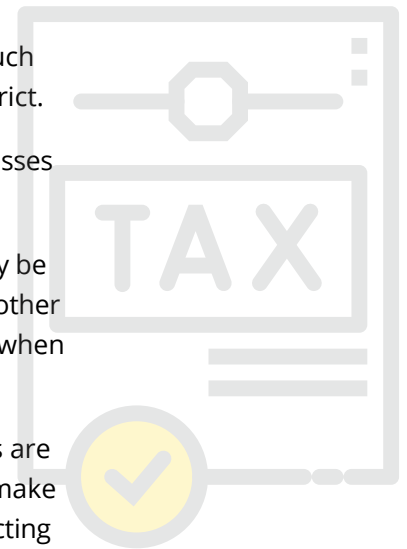
The sales tax filing process is different for every state. Some states, like Massachusetts, are simple. They only want you to enter the amount of sales you made in the state over the taxable period and they take it from there.

Most states are much more complicated. They require that you break down how much sales tax you collected from buyers in each city, county and other special taxing district.

Sales tax filing administration varies, too. Many states now require that certain businesses file and pay online or face a penalty.

Last but not least, sales tax filing due dates vary by state and filing frequency. You may be required to pay by the 20th every month in one state, by the 23rd every quarter in another state, and on the last day of the month annually in yet another state. Even knowing when you are required to file a sales tax return can be difficult to track.

It's important to file your sales tax returns correctly because sales tax filing mistakes are one of a state's big red flags for an audit. In an auditor's opinion, if you perpetually make mistakes when filing, you are potentially also making mistakes when it comes to collecting and remitting the state's share of sales tax.



SOLUTION

Trust sales tax filing to the professionals. At HOST, we ensure your sales tax is filed correctly down to the cent and on-time, every time. You'll never again have to deal with complicated returns like Colorado's home rule cities or California's confusing rounding system.

Already use an automated sales tax service like Stripe Tax (formerly TaxJar)? If you are looking to become 100% Hands Off Sales Tax, simply schedule time with us to discuss having HOST manage your TaxJar account via our HOST Managed Service which is the industry's only Sales Tax as a Service. We work with TaxJar customers to provide ongoing compliance monitoring & management in an ever-evolving sales tax landscape. HOST understands and manages the gaps software leaves open, so you don't have to.

HOST has been a customer-obsessed sales tax support firm since 1999, and we look forward to partnering with your business so you can focus on Sales, not Sales Tax.

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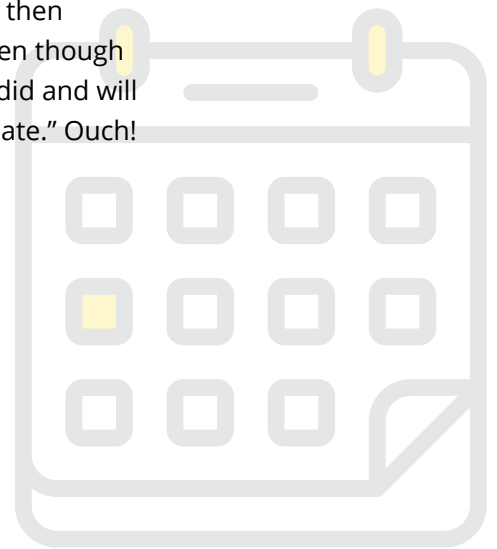
MISTAKE #7

Choosing the Wrong “Effective Date” When Registering to Collect Sales Tax

When you register for a sales tax permit, the state will ask about the first date you did business in the state. For a brick and mortar seller, this question is fairly simple. It’s the date you opened up shop.

But for e-commerce sellers, this gets tricky. Take economic nexus for example. Say you made your first sale in Georgia on January 1st of the previous year. But at that point you didn’t have economic nexus in the state. In January of this year, you discover that you just crossed Georgia’s economic nexus threshold and are now required to collect sales tax from buyers in Georgia. Because of the wording on many state sales tax registration forms, you may be tempted to put “January 1, Last Year” as your “effective date.”

However, if you enter the date of your first ever sale in Georgia, the state will then require you to have collected sales tax on every sale starting on that date. Even though you didn’t have economic nexus at the time, the state now believes that you did and will expect sales tax from you on every Georgia transaction from that “effective date.” Ouch!



SOLUTION

Trust the experts with your sales tax registration. At HOST, we’ll evaluate your business and help you decide when your nexus actually began. This will prevent honest mistakes such as a too-early effective date causing you to owe the state excess sales tax.

Register for state
sales tax permits
with HOST

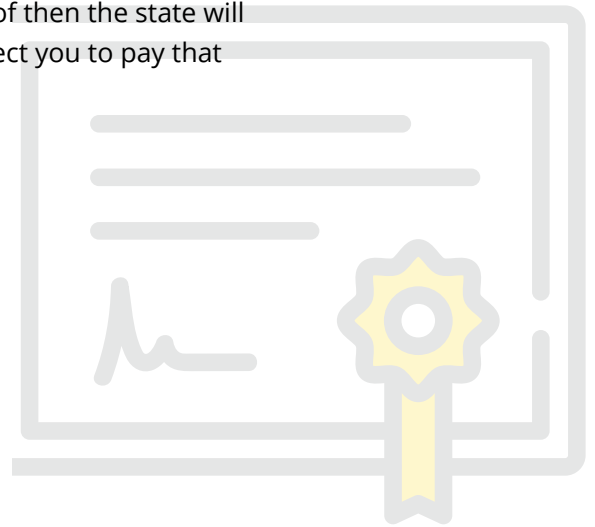
MISTAKE #8

Failing to Manage Exemption Certificates

From time to time you'll make a sale to another retailer or to a tax exempt organization (see Mistake #4). Whenever you make a sale where you don't charge sales tax, you are required to collect documentation as to why.

