

Sales Tax 101

Understanding US Sales Tax for International Businesses



About *Commenda*

Commenda is the all-in-one platform for global tax and compliance — helping businesses manage entities, navigate taxes, and stay compliant anywhere in the world.



Entity Management

Incorporate, manage, and stay compliant globally

Tax & Accounting

Corporate tax filings and compliance

Transfer Pricing

Documentation and expert advisory

Marketplace Services

On-demand legal, tax, and compliance experts

Global Indirect Tax

Automated VAT, GST, and US sales tax compliance

Agenda

What are we covering during the course of this webinar?

- 01 What is a sales tax?
- 02 Who has to collect it?
- 03 Who administers it?
- 04 Which rate applies? (Sourcing)
- 05 What's taxable? (The tax base)
- 06 How compliance works in practice



What is a *Sales Tax?*



01 | What is a sales tax?

How sales tax works

01

Consumers pay it, sellers collect it.

You add the tax to the sale price and pass it on to the state.

02

It applies to the sale amount, not profit.

A sale you lose money on is still taxed.

03

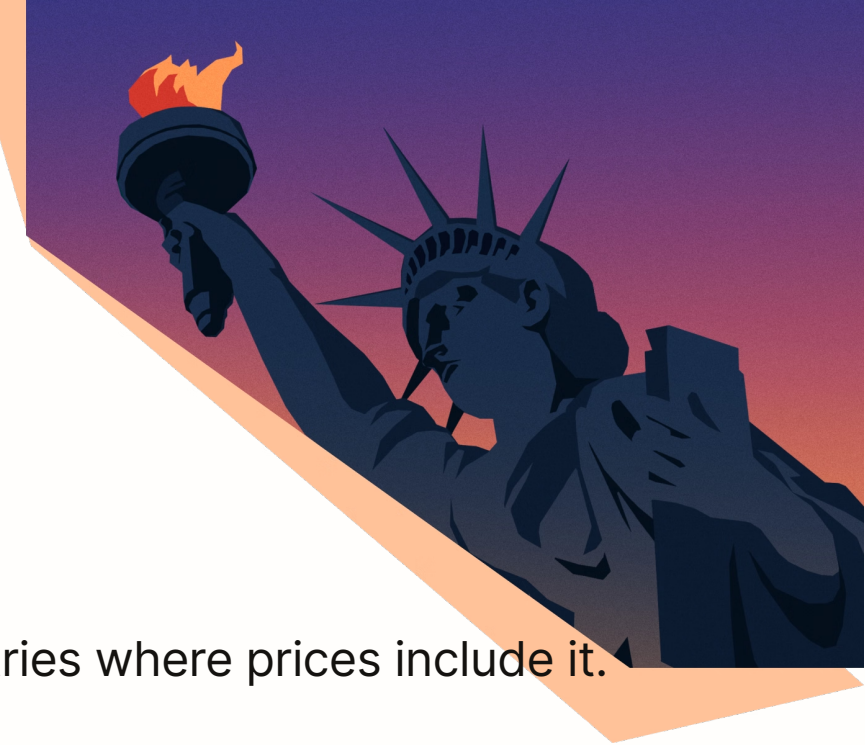
It's added at checkout.

US shelf prices exclude tax, unlike VAT countries where prices include it.

04

The rate depends on location.

8.5% in one city, 7% in the next. Which location controls is the sourcing question (Section 4).



Same tax, *different names*

A few states use their own terminology:

01 **Arizona: Transaction Privilege Tax (TPT)**

Legally a tax on the privilege of doing business in the state.

02 **New Mexico: Gross Receipts Tax; Hawaii: General Excise Tax**

Both are taxes on sales revenue.

03 **Illinois: Retailers' Occupation Tax**

Treat them all as sales tax. The mechanics are the same; only local details differ.



