



Sales tax guide:

What small businesses need to know



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Sales tax basics



What is sales tax?

Sales tax is a tax that businesses **collect when selling certain goods or services:**

- The buyer pays the sales tax, but you, as the seller, collect it.
- You then must remit the sales tax to the proper state or local tax agency.

States have their own sales tax laws, meaning **the tax rate will vary by state.**

However, many counties, cities, or districts may have an additional sales tax that you need to include. **The total sales tax rate is:**

Sales tax formula



Sales price



Total sales
tax rate



Sales tax

Example

$\$50.00$ sales price \times 7.5% total sales tax rate = $\$3.75$ sales tax
 $\$50.00$ sales price + $\$3.75$ sales tax = $\$53.75$ total amount, including sales tax

How to calculate sales tax

To calculate sales tax, you need to multiply the price of an item or service by the tax rate.

Here's how to calculate sales tax:

1. Determine your total sales tax rate:

Start by finding out the tax rate applicable in your area using the calculator above. For example, say your total sales tax rate is 7.5%.

2. Identify the price of your item or service:

Next, determine the price of the item or service on which you want to calculate the sales tax. Let's say the price is \$50.

3. Calculate the sales tax:

Multiply the price by the tax rate to calculate the sales tax amount. In our example, \$50 multiplied by 7.5% equals \$3.75. Therefore, the sales tax on a \$50 item would be \$3.75.

4. Figure the total amount:

If you want to find the total amount, including sales tax, simply add the sales tax amount to the original price. In this case, \$50 plus \$3.75 equals \$53.75.

When to charge sales tax

Whether or not you need to charge sales tax depends on various factors, like your business location and the type of goods or services you sell.

You may need to charge sales tax if you are selling:



Physical goods

Clothing, books, furniture, electronics, food



Services

Haircuts, legal advice, car repair, house cleaning



Digital products

Books, online courses, software, stock photos, music downloads

Sales tax calculations made easy with QuickBooks.

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How much sales tax do you need to collect?

How do you know if you should charge based on the location of your business or your customer? That depends on whether you operate in an origin-based state or a destination-based state:

- **Origin-based state:** Sales tax rate is based on your business's location.
- **Destination-based state:** Sales tax rate is based on where your buyer is located (provided you ship the item directly to their home).

Here is a breakdown of sales tax rates by state:

Sales tax rate by state					
Alabama	4%	Louisiana	4%	Ohio	6%
Alaska	0%	Maine	6%	Oklahoma	5%
Arizona	6%	Maryland	6%	Oregon	0%
Arkansas	7%	Massachusetts	6%	Pennsylvania	6%
California	7%	Michigan	6%	Rhode Island	7%
Colorado	3%	Minnesota	7%	South Carolina	6%
Connecticut	6%	Mississippi	7%	South Dakota	4%
Delaware	0%	Missouri	4%	Tennessee	7%
Florida	6%	Montana	0%	Texas	6%
Georgia	4%	Nebraska	6%	Utah	6%
Hawaii	4%	Nevada	7%	Vermont	6%
Idaho	6%	New Hampshire	0%	Virginia	5%
Illinois	6%	New Jersey	7%	Washington	7%
Indiana	7%	New Mexico	5%	Washington D.C.	6%
Iowa	6%	New York	4%	West Virginia	6%
Kansas	7%	North Carolina	5%	Wisconsin	5%
Kentucky	6%	North Dakota	5%	Wyoming	4%

Sales tax nexus



What is sales tax nexus?

Your business has a connection with the state that requires you to collect and pay sales tax.

