

# SALES TAX 101

## THE BASICS



# A note from Spouse-ly

If you have any questions relating to getting taxes set up in your dashboard, don't hesitate to email [support@spouse-ly.com](mailto:support@spouse-ly.com).

We understand that taxes can feel complicated and scary, but that's why we love working with accountants to help share their expertise, like Tatum Accounting!

## Let's talk sales tax

One of the most confusing topics for any business owner to deal with. Whether your business is product or service-based, you may be liable to hold and remit sales tax. But how do you find that out? What do you with it once collected?

# NEXUS

## What is nexus?

Nexus is like a connection between a business and a state that helps us understand whether the business is liable for tax collection. If your business has nexus in the state, you *might* need to collect and remit sales tax there.

## Why does it matter?

Nexus is the only way states can prove if you do or don't have a requirement to the state. Many small businesses will only have a requirement to one state but for military/milspouse owned businesses, the states can add up quickly when we have multiple PCS's to account for.

## Types of Nexus

Physical - you, your employees, your office, your warehouse, etc are physically present in the state

Economic - the tricky one. All states have different economic triggers. These can be a transaction threshold or sales threshold.

Click through & Affiliate - these are less common for most small businesses. Essentially, if you are paying partners, other customers, associates to market for you or send clients your way, then you may be establishing a requirement to that state.

## How do I know if I have nexus?

The easiest way? Use an app like Avalara or TaxJar. These can get *costly* when we're utilizing their full platform. Don't get too in the weeds with their service offerings. They have amazing free resources that can give you a guideline to track your responsibilities. TaxJar has one of my favorite tools of all time: the "Sales Tax by State" chart. It's clickable; you can see which states have economic or physical nexus requirements, which states don't even have sales tax, and which states are origin or destination-based. Click the TaxJar image below to access the chart and save the link!



# ORIGIN-BASED SALES TAX

Easily one of the more complex sides of sales tax is the concept of origin-based or destination-based collection. All states are different (of course) but once we have a basic understanding of the concept, it's easy to figure out how to charge others.

## What is origin-based sales tax?

Also known as seller-based sales tax, this essentially means that the sales tax rate is determined by the location of your business. In other words, the sales tax rate is based on where the seller is located rather than where the buyer is located.

## Why do we love origin-based?

- **Simplicity:** It's straightforward for businesses because they only need to know and apply the sales tax rate of their own location.
- **Consistency:** The sales tax rate remains the same regardless of where the buyer is located

## How does it work?

Let's say you have a business in State A, which has a sales tax rate of 6%. If you sell a product to a customer in State B\*, which has a different sales tax rate, you would charge the sales tax rate of State A, where your business is located.

# DESTINATION-BASED SALES TAX

## What is destination-based sales tax?

Also known as buyer-based sales tax, means that the sales tax rate is determined by the location of the buyer's delivery address. In other words, the sales tax rate is based on where the buyer is located rather than where the seller is located.

## Why do we love destination-based?

- **Fairness:** It ensures that sales tax is collected based on where the actual sale occurs, aligning with the principle that consumption taxes should benefit the location where the product or service is consumed.

## Why do we have a love/hate relationship?

It is so much more complex than origin-based. Even though you're reporting remittance to the state you're in only, you have to know the sales tax rates of other states, cities, localities to ensure the customer is charged appropriately.

## How does it work?

We still have a business in State A, which has a sales tax rate of 6%. If you sell a product to a customer in State B, which has a sales tax rate of 7%, you would charge the sales tax rate of State B, where the buyer is located. We're reporting the collection of sales tax to State A only.



# FAQ'S

## **Are digital goods taxable?**

Downloadable products, courses, ebooks, Software as a Service (SaaS) can all be taxable products depending on the state you have nexus in. Again, every state is different so, know the rules of where you have nexus and once you are close to establishing nexus elsewhere, learn the rules of the other states.

## **Is shipping taxable?**

Generally, no. As long as shipping is its own line item on the invoice or receipt. However, as with everything in this e-book, it's dependent on the state.

## **When should I register for a sales tax permit?**

The best practice is to register when you register your business with the state and before you've made any sales. Be cognizant that until you make a taxable sale, you will need to report zero-dollar returns in order to avoid any penalties.

## **Do I still have to remit sales tax if I work with a marketplace facilitator?**

A majority of states have passed Marketplace Facilitator Laws. These laws require Amazon, Etsy, etc to collect & remit sales tax for you. However, if you are processing sales outside of these platforms, you will need to collect & remit those on your own. Again, this varies by state!



## **STILL HAVE QUESTIONS?**

Reach out to us about how we can help you understand your financial statements and make better decisions for your business.

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