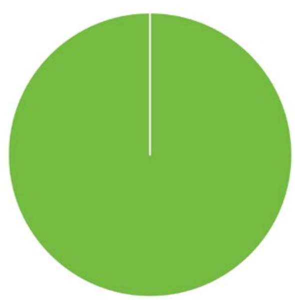
eCommerce - State & Local Tax

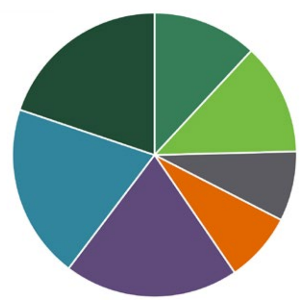
As an e-commerce retailer you've probably heard plenty about the requirement to collect sales tax. But what about state income tax and other types of taxes the states impose? It is likely that other taxes do apply when a requirement to collect sales tax exists due to the physical presence of inventory.

Nexus is the term used when there is enough of a connection with a state to permit that state to tax your business. There are some protections available for eCommerce sellers if activities in the state are limited to solicitation. However, once other activities are conducted in the state, or business property is present in the state, nexus is generally triggered.

When nexus exists in more than one state, overall state income tax liabilities don't necessarily increase, they are just divided among states.



California



California, Illinois, New Jersey, Virginia, Arizona, Massachusetts, and Pennsylvania

States love pie, and each wants their piece! The determination of how big a slice the state can take depends primarily on the amount of sales shipped into the state. The amount of inventory located in the state may also be factored in. The state of California also imposes a “throwback” of sales to California depending on where you are filing income tax returns.

If you reside in a state that imposes an individual income tax (all but Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming) you will normally receive a credit for income taxes paid to other states. This credit generally alleviates any double taxation on your business income.

If conducting business within a legal entity (limited liability company, partnership or corporation), state filings are generally required by the entity where nexus exists. In addition, there may be a separate filing requirement for owners of the entity. Each state is unique with regard to its requirements.

Alternatively, some states do not impose an income tax, but choose to impose a gross receipts or margin tax. In fact, if your business sells more than $267,000 (or 25% of sales) into the state of Washington, or $150,000 or more into Ohio, you are required to pay the gross receipts tax even if NO PHYSICAL PRESENCE exists in the state! To date, the states have successfully defended their imposition of tax on out-of-state sellers.

If you choose to ignore these state tax filings, the taxes can be assessed at any point in the future along with penalties and interest. Not a position you want to be in, especially if you’d like to protect your savings or sell your business one day.

Let us help you meet your tax compliance requirements so you can sleep well at night!

State Income Tax Consultation: $250/up to an hour

You will speak with a Director/Partner to discuss your company specifics for:

- Income tax nexus determinations
- Federal Law protection available for sellers of product
- Apportionment of income to various states
- Remediation for back tax liabilities, including Voluntary Disclosure Agreements
- Other potential applicable taxes such as gross receipts, net margin, net worth
- Income tax compliance solutions

Income Tax Compliance

Tax preparation services:

- Individual federal 1040 and up to 5 states — Start at $1,500
- Additional states — $75 each
- Partnership/LLC federal and states — free quote
- S corporation federal and states — free quote
- C corporations federal and states — free quote

Let us be your guide forward

For more information, contact our eCommerce services coordinator:

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