

# THE 5 STEPS TO MANAGING U.S. SALES TAX COMPLIANCE

A guide to selling into the U.S.  
for non-U.S. businesses



# Contents

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## DISCLAIMER

U.S. sales tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this guide is for informational purposes only and does not provide legal or tax advice.

<b>INTRODUCTION</b> .....	<b>3</b>	<b>GO</b>
<b>STEP 1: KNOW YOUR U.S. SALES TAX LIABILITIES</b> .....	<b>4</b>	<b>GO</b>
<b>STEP 2: REGISTER WITH THE AUTHORITIES TO COLLECT AND REMIT U.S. SALES TAX</b> .....	<b>5</b>	<b>GO</b>
<b>STEP 3: TRACK TAX EXEMPTIONS AND PRODUCT TAXABILITY</b> .....	<b>6</b>	<b>GO</b>
<b>STEP 4: CALCULATE THE CORRECT TAX</b> .....	<b>7</b>	<b>GO</b>
<b>STEP 5: REMIT THE CORRECT AMOUNT OF U.S. SALES TAX AND FILE RETURNS</b> .....	<b>8</b>	<b>GO</b>
<b>AVALARA'S SUITE OF TAX SOLUTIONS</b> .....	<b>9</b>	<b>GO</b>

## Introduction

Entering the U.S. market can be a fantastic growth opportunity for non-U.S. businesses. Ecommerce sales in the U.S. topped \$727 billion in 2023, and there are over 274 million online buyers across the nation. With such fertile selling ground, and technology that can make cross-border commerce easier than ever, selling in the U.S. is a mouthwatering prospect for remote sellers. But there are U.S. sales tax compliance challenges that must be overcome.

U.S. sales tax compliance is a different ball game to VAT compliance. VAT is set at a national level and maintains fairly consistent rates. VAT also varies very little from

country to country – the average VAT rate for EU nations for example is 21%. When it comes to U.S. sales tax, rates not only vary by U.S. state but also by cities and counties within a state. The rates also frequently change. VAT is also charged throughout the supply chain, whereas U.S. sales tax is only charged to the final consumer. An additional challenge when determining taxability for products sold is the fact that the U.S. has varying definitions of digital goods, unlike in the EU where it's more clearly defined and accepted.

To have a chance of success in the U.S. market, crucial steps must be taken to achieve U.S. sales tax compliance.

### THE FIVE STEPS TO MANAGING U.S. SALES TAX

- Step 1. Know your U.S. sales tax liabilities
- Step 2. Register with the authorities to collect and remit U.S. sales tax
- Step 3. Track tax exemptions and product taxability
- Step 4. Calculate the correct tax
- Step 5. Remit the correct amount of U.S. sales tax and file returns

# Step 1:

## Know your U.S. sales tax liabilities

### WHY IT'S IMPORTANT

Your steps to U.S. sales tax compliance start with nexus – understanding what it is and why it's so important. Nexus is the connection between a business and a U.S. state. It used to be the case that a business had to have a physical presence in a state, such as an office building or warehouse, to have U.S. sales tax obligations within that state. However, the landmark [South Dakota v. Wayfair](#) ruling changed things when the Supreme Court ruled that remote sellers can be liable for U.S. sales tax even without a physical presence.

It's vital to know where you have U.S. sales tax obligations now, but where you could also trigger them in the future – if you start selling to new customers in U.S. states in which you previously haven't done business, for example, or start selling a taxable product.

### WHERE PROBLEMS CAN OCCUR

Every U.S. state with U.S. sales tax laws sets its own rules and thresholds. Some states base their threshold on a dollar amount the

