

Guide to Sales and Use Tax

The Importance of Sales Tax Management

If your business engages in the sale of goods or services, either within the U.S. or internationally, you may be required to capture and remit sales tax (or international VAT/GST/CT/etc.) to the local government. Different states and even different jurisdictions within said states have different rules and requirements for determining sales tax requirements. Your tax management team should ensure your business complies with jurisdictional sales tax requirements to ensure your business adheres to legal requirements and avoids penalties. Failure to comply can result in costly fines, audits, and disruptions to operations.

Understanding Sales Tax Basics

What is Sales Tax?

Sales tax is a tax imposed on the sale of goods and services. Generally, sales tax is a percentage of the purchase price and is added to the purchase to determine the final transaction amount. Sales tax is collected from the consumer at the time of purchase and remitted to the tax authorities on jurisdictional returns.

Key Sales Tax Concepts

- **Taxability and rates:** Taxability refers to whether an item is taxable, nontaxable or exempt. For example, most tangible personal property, often referred to as “TPP”, is taxable. However, services in most states are nontaxable. The rate refers to the percentage of tax to be withheld. The rate varies depending on the item, applicable state and sub jurisdictions, and potentially other factors such as weight and juice contents.
- **Economic Nexus and Thresholds:** Nexus refers to a business presence in a state which makes an out-of-state seller liable for sales tax in that state once a certain threshold is met. A threshold is a state specified number of transaction or total sales which when exceeded triggers a requirement to collect and remit sales tax in that state.
- **Exemptions and Resale Certificates:** Certain businesses may be exempt from collecting and remitting sales tax. This includes some nonprofit organizations, government agencies and merchants purchasing goods for resale. Proper documentation in the form of a valid exemption or resale certificate is required in such cases.



3 Steps to Sales Tax Management.

Now that we've discussed what sales tax is, why it's important and key concepts, let's jump into the three steps you can take to effectively manage your businesses sales tax compliance.

Step 1: Identify if and where you may owe

The most important step to determining your sales tax liabilities is determining where you may owe sales tax. To do this, determine which states you have sales in and search the sales tax rules in that state for the goods or services you are selling. Most states require you to collect and remit sales tax if you exceed a certain number of transactions or a certain sales tax amount in that state.

If you fall under the category of a nonprofit or a reseller you may not be subject to sales tax. However, you remember to ensure you are maintaining active exemption or resale certificate and tracking expiration dates.

Step 2: Identify how much you owe

After determining where you may owe sales tax, you can determine the amount of sales tax you owe by determining the rate of sales tax to be applied in that specific state. Be sure you are also looking out for any local city or county sales tax you may be liable for. The percentage is then multiplied by the purchase amount of a transaction. Be sure to separately state this on the customer invoice!

Step 3: Collect and remit sales tax

Now that you've determined how much you owe and where you owe, it's time to file those returns! Sales tax returns are processed and remitted according to the specific state rules and systems. Be sure you are tracking monthly, quarterly and annual filing deadlines to ensure you are not hit with any fees or penalties!

Following these steps will get you started on your path to sales tax compliance! Please note that this is not a comprehensive list of considerations for sales tax compliance and rules and regulations vary by state and jurisdiction. Please reach out to us at Xscape for any questions you have on sales tax compliance!

The Xscape Team!