

**Sales Tax Compliance for *Online* Entrepreneurs**  
**A Quick Guide to Understanding Your Sales Tax Responsibilities**  
**(Last updated April 2025)**

**DISCLAIMER:** This Quick Guide is intended for general information only. It does not address specific facts and circumstances that may be relevant to your situation. It is not and should not be construed as legal advice. Qualified legal counsel should be consulted for advice on all legal issues, including without limitation, tax issues and other regulatory compliance matters.

### **Why Sales Tax Matters for Online Entrepreneurs**

Understanding state and local sales tax is crucial for entrepreneurs selling goods or services online. Ignoring sales tax obligations can lead to:

- Unexpected tax liabilities
- Substantial fines and penalties
- Tax audits requiring extensive historical documentation
- Legal actions from state taxing authorities

### **Who Needs to Collect Sales Tax and Pay It Over (Remit It) to Taxing Authorities?**

- Online retailers selling physical products (whether online or in-person)
- Entrepreneurs offering digital goods or performing certain services

### **Important Considerations When Selling Online:**

- Typically the **seller** is responsible to collect and remit the tax even though the buyer pays it!
- When selling online the tax is normally paid to the state of the **buyer's location**!
- When selling online the sales tax law in the **buyer's location** usually determines if the transaction is taxable and the rate of tax that must be collected!

### **When Do I Need to Collect Sales Tax?**

#### **You generally need to collect sales tax if you:**

- Sell physical products online and you and sell to in-state buyers
- Meet "economic nexus" thresholds in the buyer's state or have assets or employees in that state
- Sell digital products or services in states where they are taxable

#### **You may not need to collect sales tax if:**

- You have no physical presence in the state (property or employees)
- You do not meet the state's economic nexus thresholds
- Tax is collected by a Marketplace Facilitator
- The buyer's state and locality have no sales tax
- Selling to tax-exempt entities (requires documentation)

**TIP:** Sales tax laws differ significantly between states. One example of a resource on this subject is Tax Foundation “Economic Nexus Treatment by State, 2024” at <https://taxfoundation.org/data/all/state/economic-nexus-by-state-2024/>. Always verify specifics with each state's tax authority—one tool to locate contact information for taxing authorities/agencies on a state-by-state basis is Federation of Tax Administrators (FTA) – State Tax Agencies at <https://taxadmin.org/fta-members/>.

## Online Sales & Economic Nexus

Even you have no assets or employees in a buyer's state, if you sell online to customers, *economic nexus rules* may require you to register and collect sales tax where you meet revenue or transaction thresholds.

### Important Considerations:

- States differ on thresholds for economic nexus (often based on revenue or number of transactions).
- Online platforms (Shopify, Amazon, Etsy) may automatically collect sales tax, but it's your responsibility to verify.

***ACTION STEP!*** Regularly review your sales data and stay updated on nexus laws in states where you frequently sell.

## Using Online Marketplaces and E-commerce Platforms

Many entrepreneurs rely on platforms that handle aspects of sales tax collection, but compliance remains your responsibility.

### Some Other Things You Need to Know:

- Understand which platforms collect and remit taxes on your behalf.
- It's important to maintain clear records to reconcile collected and remitted sales taxes.
- Some states require marketplace sellers to register as doing business in the state, even if sales taxes are collected by marketplace facilitator.

***ACTION STEP!*** Check with each marketplace's seller guidelines and your state's tax authority for specific responsibilities.

## Sales Tax Exemptions & Resale Certificates

Some purchases by buyers may be exempt from sales tax. Entrepreneurs also may avoid paying sales tax on certain purchases they make. In either case, sales or purchases qualifying for an exemption should be documented using an appropriate “exemption certificate.”

### Exemptions may apply when buying:

- Inventory or materials for resale
- Equipment used exclusively for manufacturing or production

**CAUTION!:** Not all purchases qualify for exemption. Misuse can lead to penalties.

**ACTION STEP!:** Require online buyers to provide an appropriate exemption certificate if sales tax is not collected on the sale, and always provide exemption certificates on purchases you make that are exempt from sales tax. Maintain this documentation as required by taxing authorities.

## **Recordkeeping & Compliance**

### **Some Best Practices for Entrepreneurs to Reduce Risks of Non-Compliance:**

- Obtain Sales Tax Permits for applicable states.
- Accurately track taxable and non-taxable sales.
- Keep detailed records of collected and remitted taxes.
- File and pay sales tax timely (monthly, quarterly, or annually).

**TIP!:** Consider automated sales tax solutions like TaxJar, Avalara, or QuickBooks to streamline compliance.

Need Assistance? Seek guidance tailored to your circumstances from a sales tax professional for state-specific advice and compliance assurance.