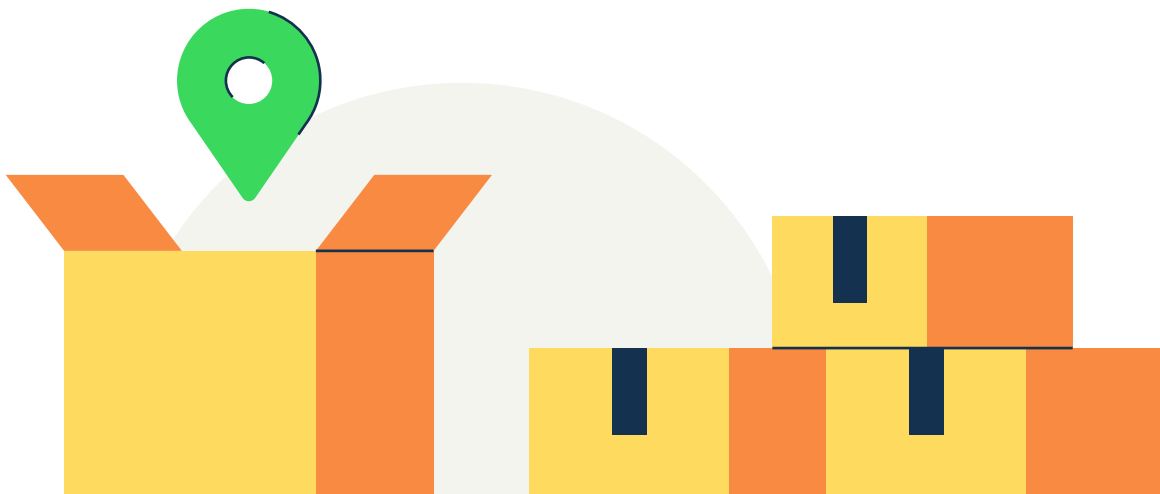


Note that the deadline for filing your sales tax return and paying sales tax will **vary by state**.

How sales tax nexus works

Here's a general overview of how the state tax nexus process unfolds:

1. You start selling or operating in a state.
2. Your business activities meet the physical or economic nexus threshold.
3. You register as a seller and get a sales tax license for the state.
4. You begin collecting sales tax.
5. You send the sales tax to the appropriate state authority.



Types of sales tax nexus

There are generally two different types of sales tax nexus: **physical nexus** and **economic nexus**. If you have one or both, you are required to collect sales tax.

Do you have a sales tax nexus?



Physical nexus

Your business has a physical connection with a state

Ex. Office, warehouse, or employees in the state



Economic nexus

Your business meets certain economic thresholds set by the state

Ex. Sales, transactions, or revenue above a set limit

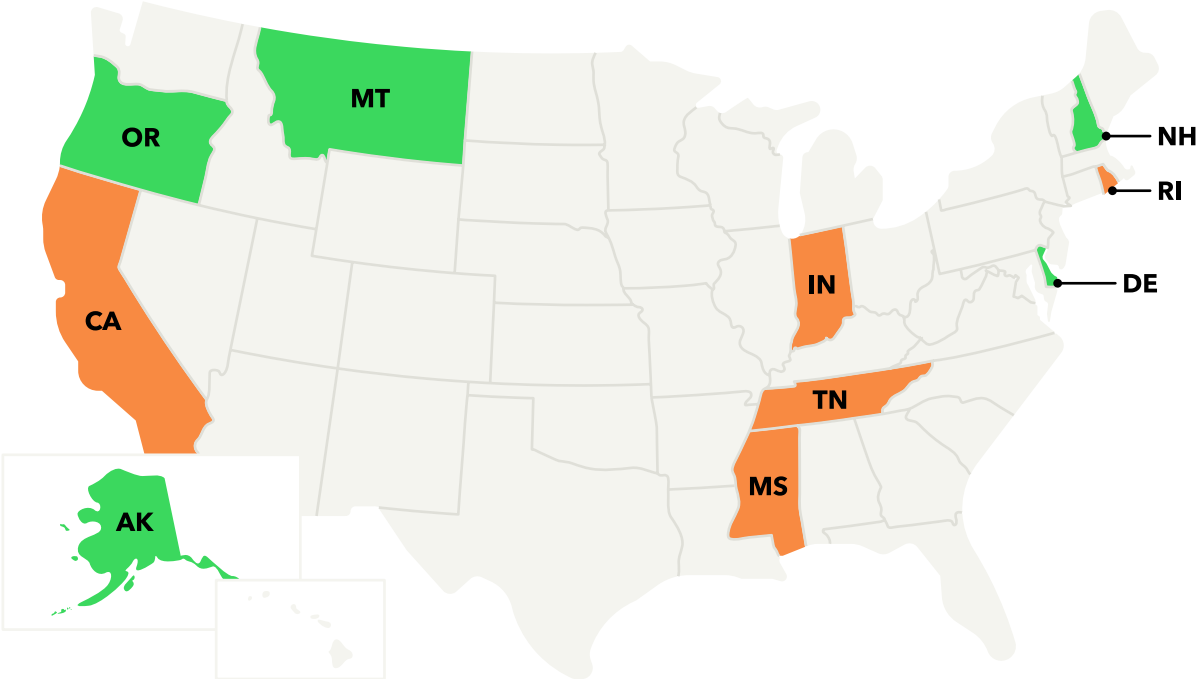
Stay on top of your sales tax with QuickBooks.

