

March 12, 2018

## A Primer on Online Sales Tax Collection

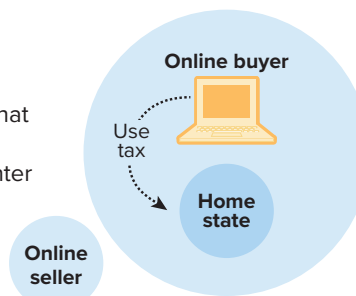
States are generally barred from requiring online retailers, also called remote sellers, to collect sales taxes from consumers purchasing products unless the retailers have a physical presence — warehouses, distribution centers, storefronts — in the state where the consumer lives. This situation is the result of a 1992 Supreme Court ruling (*Quill Corp. v. North Dakota*) that originally involved catalog retailers but now applies to online sales tax collection. Some online retailers do not collect sales tax even though they meet the requirements to do so, frustrating states having difficulty enforcing the sales tax collection law.

The issue has split Republicans in Congress, with some supporting legislation that would give states more collection authority. Rep. Kristi Noem (R-S.D.), a longtime supporter of giving states more power to collect sales taxes from out-of-state online retailers, has been lobbying her GOP colleagues to add her Remote Transactions Parity Act, H.R. 2193, onto the omnibus spending bill.



### Sales tax

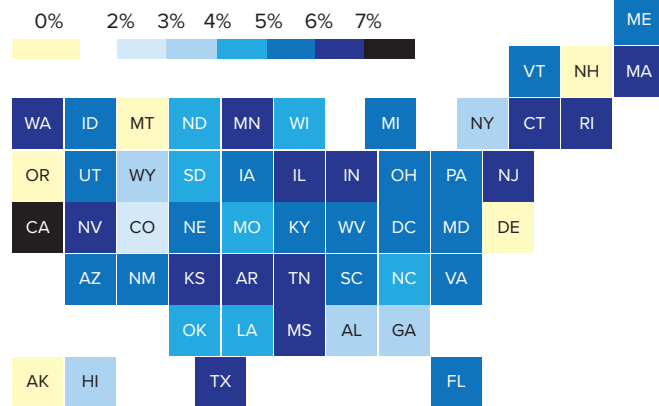
Consumers typically do not pay sales tax on purchases made on the Internet. However, if the consumer is buying a product from a company that has a physical, brick-and-mortar presence or “nexus” — such as a warehouse, distribution center or storefront — in the state where the consumer lives, the online business is required by law to collect sales tax from the consumer.



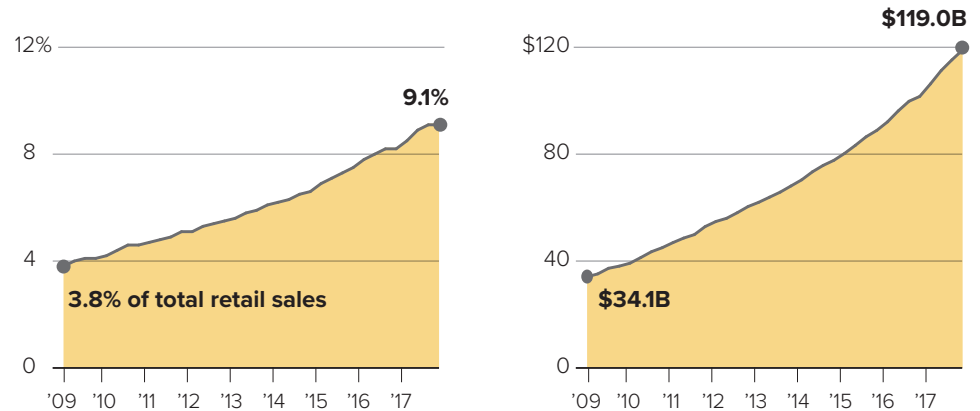
### Use tax

States that have a sales tax also have a **use tax**, which is a tax on goods bought by consumers **outside of** their home state to **use** in their home state. A state’s sales and use tax rates are the same. If online businesses fail to charge consumers a state sales tax, consumers are required to pay the use tax on their state income tax return — but few actually do. This hole in the state tax system is frustrating states as online retail sales continue to climb.

### State sales tax rates, as of Jan. 1, 2018



### Quarterly online sales nationwide, seasonally adjusted



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