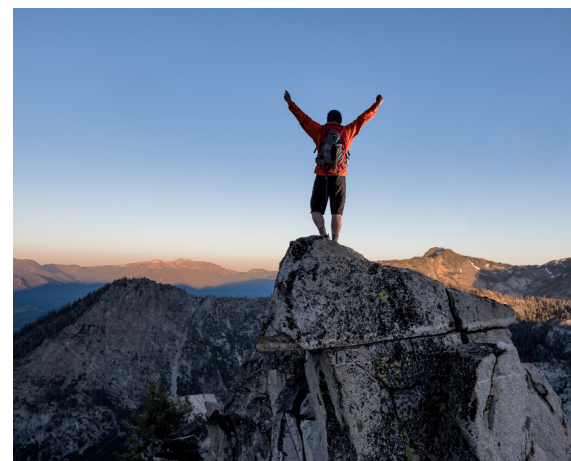
business makes in revenue, while others go by a number of sales transactions made. Certain states may also include exempt sales in their economic nexus thresholds, which means you could still need to file a \$0 tax return, even if you don't collect U.S. sales tax. Different rules and thresholds across the U.S. make determining where you have nexus a challenge. You may find the experience vastly different to doing business in Europe, where there's much less variation in VAT rates, which also change with much less frequency.

### HOW AUTOMATION CAN HELP

As you grow into more U.S. states, sell to new customers, use new marketplaces, or adopt new business models such as a subscriptions service for your customers, you can trigger new U.S. sales tax obligations – sometimes without you realising. Mistakes are easy to make when it comes to managing your obligations, but honest mistakes won't excuse you from penalties and audits that can disrupt your business. Relying on manual processes to constantly monitor your sales

and track them against changing thresholds can be difficult and time-consuming. [Avalara AvaTax](#) can do the heavy lifting for you by tracking your sales and alerting you when you're approaching nexus thresholds.

You can also take the [Avalara Sales Tax Risk Assessment](#) to discover where you have nexus obligations and begin your journey to U.S. sales tax compliance.



## Step 2: Register with the authorities to collect and remit U.S. sales tax

### WHY IT'S IMPORTANT

Once you've identified where you have nexus, you must register to collect and remit U.S. sales tax in each relevant state. It may be illegal to collect U.S. sales tax until your business is properly registered. The process may well be tedious and involve lots of paperwork, but it's an essential step towards mastering your U.S. sales tax compliance.

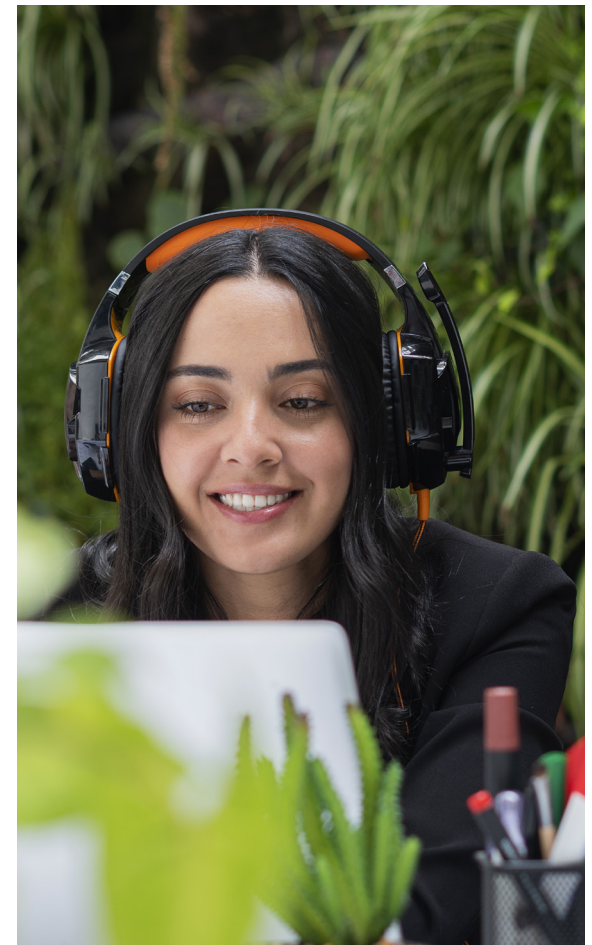
As with U.S. sales tax rates and rules, it's likely the registration processes will differ by state too. You may also need to register for additional licences depending on what kind of items you sell, such as food or tobacco. On the other hand, if you're selling digital goods you may not have to register for U.S. sales tax in certain states. Just as U.S. sales tax rates and rules vary by state, so does the taxability of digital goods – there are over 25 states that tax digital goods and approximately 20 states that do not.

