Internet sales tax collection laws gradually taking effect

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As 2019 approaches, many online retailers are either collecting or preparing to collect sales tax from out-of-state-customers for the first time.

A majority of the states have enacted laws requiring remote sellers to collect sales tax following the Supreme Court's South Dakota v. Wayfair decision in June. The court upheld a South Dakota statute that targeted online retailers who avoided collecting out-of-state sales tax because they didn't have a physical presence like a store or distribution in a state—a decades-old exemption that the court threw out in its decision.

Thirty-one states now have laws requiring out-of-state retailers to collect sales tax, says Scott Peterson, a vice president at Avalara, a manufacturer of sales tax collection software. Some of the laws will go into effect in 2019. Five states have no sales tax: New Hampshire, Delaware, Montana, Oregon and Alaska, although some municipalities in Alaska do. The rest of the states have not yet passed laws.

The laws are similar to the South Dakota statute. Most require remote sellers to collect sales tax after they reach a threshold of $100,000 in revenue or 200 transactions in a given state, either in the previous or current calendar year. Once a company reaches one of those milestones, under most of the laws it must begin collecting sales tax by the first day of the next calendar month, or, if that is less than 30 days later, the first day of the following month. For example, if a company reaches the threshold on May 8, it must start collecting tax by July 1.

Many small and independent online retailers are now investing in software and services to help them comply with more than 10,000 taxing jurisdictions across the country. The cost of compliance will vary from company to company and depend on how many transactions they have and what services they need from software providers, Peterson says. There are a number of companies that sell software, and pricing can range from free to thousands of dollars a year.

The software and services track sales tax rates and the merchandise and services that are taxed in each jurisdiction. They're designed to interface with most e-commerce systems that online retailers use. Some of the services will submit sales tax payments to state authorities and prepare required filings and documents.

Some businesses want Congress to pass legislation that would set uniform standards for sales tax collection. However, bills that would have accomplished that have tended to pass one house and then stall in the other.

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