

Sales Tax 101:

A Guide for Multi-State Sellers



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The Supreme Court's *South Dakota vs. Wayfair* decision added complexities and frustrations for many businesses selling into multiple states, whether they sell products online, over the phone, or through a brick-and-mortar location. The new rules impact most organizations that sell goods (and certain services) to an end user, and they impact many industries including retail, ecommerce, software, manufacturing and distribution.

To further complicate the matter, there are over 12,000 taxing districts, each with potentially different tax rates. It's no wonder businesses struggle to keep up with their sales tax obligations and often don't even realize when they are violating the rules.

We've developed the 11 steps below to help you minimize your risk and ensure compliance with your sales tax obligation.



1

Determine physical nexus:

Physical nexus is created when you have a physical presence in a particular state. The most common factors establishing physical nexus are having offices, employees, contractors, warehouses, inventory or affiliates in a state. Having physical nexus usually results in a sales tax obligation in that state.

2

Determine economic nexus:

Economic nexus is when you have an economic connection to a particular state. Each state determines the sales dollar or transaction number thresholds that create an economic connection. You need to know the thresholds for each state where you sell goods or services, and then collect, file and pay sales tax in those states where the thresholds have been reached.

3

Determine taxability:

Determine whether your products/services are taxable in the states where you have physical or economic nexus. Taxability can differ state to state depending on your products/services—a detailed analysis is recommended.

4

Register for sales tax permits:

Register for sales tax permits in those states where you have nexus (either physical or economic), and your sales are taxable.

5

Decide how to apply sales tax:

Determine how you will apply sales tax to customer invoices. Can your ERP system handle the process, or do you need add-on software?

6

Manage exemption certificates:

Develop a system to manage exemption certificates, which are provided by tax-exempt entities or buyers that purchase an item with the intent to use it in a way that is exempt from tax. Most exemption certificates are provided by resellers, or nonprofit or government agencies. If your exemption certificate recordkeeping process isn't accurate, your company may be on the hook for uncollected sales tax.

7

Track due dates and reporting requirements:

Track and manage sales tax filing due dates and reporting processes (mailed vs online, check vs electronic payment) for each jurisdiction where you have sales tax nexus.

8

File returns:

Complete and file returns by the due date and ensure timely payments are made.



9

10

Address notice management:

Develop a notice management process to ensure you are responding to notices in a timely manner. States send notices to inform companies about a requirement, adjustment or error involving their tax account.

Prepare for audits:

Manage nexus questionnaires and/or audits as necessary. A nexus questionnaire is typically a letter or form sent by a state to inquire about an organization's nature and extent of business activities in the state. Not responding to a nexus questionnaire could lead to an audit.

11

Monitor nexus:

Continually monitor sales and in-state activities to determine when nexus is established (or nearing) in new jurisdictions.



Consider Outsourcing Your Sales Tax Function

In order to address budgetary shortfalls, many states are aggressively pursuing and penalizing those companies that are not compliant with their state tax obligations. This risk, coupled with the increasing complexity in the compliance process, has resulted in a growing number of businesses deciding to outsource their sales tax obligation to an expert. This way, company finance teams can minimize their risk and spend their time on more productive, strategic initiatives.

At CSH, our sales tax outsource team will work with you to:

- ✓ Identify and resolve your sales tax exposure
- ✓ Confirm or correct taxability and rate determinations
- ✓ Assume control of your compliance process
- ✓ Create audit-ready files
- ✓ Monitor nexus and advise on new products and services

Contact us today to talk to one of our sales tax experts. We'll discuss the specific sales tax challenges and issues you are facing, as well as solutions our outsource team can provide to help reduce your risk and ease your burden.

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