Sales Tax vs. VAT/GST



01

VAT/GST

- **Multi-stage tax - VAT/GST** is charged at each step of the supply chain (from manufacturer to wholesaler to retailer), but businesses get credits for the VAT/GST they pay on their purchases.
- **Input credits** - Under **VAT/GST**, businesses can reclaim the tax paid on business inputs (raw materials, wholesale goods, etc.). For example, if you pay \$10 VAT on materials and charge \$15 VAT on your product, you remit only \$5 (the difference).
- **Included in price** - A €100 item costs €100, including tax.

02

Sales Tax

- **Single-stage tax - Sales tax** is only charged to the final consumer. Intermediate sales (like wholesaling to a retailer) are generally not taxed if for resale.
- **No input credits** - In a **sales tax** system, there are no input credits. If you buy goods for resale, you typically don't pay sales tax on that purchase at all (you buy inventory tax-free using a resale certificate).
- **Typically excluded from price** - A \$100 item in a U.S. store will likely end up costing ~\$108 at the register if the local sales tax rate is 8%.

Who is required to collect *sales tax*?



Nexus: the connection that creates obligations

- **Nexus** is a connection to a state strong enough that the state can require you to register, collect, and remit sales tax there.
- No nexus in a state means no collection obligation in that state.
- Two ways to create it: **physical presence** and **economic activity**. You only need one.



Physical nexus

Anything 'on the ground' in a state can create nexus:

- An office, store, warehouse, or distribution center
- Employees or agents in the state (one remote employee is enough)
- Inventory stored in the state, **including stock in an Amazon FBA or 3PL warehouse**
- Regular in-person activity: trade shows, client visits, deliveries in your own vehicles

Example: you store inventory in an Amazon warehouse in California. You now have nexus in California.



Economic nexus: no presence required

01

No physical presence

South Dakota v. Wayfair (2018) let states tax remote sellers with **no physical presence at all**.

02

Sales threshold

The trigger is most commonly **\$100,000 per year** into the state. A shrinking number of states also count transactions (200 sales); most have dropped that test.

03

Universal adoption

Every state with a sales tax now has an economic nexus law.