This documentation is referred to collectively as an exemption certificate. These certificates are filled out by your customer, held by you, and serve as your proof that you lawfully sold items without collecting sales tax.

In case of an audit, it is vital that you have your exemption certificates in order. Even if you made a completely lawful tax free sale, if you don't have the proof then the state will consider that you should have collected sales tax. They will then expect you to pay that sales tax out of pocket.



SOLUTION

Create and stick to a system for managing exemption certificates. We recommend digitizing your resale certificates for easy access. Further, exemption certificate laws vary by state. Some exemption certificates are single use, others expire after a certain period of time, and still others do not expire. We recommend auditing your resale certificates at least once per year and requesting updated resale certificates from active customers once they've expired.

Need a certificate management plan? HOST can help.

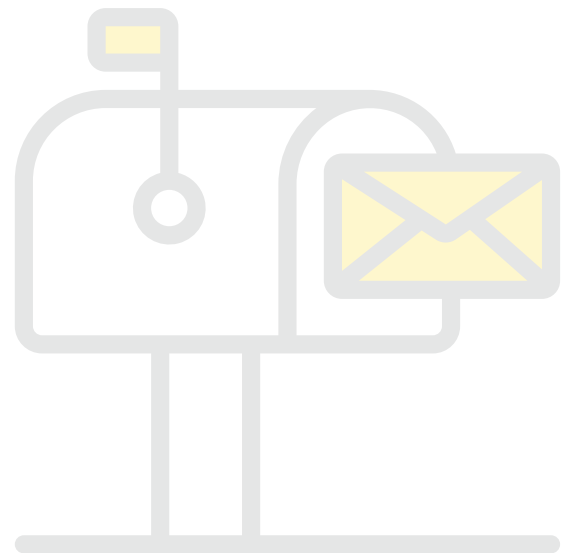
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MISTAKE #9

Ignoring State Notices

Businesses get a lot of mail. States send a lot of mail. After you've opened up your fifth letter from the state and it's just a filing deadline reminder, it's easy to shove those notices to the bottom of the pile and forget them.

Sadly, notices of important news like a filing frequency change or, worse, a sales tax audit come in the same envelope as one of those boring form letters. That's why it's vital to open and inspect each and every notice from the state. It's better to get a paper cut than ignore an audit and find yourself racking up fines and penalties.



SOLUTION

Open those notices! If you have nexus in many states, this can quickly grow overwhelming. If this is the case in your business, HOST will take over your notice management. Contact us for more detail. We promise we won't send you nine letters about it.

Start your nexus
analysis today

MISTAKE #10

Collecting Sales Tax and Not Remitting it to the State

The gravest sales tax mistake a retailer can make is collecting sales tax from buyers and failing to remit that sales tax collected to the state.

This is the only sales tax mistake on this list that can lead to criminal prosecution and jail time. And, unfortunately, we do see this in our practice. This mistake can even happen honestly - perhaps you accidentally set automatic sales tax collection in a state without being registered, or you simply misunderstood that you were supposed to file and remit sales tax to the state monthly.

To avoid dire consequences, it's vitally important to always remit every cent of sales tax you collected from buyers back to the state.



SOLUTION

If you have collected sales tax without remitting it, contact a sales tax expert immediately. We understand that honest mistakes happen, and can help you mitigate this circumstance with the state. That's even if you no longer have the sales tax you originally collected. At HOST, we're here to help you regain peace of mind when it comes to sales tax.

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About Hands Off Sales Tax (HOST)

Helping e-commerce businesses solve sales tax compliance for 24 years

Co-Founded in 1999 by **Mike Espenshade**, **Hands Off Sales Tax (HOST)** has been solely focused on sales tax.

In 2018, the world of sales tax completely changed for ecommerce based businesses with the introduction of economic nexus which requires ecommerce and remote sellers to register and collect sales tax in additional states after hitting thresholds which vary by state. HOST meets the growing demands of ecommerce companies and remote sellers alike that need a one-stop Sales Tax as a Service®!

Through our parent company, TaxMatrix, we have helped some of the largest companies in North America manage their sales tax requirements. And now we're bringing those services and our 20+ years of experience to ecommerce based businesses. We pride ourselves on continuing to provide crucial services to ecommerce businesses as the tax industry develops.

Are you looking for a partner to outsource the filing of your sales tax returns? Do you have Nexus woes and need assistance with filing sales tax registrations? Are you an entrepreneur seeking advice before taking the leap into ecommerce? Are you unsure about the taxability of your product or service? HOST has you covered so that you can keep your hands on your business.

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