

Collecting Sales Taxes Over the Internet

If you run a business with a physical storefront, collecting sales tax is pretty straightforward: you charge your customers the sales tax required by the jurisdiction where your business is located. So, if you operate a retail store in Nashville, Tennessee, you collect both state and local sales taxes from customers buying merchandise at your store.

Now, suppose you start selling your products online. Does that mean you charge them the same sales taxes on those coming into your store? It depends.

If your business has a physical presence in a state, such as a store, office or warehouse, you must collect applicable state and local sales tax from your customers. If you do not have a presence in a particular state, you are not required to collect sales taxes. In legal terms, this physical presence is known as a "nexus." Each state defines nexus differently, but all agree that if you have a store or office of some sort, a nexus exists. If you are uncertain, whether or not your business qualifies as a physical presence, contact your state's revenue agency. If you do not have a physical presence in a state, you are not required to collect sales taxes from customers in that state.

This rule is based on a 1992 Supreme Court ruling (*Quill v. North Dakota*, 504 U.S. 298, (1992)) in which the justices ruled that states cannot require mail-order businesses, and by extension, online retailers to collect sales tax unless they have a physical presence in the state. The Court reasoned that forcing sellers to comply with over 7,500 tax jurisdictions was too complex for sellers to manage, and would put a strain on interstate commerce.

Keep in mind that not every state and locality has a sales tax. Alaska, Delaware, Hawaii, Montana, New Hampshire and Oregon do not have a sales tax. In addition, most states have tax exemptions on certain items, such as food or clothing. If you are charging sales tax, you need to be familiar with applicable rates.

Determining which sales tax to charge can be a challenge. Many online retailers use online shopping cart services to handle their sales transactions. Several of these services are programmed to calculate sales tax rates for you.