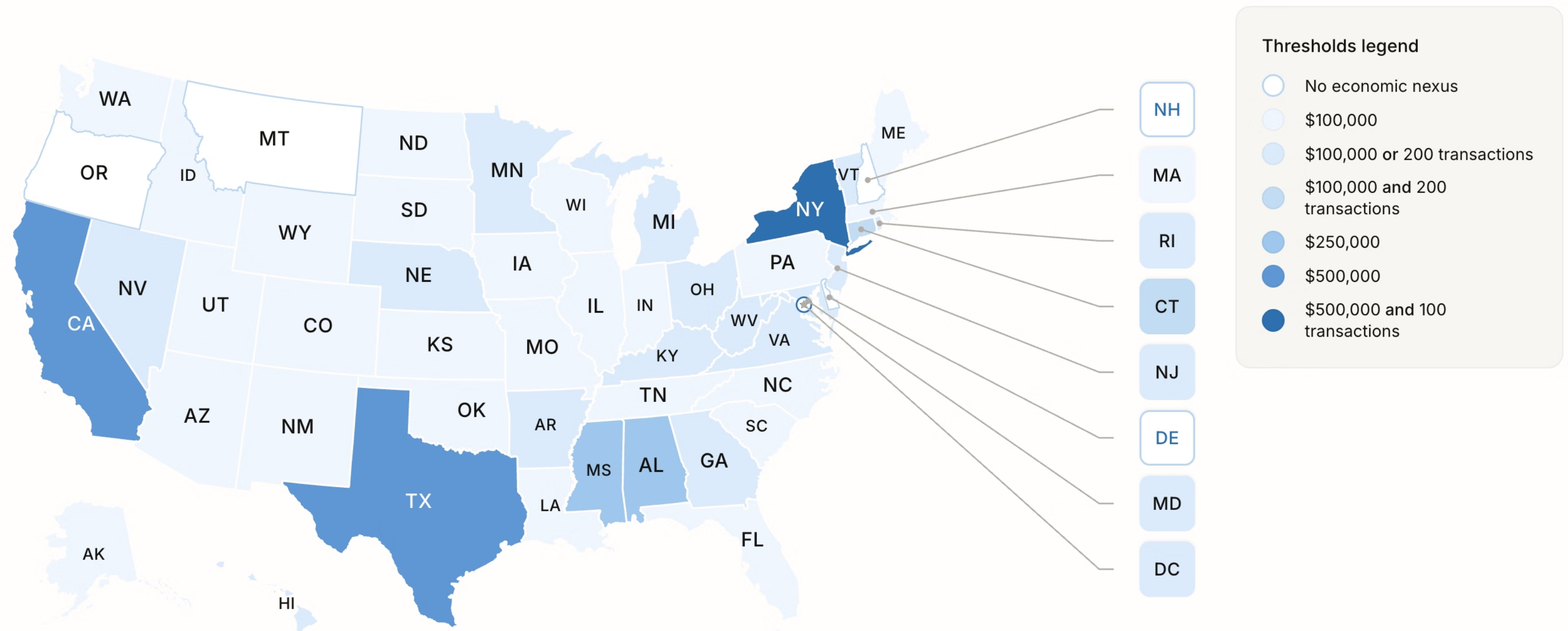
04

International reach

These laws apply equally to international sellers. You can owe US sales tax with no US entity and no US presence.



Thresholds by *State*



Crossed a threshold? Four steps

1. Register.

Get a sales tax permit from the state's tax authority before you start collecting.

2. Collect.

Charge the right rate at checkout. Your billing or e-commerce platform handles this once configured.

3. Manage exemptions.

Exempt customers (resellers, nonprofits) give you an exemption certificate instead of paying tax. Keep every certificate on file.

4. File and remit.

Report and pay on the schedule the state assigns, usually monthly or quarterly.

Selling via marketplaces?

Marketplace facilitator laws

Every sales-tax state requires Amazon, eBay, Etsy, and Walmart to collect and remit tax on your marketplace sales.

Three things land on you

- Marketplace sales **still count toward nexus thresholds** in most states
- FBA inventory **still creates physical nexus**
- Sales on your own website are **entirely your responsibility**



Who *administers* sales tax?



No *national* sales tax

01

No federal sales tax

There is no federal sales tax and no national tax authority. Each state writes its own rates, rules, and forms.

02

Alaska caveat

Alaska has no state tax but allows local sales taxes, and its municipalities enforce economic nexus jointly.

03

The five that don't spell "NOMAD": New Hampshire, Oregon, Montana, Alaska, Delaware.