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How to tell if you have sales tax nexus in a state

While states can require businesses to pay sales taxes, not all do. Determining if you have a sales tax nexus in a certain state is easy if that's the case. For example, there are five [states without sales tax](#): Alaska, Delaware, Montana, New Hampshire, and Oregon.

Key sales taxes by state



No sales tax

- Alaska
- Delaware
- Montana
- New Hampshire
- Oregon

Highest sales tax rates

- California
- Indiana
- Mississippi
- Rhode Island
- Tennessee

How to comply with nexus sales tax laws

Once you're aware that the state's nexus threshold has been met—whether that's in sales volume by dollars or transactions—you will need to:

- **Register with the state's tax authority:** Your accountant can help you determine where you need to register.
- **Research the state's sales tax rate:** Ensure you're using the right tax rate in your sales tax calculation, and if you have a physical nexus, check your local jurisdiction's rate.
- **Start collecting sales tax:** Keep in mind that there are circumstances in which sales tax does not apply to certain products or buyers.
- **File your sales taxes by the due date:** Each state may have a different due date, so check the filing deadline.



Tip: Be mindful of local sales tax rates, which you will add to your state sales tax rate to get your **combined sales tax rate**.



Internet sales tax

As a small business owner, you'll need to [calculate sales tax](#), collect it, and pay it to the relevant state governments. Sales tax is for any goods, but internet sales tax is specifically for online or remote sales.

The general rule is that you will need to collect internet sales tax if you meet one of the following:

- **Physical nexus:** Your business has a physical presence in the state.
- **Economic nexus:** Your sales or transactions exceed a certain threshold for a state.

Sales tax vs. internet sales tax



Sales tax

Sales tax is for retail sales of goods and services, typically at the point of sale.



Internet sales tax

Internet sales tax is on remote sales, typically online or via e-commerce sites.



Tip: Note the limits for meeting an economic nexus will vary by state.

Sales tax license



What is a sales tax license?

A sales tax license (aka sales tax permit) is an agreement with a state tax agency to collect and remit sales tax for items your business sells.

How sales tax license works

A sales tax license, also known as a seller's permit or sales tax permit, is a document that lets you [collect sales taxes](#) on taxable goods or services.

Having a nexus or connection, like a physical presence, in a state and not obtaining a sales tax license can result in hefty fines, legal battles, and the complete closure of your business.

Essentially, it's important to register and collect when you meet the qualifications.

Like many [business permits and licenses](#), a sales tax license is state-specific. You need one for each state where you do business. In other words, **you'll need a sales tax license for each state where you have a physical presence or engage in taxable sales.**

So, businesses need to obtain a separate license for each state they operate in.

Do you need a sales tax license?

- Are the goods or services you sell subject to sales tax in your state?
- Do you meet the nexus threshold in other states?

If you answer yes to either question, you may need to collect sales tax.

How do you get a sales tax license?

To obtain a sales tax license, you'll need to register with the relevant tax authority in your state. This usually involves completing an application and providing specific information about your business.

Apply for a sales tax license: What you need



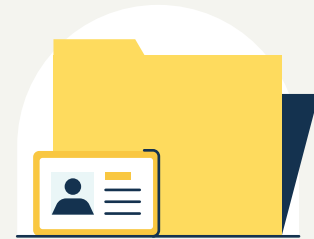
Business info

Business name,
address, contact info



Sales info

Details of products
or services you sell,
estimated sales volume



State docs

State ID number,
state-specific forms



Apply for your sales tax license well before starting your business.

Processing times can vary between states, and some may require additional documentation or approvals. **Starting the process early** ensures you'll be ready to collect sales tax from day one.

When to amend or destroy your sales tax license

Applying for and getting a sales tax license is not a one-and-done deal. Most states require businesses to amend or update their sales tax license if their business details change.