### WHERE PROBLEMS CAN OCCUR

If you've already been operating in the U.S. and discover that you have nexus in a state (or multiple states) but haven't been collecting U.S. sales tax, you'll need to backfile unpaid taxes. An option available to you could be to enter into a voluntary disclosure agreement (VDA) – this will let you disclose and pay outstanding tax obligations to the authorities, and coming forward voluntarily can limit any penalties you may be subject to.

### HOW AUTOMATION CAN HELP

Because the forms, processes, and requirements differ from state to state, you may find that registration can be just as difficult to manage manually as calculating rates and monitoring your sales and thresholds. [Avalara Business Licenses](#) can reduce the complexity by registering your business to collect and remit U.S. sales tax where needed, and obtaining any additional licences you may need.



## Step 3: Track tax exemptions and product taxability

### WHY IT'S IMPORTANT

Certain businesses – including your customers – could be exempt from U.S. sales tax, if they're a non-profit or charitable organisation for example. Some products you sell may also be exempt, such as certain medical or agricultural items. As you may have guessed, product exemptions vary by state, and there is no national ruling on a specific product. Things can get complicated at a granular level. For example, if a bakery in Texas sells ready-to-eat food in a pastry bag with a plastic knife, it's taxable when sold to go. But if the same bakery sold the same food item without an eating utensil, it's not taxable. If the bakery gave a free pie to a customer, it's not taxable. But if the bakery extended its generosity to include a soft drink, that would be taxable.

It can be complicated, and the U.S. government or state authorities will not help you on your way to U.S. sales tax compliance by making you aware of exemptions. It's your responsibility to track them to avoid collecting tax unnecessarily. It's also your responsibility to request, validate, and archive exemption certificates, which your customers must have and present to prove their exemption.

### WHERE PROBLEMS CAN OCCUR

The rules can get complicated even more around digital goods – such as downloadable games, books, and audio files – and software taxability. How digital goods are defined in the EU and the U.S. differs significantly. In the EU, the established criteria dictates that a digital good is not physical or tangible, could not exist without technology, is provided via the internet or an electronic network, and is

either fully automated or involves minimal human intervention. In the U.S., digital goods are taxed in some states, but not in others. Some states also apply U.S. sales tax to certain types of digital goods, but not others.

### HOW AUTOMATION CAN HELP

Keeping up with the rules around exemptions can be a tricky aspect of U.S. sales tax compliance. Managing exemption certificates can also be a huge challenge to attempt manually, especially if your number of customers grows. But an efficient strategy for management must be put in place, as failure to produce accurate records can result in noncompliance penalties and disruptive audits. [Avalara Exemption Certificate Management](#) requests, collects, and validates exemption certificates for you. It also effectively stores certificates and makes retrieval at any time easy.



## Step 4: Calculate the correct tax



### WHY IT'S IMPORTANT

Once you've completed the necessary registration processes with the relevant authorities, you can start calculating and collecting U.S. sales tax. Sellers may find their experience of selling into the U.S. closer to selling to multiple countries than a single nation. This is because U.S. sales tax rates and rules vary not only by state, but by counties and cities within them.

### WHERE PROBLEMS CAN OCCUR

Rates being set at both the state and local level is one of the most significant differences between U.S. sales tax compliance and VAT compliance. In fact, there are over 13,000 U.S. sales tax

jurisdictions with their own rates and rules, which can frequently change. This step can be a challenge, but it's essential to calculate U.S. sales tax correctly so you don't collect too much or too little from your customers, and under- or overpay the authorities.

### HOW AUTOMATION CAN HELP

Constantly monitoring rates and rate changes across the U.S. in order to maintain U.S. sales tax compliance would be a full-time job – and not a very fun or rewarding one. Automation using [AvaTax](#) can calculate tax rates and instantly apply them to your checkout so the most accurate possible final landed price is shown. This saves on your workload and helps keep your customers happy with a buying experience that limits nasty surprises.