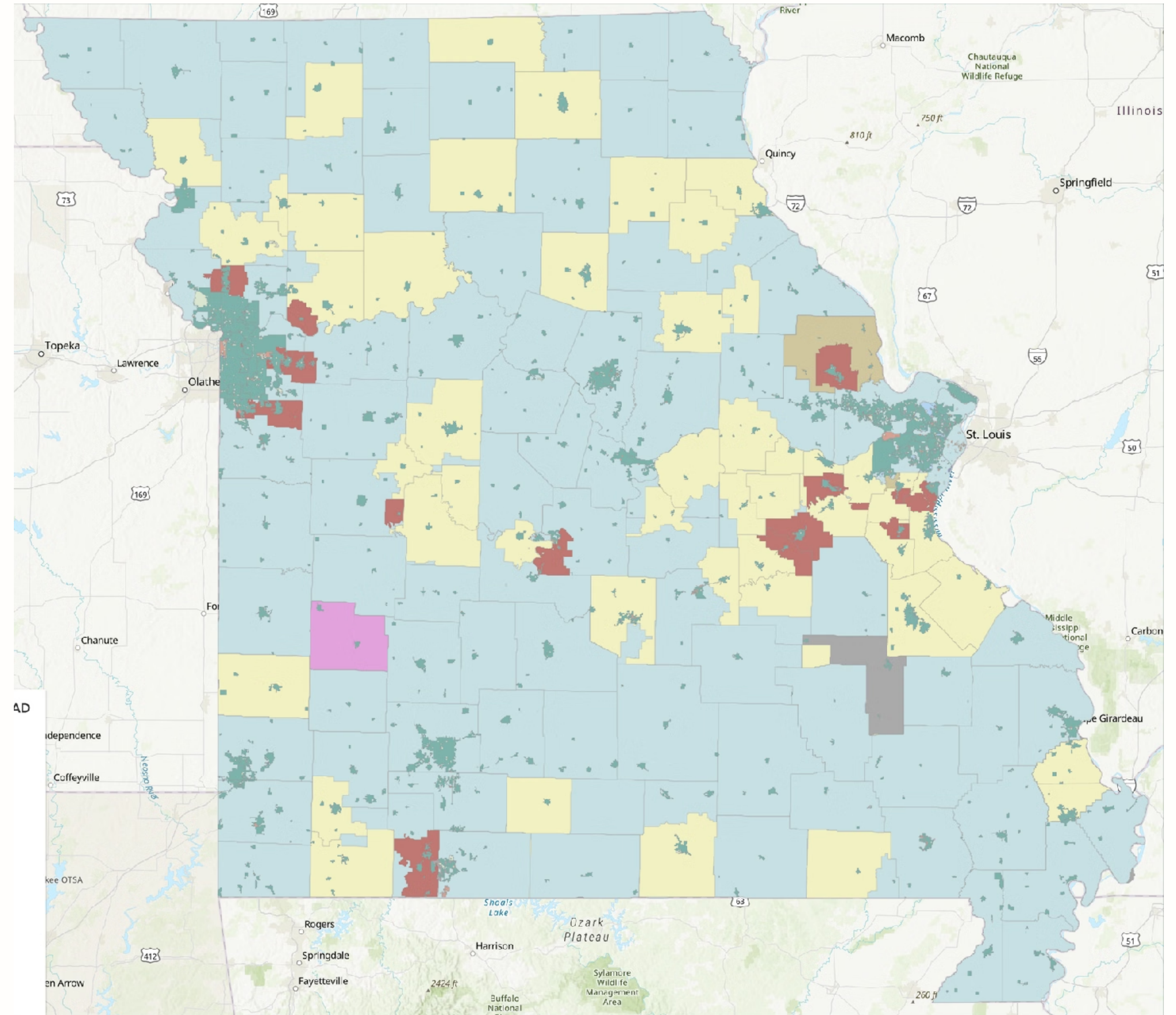
45 states plus D.C. impose a sales tax

03 | Who administers sales tax?

44,000+ tax jurisdictions

Each with their own rates, boundaries, rules and reporting.

Missouri has 1,500+ tax districts. ZIP-code lookups fail: ZIP codes don't follow jurisdiction boundaries. Accurate calculation needs the full street address.



Tax Sourcing Concepts



Sales tax vs. use tax

01 Intrastate Sales

Sale within one state (Flagstaff, AZ to Tucson, AZ): **sales tax**.

02 Interstate Sales

Sale across state lines (Sacramento, CA to Phoenix, AZ): **seller's use tax** in the destination state. The rate is generally the same; what changes is the registration type and the return you file.



Origin vs. destination sourcing

01 Destination-based (most states)

Tax at the buyer's delivery address. Reno to Las Vegas is taxed at the Las Vegas rate.

02 Origin-based (12 states)

Includes Texas and Illinois. In-state sales are taxed at the seller's location. Chicago to Springfield is taxed at the Chicago rate. Interstate sales are almost always destination-sourced. For remote sellers, the buyer's address usually controls.



The Tax Base



Products vs. services

01

Products

- **Products** (tangible personal property) are **taxable by default** in every sales-tax state. States then carve out exemptions like groceries and medicine.