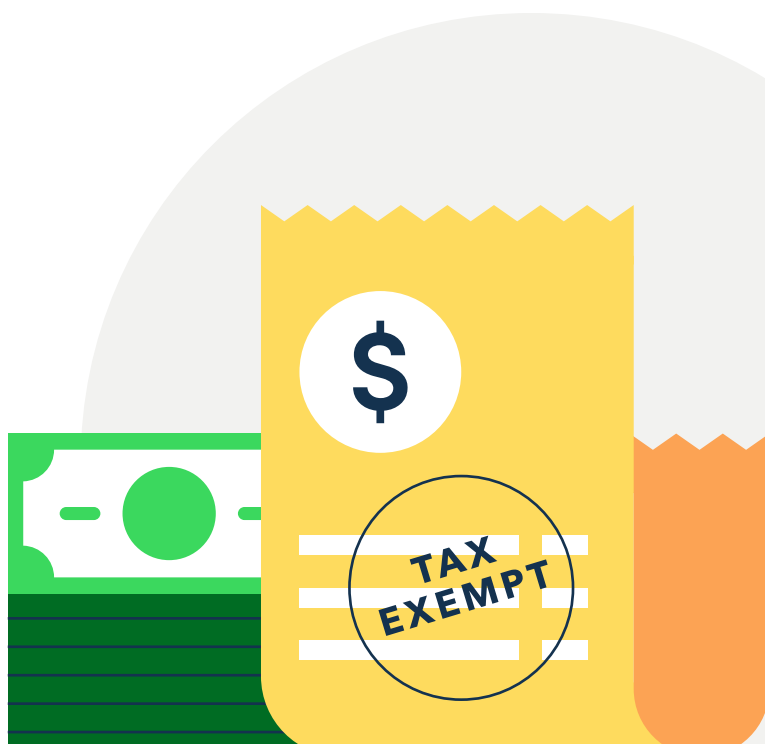
Amend your sales tax license after:	Surrender or destroy your license if you:
<ul style="list-style-type: none">▪ Business name or address changes▪ Business locations changes▪ Owner or officer changes	<ul style="list-style-type: none">▪ Stop doing business▪ Sell, transfer, or assign your business to another party▪ Change the form of your business.

Transactions that are exempt from sales tax

While a sales tax license permits you to collect sales tax, a sales tax certificate (or a sales tax exemption certificate) exempts you from paying sales tax.

Key sales tax-exempt transactions include:

- Resale
- Certain products
- Government
- Out-of-state
- Nonprofit



How to file sales taxes



Step-by-step guide to filing sales taxes

Step 1: Determine your sales tax obligations

Figure out where your business has a “nexus.”

- **Physical presence:** Physical store, office, or warehouse in a state.
- **Economic nexus:** Certain amount of sales to customers in a state.
- **Research state laws:** Carefully check the rules for each state where you might have a nexus.

Step 2: Obtain a sales tax license

If you need to collect sales tax, get a sales tax license. This allows you to legally collect tax.

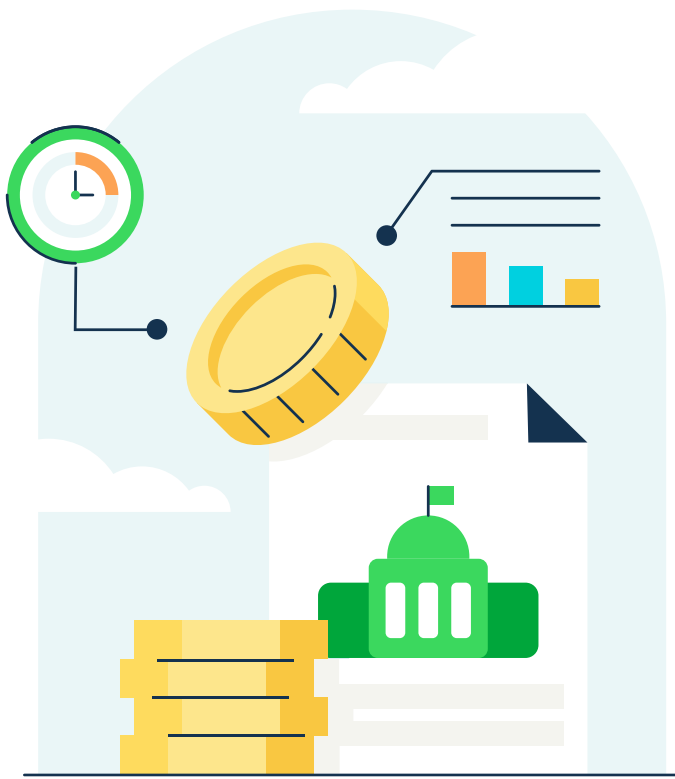
Contact the state’s tax department (often called the Department of Revenue) to apply.

Step 3: Collect sales tax

Sales tax rates vary by state and even within different areas of a state. Make sure you’re charging the correct amount.



FYI: Businesses must update information when business activity changes to make sure their business is operating legally and decrease the chance of out-of-pocket expenses associated with incorrect reporting.



