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Ecommerce Sales Tax: Everything You Need to Stay Tax-Compliant



There once was a time when online shopping was tax free.

But those days are over.

Online retailers, on top of all of the other executive and administrative tasks on their to-do lists, must now also ensure tax compliance for their businesses. Failure to do so could lead them to incur hefty fines and penalties, like losing their business license. And nobody wants that.

Luckily there are resources and online tools to help you understand tax law in every place and platform in which you sell, making it easy to collect, remit, and report sales tax in more than 12,000 tax jurisdictions in the U.S. (and even more around the world).

A quick history of ecommerce sales tax law

Before you became a business owner, you probably didn't realise how much time you'd spend on administrative minutiae. That includes collecting and remitting ecommerce sales taxes for purchases made via your online store.

Since the United States does not have a federal tax law, states are free to determine tax rates, payment frequency, and the conditions determining whether or not a transaction is taxable.

This creates an inordinately confusing process for business owners when setting up an online store of their own, or even when selling through marketplaces such as Amazon or Walmart.

Tax rates, if they apply at all, hinge on several factors, including the location of the sale, the end user's location, and the product or service sold. Since the first legitimate online transaction ever made — purportedly in August 1994, involving the sale of a Sting CD — legislators have had to play catch up to collect taxes on ecommerce purchases.

After all, sales tax was historically based on a business's physical presence in a tax jurisdiction, such as a warehouse, fulfillment center or physical store. However, the 2018 U.S. Supreme Court case South Dakota v. Wayfair decision determined that ecommerce businesses are required to file sales tax returns for transactions made in every state in which they meet certain thresholds for economic nexus (more on that later!), just like brick-and-mortar retailers.

How ecommerce sales tax works today

Sales tax is a small percentage of an item's sale price that the retailer adds on. Since sales tax is a "consumption tax" consumers only pay sales tax on taxable items they buy at retail.

Most tangible personal property (e.g., furniture and clothing) is taxable. Forty-five U.S. states and Washington D.C. collect sales tax. In addition to a statewide sales tax, most states allow local jurisdictions such as cities, counties, and other "special taxing districts" to collect local sales taxes.

Delaware, Montana, New Hampshire, Oregon, and Alaska are the only states that do not charge a sales tax. Alaska is unique, however, because while this state has no statewide sales tax, it allows its cities and towns to levy sales taxes.

Steps to stay sales tax compliant

Small business owners must know the tax rules for each state where they do business to determine if they are liable for taxes based on economic nexus rules.

Ecommerce platforms have built-in automation to handle the most common sales tax calculations. You can also set up tax overrides to address unique tax laws and situations.

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However, the software does not file and remit your taxes for you; you must still register your business with your local tax authority.

Here are some things you can do to ensure you remain tax-compliant while selling online:

Get familiar with economic nexus.

Regarding online sales, most states levy taxes based on the consumer's physical location, not the business's. In other words, if you do business in Pennsylvania, you must charge sales tax based on the tax rate in Pennsylvania, even if your business is located elsewhere.

This is known as "destination-based" sales tax sourcing, which most states use. Some states use "origin-based" sourcing, in which the business's physical location determines the tax rate and other applicable rules. More on that later.

However, sales taxes only apply when internet sales reach a certain threshold of transactions or economic value. "Economic nexus" defines these thresholds and other conditions that establish nexus, such as hiring a remote employee, hosting a tradeshow or establishing a dropshipping relationship in that state.

Here are the types of nexus that are important for online retailers:

Click-through nexus.

States can tax a business that receives a significant number of referrals from other businesses in the state, even if they don't have a substantial physical or economic presence there. Consequently, sales made through referral programs and affiliate links are taxable.

Note that the threshold for click-through nexus is typically much lower than for economic nexus. Most states have thresholds between $10k and $50k.

Affiliate nexus.

Businesses establish a physical connection through in-state affiliates, employees, representatives, and other entities.

For example, in Arizona, in-state affiliates establish affiliate nexus for an out-of-state business by cross-promoting and advertising the business, or by taking orders or accepting returns on behalf of the business.

Some states, including Georgia, establish affiliate nexus if an in-state entity provides assembly, delivery, or maintenance services for the remote vendor's customers.

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Origin versus destination sales tax.

To make sales tax even more complicated, businesses must take into account whether a state where a product is sold is an origin-sourced state or a destination-sourced state. In short, it comes down to “sourcing” or where a sale is taxed.

On one hand, origin-sourced sales are taxed where the seller is located; on the other hand, destination-sourced sales are taxed at the location where the buyer takes possession of the item sold. Most states and Washington, D.C. are destination-based.