02

Services

- **Services** are the reverse: **exempt by default** in most states, taxable only where a state specifically lists them.
- Definitions get strange. In Florida, cleaning the inside of a window is taxable janitorial work; cleaning the outside is an exempt custodial service.
- Software and digital products sit between product and service, which is why the tests on the next slide exist.



How regulators decide: the taxability tests

When a sale mixes goods and services, states apply a few recurring tests:

01 True object test

What is the buyer really paying for? Tax follows the answer, not the delivery format.

03 Bundled transaction rule

One price for taxable + non-taxable items usually makes the **entire bundle taxable**. Separately stated line items can preserve exempt portions.

02 Incidental-to-service test

If the tangible item is incidental to a service, the whole charge is an exempt service.

04 Primary function test

For mixed digital services, states ask what the service primarily does. Texas taxes "data processing" on 80% of the charge.



The tests applied: software and cloud

The same offering can be taxable in one state and exempt next door:

- 01 **Prewritten ("canned") software:** taxed like a product in most states, whether delivered on disk or by download.
- 02 **Custom software:** treated as a service and exempt in most states. The true object is the programming work.
- 03 **SaaS / cloud software:** states split roughly down the middle. NY, TX, PA, WA tax it. CA and FL generally don't.
- 04 **Data processing:** a separately enumerated taxable service in a handful of states (TX, CT, OH).
- 05 **IaaS / PaaS:** usually an exempt service, but a few states tax these too.

Bottom line: Map every SKU to each state's rules. "We sell software" is not a taxability answer.



Exemptions

- 01 **What you sell:** Exempt categories like groceries, medicine, equipment.
- 02 **Who buys:** Resellers, nonprofits, schools give an **exemption certificate**.
- 03 **How it's structured:** Resale chains, drop shipments (see appendix).



06 • How *compliance works in practice*



Registration

- **Register before you collect.** Collecting tax without a permit is illegal; states impose civil and criminal penalties.
- Registration is online and usually one-time (a few states require renewal). You receive a permit number and an assigned filing frequency, most often monthly or quarterly.

For international companies

- You'll need a US **EIN** from the IRS first.
- Some states want a US mailing address, a US phone number, or a corporate officer with an SSN/ITIN. Without one, applications can take 2 to 3 months. Plan ahead or use a responsible-party service.



Ten questions on every sale

Every checkout has to answer, in real time:

Commenda's tax engine answers all ten in ~44 ms.



Filing and paying

- Returns require allocating tax to every jurisdiction (state, county, city, district), not just a state total.
- Some states add prepayment obligations (estimates) or supplemental location-based schedules.
- **File on schedule even when you owe \$0.** Skipped zero-returns still draw penalties.
- Payment generally requires a US bank account, so plan for this as an international seller.



Behind? VDA

01

Exposure from day one

You owe uncollected tax out of pocket from when nexus began, plus penalties (often 25%+) and interest.

02

The statute of limitations never starts on returns you never filed—states can look back indefinitely.

03 Come forward

anonymously; in VDA caps the damage exchange the state limits lookback (3–4 years) and waives most penalties.

04 Once an audit notice or nexus questionnaire

Window closes fast arrives, the VDA option is gone. Registering quietly can backfire.



How Commenda helps



Free nexus tracking

01

Real-time monitoring alerts you when you cross a threshold in any state.

We handle the State registrations paperwork, with specialized support for international sellers.

02

03

Real-time calculation
~44 ms tax calculations at checkout.

04

Automated filings
Our experts prepare and file your returns on time, in every state.

Talk to a *sales tax expert*.