Tips for accurate sales tax remittance

Filing and remitting sales tax is crucial to maintaining compliance and avoiding penalties. Here are some tips for filing sales tax:

Tips for filing state taxes

- ✓ Keep up with the sales rates and regulations
- ✓ Maintain detailed records of transactions
- ✓ Know your filing frequency and set reminders
- ✓ Use accounting software that calculates sales tax

Step 4: Determine filing frequency.

The state will tell you how often you need to file and pay sales tax.

Sales tax payments are usually due on a specific day of the month following the reporting period.

Step 5: Remit sales tax payments.

When it's time to pay, you can usually file online or by mail. Check with your state.

Always keep copies of your filings and payment confirmations.

Many states offer a collection allowance or timely-file discount, regardless of whether filing returns electronically or by paper.

When claiming discounts, ensure you're recording them under the correct tax type because not all jurisdictions allow a discount for every tax type.

Resources and FAQ



Sales tax checklist for small businesses

Getting Started

Understand sales tax:

Do you sell taxable goods or services?

Determine nexus: Where does your business have a physical or economic presence?

Research state laws: Familiarize yourself with the specific sales tax laws in each state where you have nexus.

Taking Action

Obtain sales tax licenses: Apply for the necessary licenses in each state where you need to collect sales tax.

Set up a system for collecting sales tax: This might involve using a sales tax calculator, POS system, or accounting software.

Calculate and collect the correct amount of sales tax: Make sure you're charging the right rates.

Understand your filing frequency: How often do you need to file and remit sales tax in each state?

File and pay sales tax on time: Mark those deadlines on your calendar!

Ongoing Management

Stay updated on sales tax law changes: Sales tax laws can change, so keep up-to-date with any new regulations.

Maintain accurate records: Keep detailed records of all sales, tax collected, and filings.

Consider seeking professional advice: If you have complex sales tax situations, consult with a tax advisor or accountant.

Sales tax FAQ

I'm starting a new business. Do I need a sales tax permit?

To sell taxable goods or services, you generally need a sales tax permit for each state where you have a nexus. Check with your state's tax authority for specific requirements and procedures, as they vary by state.

How much sales tax should you add to the price?

The sales tax you'll charge and collect will depend on the state you have a sales tax nexus. For example, the sales tax rate for Arkansas is 6.5%, while Alaska has no sales tax. However, local jurisdictions in Alaska may impose sales taxes.

Do online sales get reported to the IRS?

Yes, if you have total sales of over \$20,000 and 200 transactions for an online platform, it will report that number to the IRS via Form 1099-K.

Do contractors need to charge sales tax?

Contractors do not generally need to charge sales tax when providing their services. Sales tax is typically for selling or transferring tangible personal property, such as goods or materials. However, since contractors primarily provide services rather than physical products, sales tax is not usually applicable to their work.

What is a nexus study for sales tax?

A nexus study for sales tax is an analysis to determine whether a business has nexus in a state. A tax professional can complete a nexus study to help you determine whether you need to collect and pay sales tax to a state authority.

What triggers an income tax nexus?

States can charge a company income tax if it has an income tax nexus, which happens if there is substantial economic activity. Many states employ a factor-based nexus with thresholds for property, payroll, or sales.

What is the international sales tax nexus?

International sales tax nexus means that businesses that live or operate outside the US may still have to charge and pay sales tax to states. Even if you're located outside the US but your business has a physical presence or meets an economic threshold in a state, you must collect sales tax.

Sales tax resources

Sales tax calculator

- **QuickBooks'** [Sales tax calculator](#) is a comprehensive resource you can use to stay ahead.
- **Sales Tax Institute:** A comprehensive resource with articles, guides, and a blog covering various sales tax topics. salestaxinstitute.com/
- **Tax Foundation:** A nonprofit research organization that provides data and analysis on tax policy, including sales tax. taxfoundation.org/
- **Avalara:** A leading provider of cloud-based tax compliance solutions. Their website has a wealth of information on sales tax. avalara.com/

State-specific information

- **State Department of Revenue websites:** Each state has its own Department of Revenue (or similar agency) website. This is the official source for sales tax information in that state. You can usually find these websites by searching "[State Name] Department of Revenue."

Other helpful resources

- **IRS Publication 510 (Excise Taxes):** This publication provides information on various excise taxes, including the use tax. irs.gov/publications/p510
- **Streamlined Sales Tax (SST):** The SST initiative aims to simplify sales tax compliance for businesses selling across state lines. streamlinedsalestax.org/

QuickBooks has the tools you need to help your business thrive.

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