Listed below are the 12 origin-based states:

- Arizona
- California (considered a "mixed sourcing state": City, county, and state sales taxes are origin-based. District sales taxes are destination-based.)
- Illinois
- Mississippi
- Missouri
- New Mexico
- Ohio
- Pennsylvania
- Tennessee
- Texas
- Utah
- Virginia

Sourcing rules apply differently if you’re a remote seller, i.e., a business is based in one state and sells a product to buyers in another state where you have nexus. This would mean that businesses would need to collect sales tax in this scenario. In this case, sales will usually be destination-based. If selling to customers in a state where you don’t have nexus, you don’t have an obligation to collect sales taxes in most cases.

This is why as a retailer, it’s crucial to know whether you’re located in an origin-sourced state or a destination-sourced state, so you can collect the correct taxes from your customers, each and

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every sale.

Understand the tax rules for each state.

States typically alter tax rules according to their revenue needs. For example, Virginia exempts gun safes valued at $1,500 or less from sales tax.

Not all states tax digital goods, such as apps, downloadable art, and Software-as-a-Service (SaaS) products. Deadlines for filing taxes and registering for a sales tax permit differ by state, so it's crucial to keep an eye on things.

Consider investing in sales tax software.

Sales tax software automatically adds sales tax to your transactions. Software companies track taxes for each state and locality and automatically update the software when the rules change.

The software integrates with your ecommerce platform and website, so that product pricing includes applicable taxes.

Register for a sales tax permit.

Most states require businesses to register for a sales tax permit (also known as a seller's permit), which authorises online sellers to collect sales taxes on purchases within that jurisdiction. Most states consider it illegal to collect sales tax without a permit because retailers may simply pocket the money.

Remember, you must register for a permit in every nexus state. In some states, remote sellers must obtain a sales tax permit when the economic nexus threshold is crossed (i.e., before the next sale). Other states, such as Colorado, allow more time (up to 90 days after economic nexus is established).

To register for a permit, visit your state's Department of Revenue website. Follow the steps to register your business. You'll need to provide your EIN and other business identifying information.

Collect sales tax.

Set up sales tax collection on your website or marketplaces where you do business. While the end user pays consumption taxes, retailers are responsible for collecting taxes.

Most ecommerce platforms, including BigCommerce, allow users to integrate tax software like Avalara, Vertex, TaxJar, or TaxCloud into their online store, which automatically charges

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applicable taxes.

If an automatic tax provider cannot be reached, BigCommerce uses a default or “fallback” tax rate of 10%.

Report and file sales tax.

Sales taxes are due on a monthly, quarterly, semi-annual, or annual basis. When you receive a sales tax permit, the state assigns you a tax filing frequency.

Bear in mind that every state has its own sales tax deadlines. When the due date arrives, you must report how much sales tax you’ve collected in each state to the state and local taxing authorities.

Unfortunately, it’s not as simple as adding up the total transactions in each state. States want to know how much sales tax you collected in each taxing jurisdiction, including cities, counties, and special tax districts.

If you sell on multiple channels, you must integrate sales figures into one sales tax report for each applicable state.

Some tips for filing and reporting:

- **Set reminders:** Tax deadlines and payment frequency differ by state. Once a state assigns you a tax filing frequency, set calendar reminders to prevent filing late and incurring penalties. Hiring a tax professional or CPA can help to reduce complexity.
- **Separate sales tax from other receivables:** Don’t spend sales tax along with company funds. Open a separate bank account to hold the sales tax you’ve collected so you won’t jeopardise your cash flow.
- **Always file “zero returns”:** Even if you didn’t collect sales tax over the taxable period, always file a return by your due date. Some states levy penalties for failing to file a zero return.

Take advantage of discounts: About half the states with a sales tax compensate retailers for collecting taxes. These states allow you to keep a very small percentage (usually 1-2%) of the sales tax you collect from buyers.

State by state ecommerce sales tax breakdown

Whether you’re in Alaska or California, New York or New Hampshire, each state has a specific tax breakdown and code to follow for your ecommerce store.

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Most states have substantial sales thresholds for sales tax nexus. The most common is $100,000 in gross annual sales in the last four quarters, with the second common being $100,000 in gross annual sales or 200 transactions. California and Texas have a threshold of $500,000, so retailers may be exempt from collecting taxes in many states. New York has the highest threshold, requiring retailers making $500,000 in gross annual sales and 100 transactions to register to collect and remit sales tax.

Meanwhile, states like Idaho, Iowa, North Dakota, and Tennessee require online sellers who make $100,000 in gross annual revenue to pay sales tax, regardless of the number of transactions.