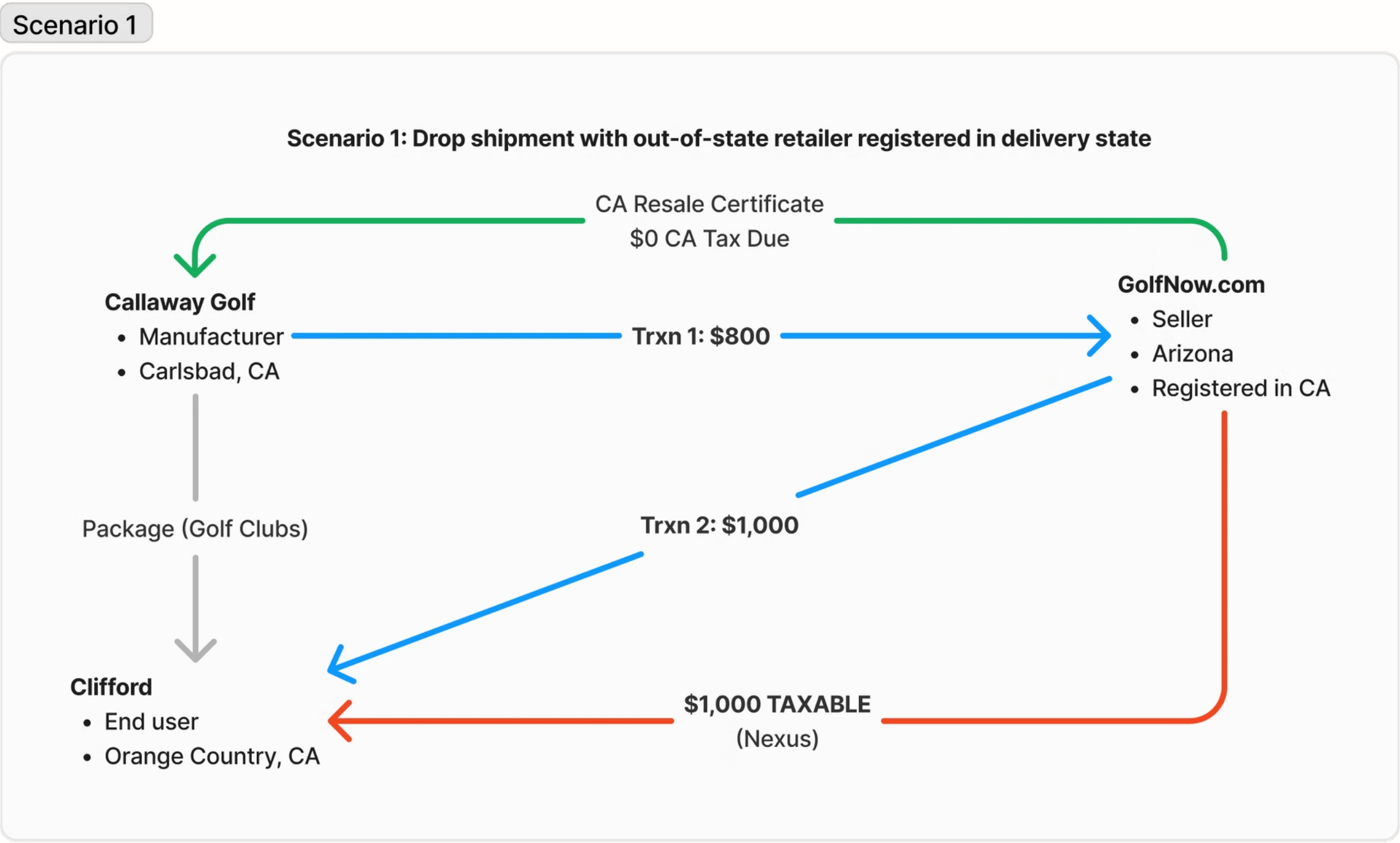
Book a free consultation with one of our in-house sales tax experts. Scan the QR code or visit the [booking link](#).