## Step 5: Remit the correct amount of U.S. sales tax and file returns

### WHY IT'S IMPORTANT

Once you've determined your obligations, registered to collect and remit U.S. sales tax, calculated the correct rates, and tracked exemptions, the final step to U.S. sales tax compliance is to collect and remit U.S. sales tax. If all other steps have been followed correctly, remitting and filing returns should be fairly straightforward – but there are still some things to be aware of.

Although the U.S. has a federal tax year, each tax authority – the ones relevant to where you sell – are likely to have their own forms, regulations, and processes around U.S. sales tax remittance, to include the due dates you file, the frequency at which you file, and the format you actually use to file (by paper or electronically, for example).

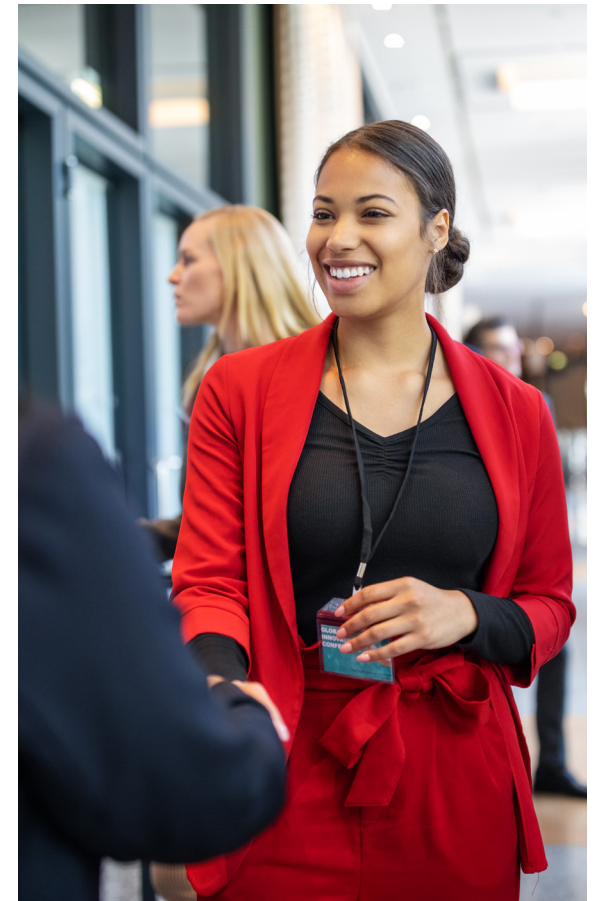
### WHERE PROBLEMS CAN OCCUR

As a seller, you should keep an eye out for [U.S. sales tax holidays](#). These are periods of

time when buyers don't have to pay U.S. sales tax on certain goods, for a day, week, month, or even longer, as defined by the relevant state. Not all U.S. states have U.S. sales tax holidays, but they have become somewhat of an annual event in many states – for example, just before the new school year starts, school supplies such as books and stationery could become tax-free for a week or so. For the duration of the holiday, sellers – who would usually be required to collect U.S. sales tax on the items in question – are not required to collect it on qualifying sales.

### HOW AUTOMATION CAN HELP

With multiple filing deadlines to track and stay on top of, it can be easy to miss one (or more), or misunderstand the filing requirements. [Avalara Returns](#) can keep track of important due dates for you, relieving you of the stress and saving you time.





# Avalara can help simplify your U.S. sales tax compliance

Whatever your business type, size, or industry, Avalara cloud-based, automated solutions can help you determine your nexus obligations, register for U.S. sales tax, instantly calculate U.S. sales tax rates, effectively manage exemptions, and file your returns on time.



## **Avalara Sales Tax Risk Assessment**

Find out where you have nexus obligations.



## **Avalara AvaTax**

Master the rates of over 13,000 U.S. sales tax jurisdictions with instant calculations.



## **Avalara Business Licenses**

Simplify your registration requirements and manage your licenses in a secure database.



## **Avalara Exemption Certificate Management**

Save time and effort when it comes to requesting and validating exemptions.



## **Avalara Returns**

Stay on track with your filing and remittance.