Below is a comprehensive list of U.S. states and their respective tax thresholds (as of September 2025):

State	Transaction threshold	Sales threshold	Notes
Alabama	—	$250,000	Applies to prior 12 months
Alaska	—	$100,000	Standard threshold for many states
Arizona	—	$100,000	Standard threshold for many states
Arkansas	200	$100,000	Either condition triggers nexus
California	—	$500,000	Applies to current or previous calendar year
Colorado	—	$100,000	Standard threshold for many states
Connecticut	200	$100,000	Both thresholds must be met
Delaware	—	—	No economic nexus
Florida	—	$100,000	Standard threshold for many states
Georgia	200	$100,000	Either condition triggers nexus
Hawaii	200	$100,000	Either condition triggers nexus
Idaho	—	$100,000	Applies to current or previous calendar year
Illinois	200	$100,000	Either condition triggers nexus
Indiana	—	$100,000	Standard threshold for many states
Iowa	—	$100,000	Standard threshold for many states
Kansas	—	$100,000	Standard threshold for many states
Kentucky	200	$100,000	Either condition triggers nexus
Louisiana	—	$100,000	Standard threshold for many states
Maine	—	$100,000	Standard threshold for many states

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Maryland	200	$100,000	Either condition triggers nexus
Massachusetts	—	$100,000	Standard threshold for many states
Michigan	200	$100,000	Either condition triggers nexus
Minnesota	200	$100,000	Either condition triggers nexus
Mississippi	—	$250,000	Applies to prior 12 months
Missouri	—	$100,000	Standard threshold for many states
Montana	—	—	No economic nexus
Nebraska	200	$100,000	Either condition triggers nexus
Nevada	200	$100,000	Either condition triggers nexus
New Hampshire	—	—	No economic nexus
New Jersey	200	$100,000	Either condition triggers nexus
New Mexico	—	$100,000	Standard threshold for many states
New York	100	$500,000	Both thresholds must be met
North Carolina	—	$100,000	Standard threshold for many states
North Dakota	—	$100,000	Standard threshold for many states
Ohio	200	$100,000	Either condition triggers nexus
Oklahoma	—	$100,000	Standard threshold for many states
Oregon	—	—	No economic nexus
Pennsylvania	—	$100,000	Standard threshold for many states
Puerto Rico	200	$100,000	Either condition triggers nexus
Rhode Island	200	$100,000	Either condition triggers nexus
South Carolina	—	$100,000	Standard threshold for many states
South Dakota	—	$100,000	Standard threshold for many states
Tennessee	—	$100,000	Standard threshold for many states
Texas	—	$500,000	Applies to prior 12 months
Utah	—	$100,000	Standard threshold for many states
Vermont	200	$100,000	Either condition triggers nexus
Virginia	200	$100,000	Either condition triggers nexus
Washington	—	$100,000	Standard threshold for many states
Washington, D.C.	200	$100,000	Either condition triggers nexus
West Virginia	200	$100,000	Either condition triggers nexus

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Wisconsin	—	$100,000	Standard threshold for many states
Wyoming	—	$100,000	Standard threshold for many states

Ecommerce sales tax requirements by products

Some states impose lower tax rates on specific commodities or exempt them altogether. For example, Illinois charges sales tax at a reduced rate of 1% on grocery items, while other products are taxed at 6.25% plus any local rates that apply.

States tax some services, but exemptions are common. Commodities considered “demerit goods” like alcohol, motor fuel, and tobacco are subject to selective sales tax.

Sales tax exemptions

Most states consider survival items such as groceries, clothing, and prescription medications nontaxable. States that don’t provide a complete exemption for these items often impose a lower tax rate.

For example, in New York state, clothing and footwear under $110 are considered nontaxable at the state level. Seven states including Alabama, Mississippi and South Dakota tax groceries at the full state sales tax rate.

In general, tax exemptions are based on:

- The item being sold
- The identity of the purchaser
- The use to which the item will be put

Wholesale exemptions.

Wholesalers can claim an exemption from sales-and-use tax on merchandise purchased for resale. Examples include businesses that sell fresh produce to restaurants or parts to a manufacturer. Each state has slightly different requirements for claiming the reseller exemption and a list of wholesale-exempt products.

The business you sell to must provide a resale certificate at the time of purchase so you can verify that they are a legitimate retailer.

Nonprofit exemptions.

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Nonprofits such as charitable groups, or religious and educational organisations are exempt from income tax and sales tax. This includes churches, schools, civic groups, clubs, labor relations groups, and agricultural organisations.

To qualify for tax-exempt status, nonprofits must:

- Submit an application for recognition with the IRS
- File the appropriate paperwork to maintain exemption status

Sales tax holidays.