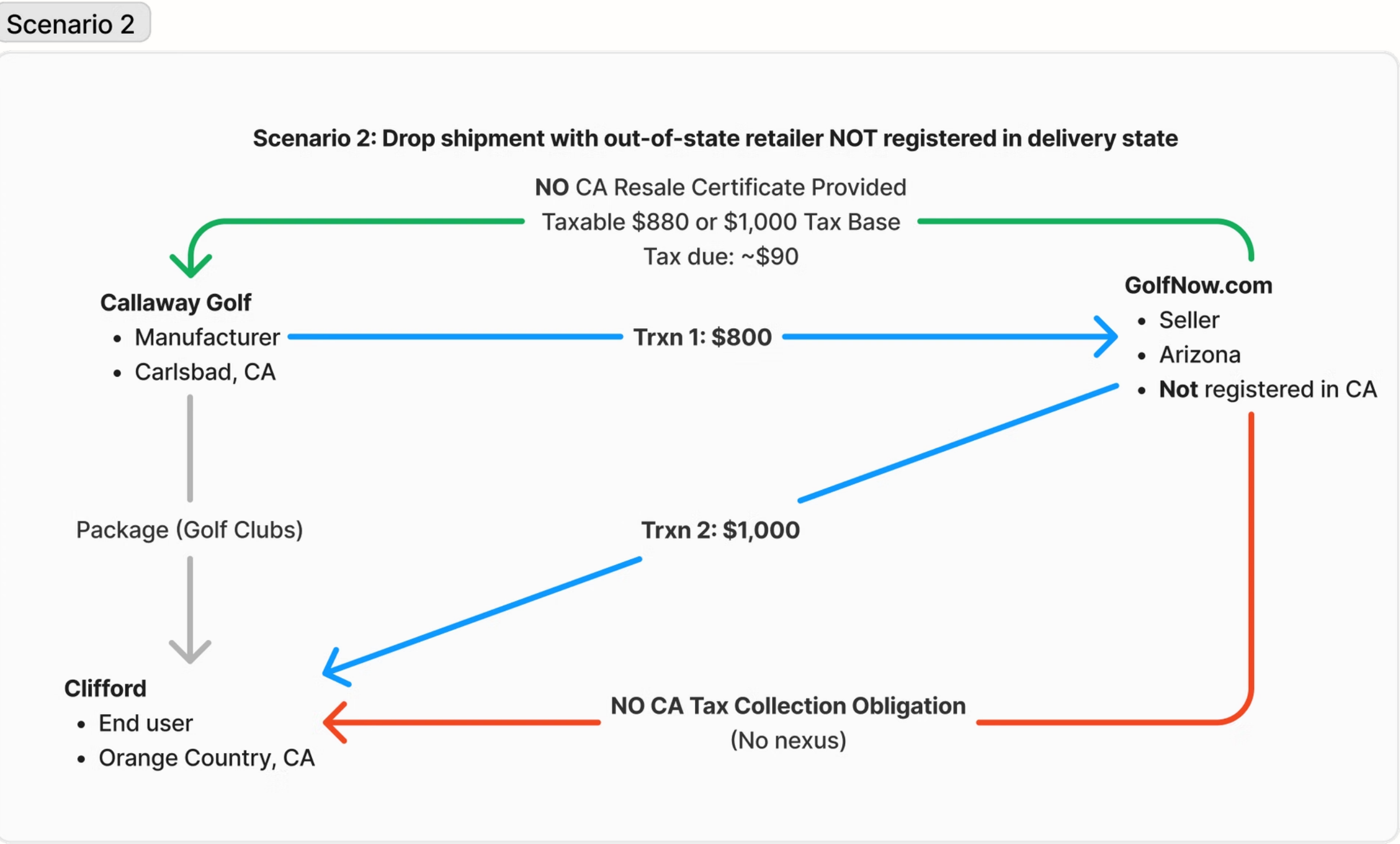
Appendix



Drop shipment with out-of-state retailer *registered* in delivery state

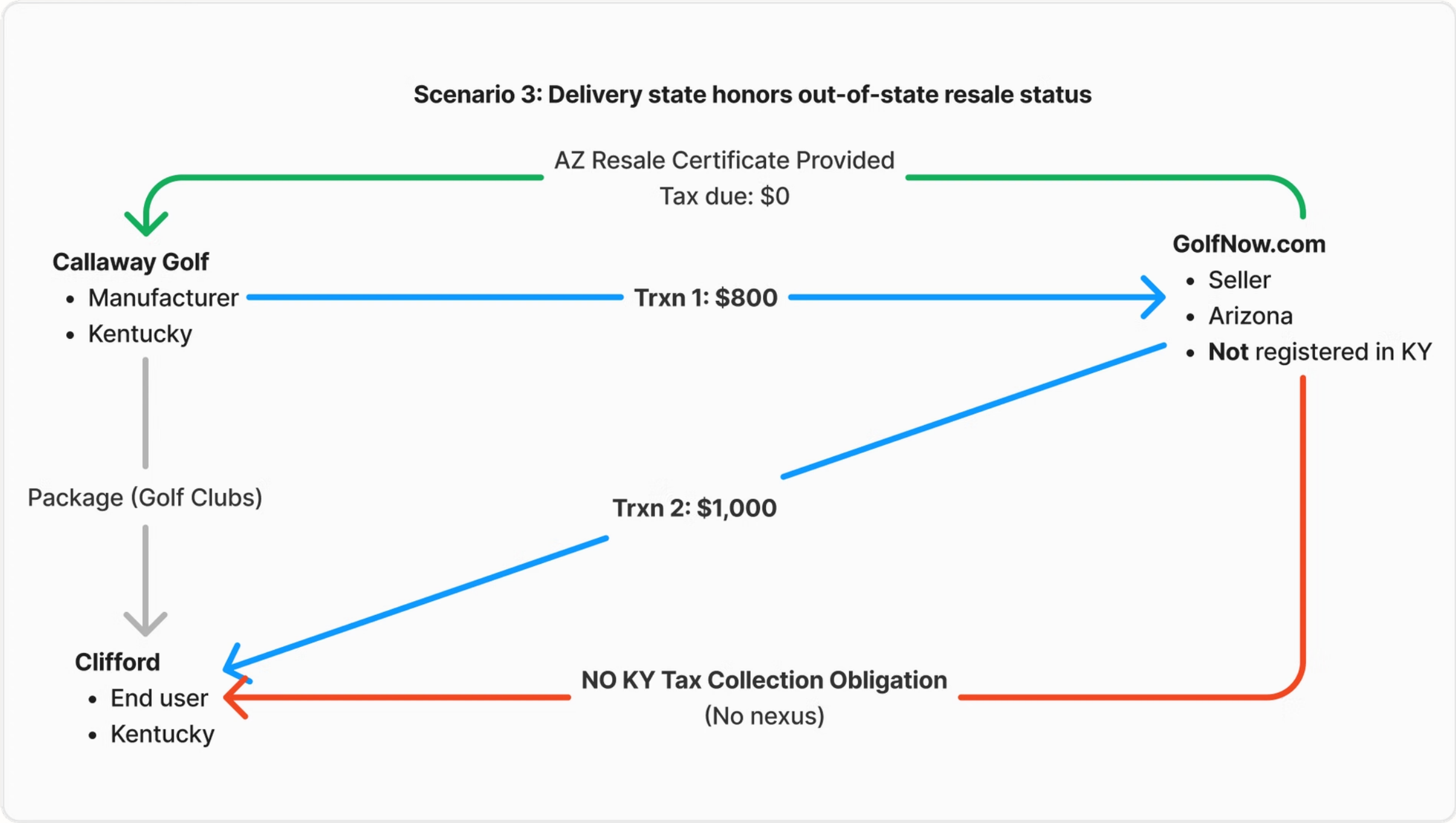


Drop shipment with out-of-state retailer *not registered* in delivery state



Delivery state honors out-of-state *resale status*

Scenario 3





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