Many states hold periodic sales tax holidays during which specific items are tax-free for a limited time. This is often around a theme, such as going "Back to School" or disaster preparedness.

For example, Alabama laws prevent the collection of sales tax from July 18 – 20 on clothing items under $100, computers under $750, and school supplies under $50. Storm-prone Texas exempts disaster preparedness items up to $75, storm devices up to $300, and generators up to $3,000 from sales tax from April 26 – 28.

Ecommerce sales tax when selling overseas

Some U.S. states provide tax exemptions for overseas sales. Still, some destination countries will charge value-added tax (VAT) or goods and services tax (GST) for items when they enter as imports.

Australian retailers with revenue of less than $75,000 in 12 months don't have to register to collect GST, while the qualifying threshold in New Zealand is $60,000. As of July 1, 2021 sellers catering to customers in the EU must register for EU VAT upon reaching the annual threshold of EUR $10,000.

Sales tax rates in Asia range from 5 – 50%. Singapore levies a 9% GST, however, the registration threshold is SGD 1 million in annual sales (roughly US$729,000).

China's standard VAT rate is 13% for most goods and services, while some services regarding education, healthcare, travel, and other daily lifestyle services are taxed at 6%. Hong Kong does not impose sales taxes.

Channel-specific sales tax guidance

But how do online retailers who sell on marketplaces like Amazon, eBay, Etsy, or Shopify make sense of sales tax law? How do businesses know when and where to collect tax for sales on these

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sites?

Since the 2018 Supreme Court ruling in the case South Dakota v. Wayfair,marketplace platforms such as these are classified as “marketplace facilitators” to sellers, shifting the obligation of tax collection to the shopping platforms and creating a new set of marketplace facilitator laws for sites to follow.

Although some of the burden of handling sales tax has been removed for sellers, marketplace facilitator laws vary by state, which affects registration requirements based on how a seller makes sales in each state.

The four factors that affect registration requirements for marketplace sellers include whether you are a:

- **Remote multichannel seller:** You sell through a marketplace(s) and other channels into the state and have no physical presence in the state
- **Remote marketplace seller:** You only sell through a marketplace(s) into the state and have no physical presence in the state
- **In-state multichannel seller:** You have a physical presence in the state and sell through a marketplace(s) and other channels in the state
- **In-state marketplace seller:** You have a physical presence in the state and only sell through a marketplace(s)

Amazon tax guidance.

Online retailers have Amazon to thank for marketplace facilitator laws, which began to appear after many states noticed that while Amazon had started taxing sales of its own products, third-party sales were not, leaving money on the table that could have been going to the states.

In states with marketplace facilitator laws — which includes almost all states with the exception of Montana, Oregon, New Hampshire, and Delaware — platforms like Amazon handle the sales tax process for transactions made through their sites. Tax is easily calculated based on the buyer's shipping address and the specific taxability of the item being sold.

What began as a burgeoning online bookstore in the mid-90s has now become one of the largest and most profitable online ecommerce marketplaces of all time, hitting nearly $638 billion in sales in 2024. Sellers may be a one-person team or an entire branded store, and products vary from clothing to toys to digital items, all of which are tax in the platform itself. Amazon paved the way for how online marketplaces operate today, leading many other sites to follow suit.

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eBay tax guidance.

Another platform that must follow marketplace facilitator laws is eBay, one of the first online auction sites that allowed person-to-person transactions. Launched in 1995, it was first known as "AuctionWeb," with its first sale being a broken laser pointer for just under $15.

Even though it's grown to serve over 190 markets worldwide and provide a marketplace to more than 132 million yearly active users, it still operates in the same online-auction style marketplace it was in the 90s, letting sellers list, ship, and sell directly to others around the world. One feature has changed, however: eBay now provides tax calculation and tracking for sales that occur on their platform. And since many users run their stores via a one-person team, having tax handled in the app has greatly improved the experience, freeing up time for photographing and promoting products instead of dealing with complex tax law.

Etsy tax guidance.

Even handmade items are covered by marketplace facilitator laws when sales occur on Etsy.com. Considered the leading global marketplace for unique, creative goods, Etsy has blossomed into the go-to platform for sellers and shops with handmade products. Founded in 2005 in a humble Brooklyn apartment, it's seen massive growth in the creative community, reporting revenue of $2.8 billion in 2024.

With a global reach and over 100 million items listed, Etsy is favored due to its high rate of personalisation, which gives artists and makers power to showcase their brand and personality in bold, new ways. These days Etsy has evolved to offer built-in tax calculating, collecting, and reporting, giving these makers much more time to create products and market them in the best way possible.

Shopify tax guidance.

Another popular ecommerce platform is Shopify, which is generally not considered a marketplace facilitator. However, when conducting commerce on the Shop app, Shopify does act as a marketplace facilitator for sales made through that specific channel.

Thanks to marketplace facilitator laws, as of January 1, 2025 Shopify automatically calculates, collects, and remits sales tax on orders in all states.

The final word

Sales tax compliance requires business owners to navigate an ever-changing patchwork of rules, regulations, and deadlines, all of which vary widely between states and jurisdictions.

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Luckily, most ecommerce platforms and online marketplaces today include built-in features that automatically track tax rates and add the correct amount to the sale price.

For more complex sales tax calculating and tracking, BigCommerce has integrated with popular tax service providers like Avalara, Vertex, TaxJar, and TaxCloud to support automatic tax calculation in the cart and at checkout, as well as handle tax document submission to your tax provider.

However, even if you take advantage of this feature, it's still important to understand general tax rules, apply for a permit in applicable nexus states, and remit your taxes before the deadlines.

FAQs about ecommerce sales tax

What is the difference between sales tax and use tax?

Sales tax is a tax on the sale of goods and services, collected by the seller at the point of purchase and then remitted to the government. Use tax, on the other hand, applies to purchases made out of state for use within the buyer's state, where sales tax was not collected. It ensures that out-of-state purchases are taxed similarly to in-state purchases, maintaining tax fairness and revenue for the state. Both taxes aim to prevent tax evasion and ensure fair competition among businesses.

What is origin and destination-based sales tax sourcing?

Origin-based tax sourcing refers to taxes based on the online retailer's home state, even if goods and services are provided to an out-of-state buyer. Conversely, destination-sourced sales are taxed at the location where the buyer takes possession of the item sold.

What are the consequences of not collecting sales tax?

Not collecting sales tax can result in significant legal and financial consequences. Businesses may face audits, penalties, interest on unpaid taxes, and potential back taxes owed to state and local governments. Failure to comply can also damage your reputation and lead to legal action, which can be costly and time-consuming. Additionally, non-compliance can disrupt business operations and result in lost customer trust. Ensuring proper sales tax collection and remittance is crucial to avoid these risks and maintain smooth, lawful operations.

What is a sales tax nexus?

"Nexus" establishes that a business has a significant connection to a particular taxing jurisdiction. This connection is established by making a certain amount of sales to customers

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located within that state, receiving referrals from entities in that state, and/or maintaining a physical presence through a warehouse, office or relationship with a supplier.

What are the common mistakes businesses make with sales tax?

Common mistakes businesses make with sales tax include not correctly determining nexus, leading to incorrect tax collection across states. They often fail to keep up with changing tax laws and rates, resulting in compliance issues. Misclassifying products or services can also cause incorrect tax calculations. Additionally, many businesses neglect to maintain proper records and documentation, which is crucial for audits. Another frequent error is not applying for or renewing necessary sales tax permits. These mistakes can lead to penalties, fines, and legal complications, impacting a business's financial health and reputation.

How can ecommerce businesses automate sales tax calculation across multiple states?

Businesses and retailers that wish to automate sales tax calculations across multiple states can do so by using specialised sales tax automation software that integrates with their ecommerce platforms. Third-party tools like TaxJar, Avalara, Vertex, and TaxCloud are able to make real-time sales tax rate calculations, handle nexus tracking, and automate filing tax reports, ensuring compliance with diverse and ever-changing regulations.

What are the penalties for failing to collect or remit ecommerce sales tax correctly?

Failure to collect or remit ecommerce sales tax correctly can result in significant penalties, substantial fines, accrued interest, liens on assets, loss of business licenses, and can even result in criminal charges and/or jail time. Each state has different penalties for failing to collect and report sales tax, which is why it’s important to understand the (very) nuanced law surrounding sales tax and, when in doubt, learn to lean on the right tools to help calculate, track, and remit taxes correctly.

How does sales tax apply to digital products or SaaS offerings sold online?

The application of sales tax to digital products and SaaS offerings sold online varies greatly by state and local jurisdiction in the United States, as there is no uniform federal sales tax system for these items. Therefore, businesses must determine their specific obligations based on where they establish nexus and the differing tax laws of each state where they sell these digital products.

How can international sellers handle U.S. ecommerce sales tax obligations?

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International sellers can manage their U.S. ecommerce sales tax obligations by understanding when and where they have sales tax nexus, by registering for a permit in those specific states and jurisdictions, and then by collecting and remitting the correct amount of tax to those states and jurisdictions.

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