

## Internet Sales Tax – The Wild, Wild West

For years some have compared the internet to the “wild-wild west”. There is not a whole lot of regulation for what is going on out there. However, the government has been working to “clamp-down” on some of the happenings going on with the internet, specifically, sales tax for items sold over the internet. There is currently a case in front of the United States Supreme Court (Wayfair vs South Dakota) which deals directly with the collection of sales tax from items sold over the internet. If you are running an internet-based business, you are going to want to read this white paper to learn a whole lot of knowledge that may save your business in the long run.

Much like a “brick & mortar” style business, there are businesses creating storefront’s and selling items over the internet. These businesses may be selling similar items to similar clientele. However, the “brick & mortar” store is charging, and collecting, sales tax from its clientele while the internet-based store is not. Why? The “brick & mortar” store is located within a physical location working with customers that it can see directly that probably live in the community in which they are located. The internet-based business may be located in a different State, or Country, from the customer thus making it more difficult to determine what sales tax municipality holds jurisdiction. There has been much confusion around this issue. Let’s say the online retailer is located in the same State as the customer. In that case, the online retailer is supposed to be collecting sales tax. However, what if the customer is located in a City that has a local option tax, while the online retailer is not. Does the local option tax get collected and passed through? As you can see, there are many considerations when it comes to this issue.

The consensus seems to be that the internet-based store will collect and report sales tax for the State that the consumer lives in. This can get burdensome rather quickly if you are selling to customers across the Country. Imagine having to file hundreds of sales tax reports each month/quarter/year. This would take an army of sales tax accounting employees to complete. There is another belief that the responsibility for collecting and reporting sales tax should fall on the consumer. Unless there is some sort of reporting mechanism, the taxing authority is not going to know that the consumer made a taxable purchase. Since most internet purchases are made via Credit Card, there is some belief that the Credit Card companies could track purchases and file a form 1099 to the purchaser at the end of each year for internet-based purchases, which would report back to the Internal Revenue Service.

The Supreme Court of the United States is currently hearing a case (Wayfair vs South Dakota) that may finally resolve the Internet Sales Tax debate. However, in news articles posted as of April 17, 2018 there are reports that the Justices are all split in different directions as to how to rule in this case. It is estimated that State and Local Governments could collect an additional \$8-\$23 Billion a year in sales tax revenue. The outcome of this case can have huge possibilities. Should the Justices rule that the online retailer collect sales tax in their own jurisdiction, you can guarantee that these businesses are going to move to the most tax friendly community available, which could create the loss of thousands of jobs in one community, while another community gains those jobs. If the online retailer is required to collect sales tax for the buyer’s jurisdiction, the internet-based business is now open to audits from hundreds of thousands of different municipalities. (Editors Note: This is exactly what occurred in the Supreme Court decision and will be interesting to see how this pans out). The Supreme Court could also decide to do nothing and maintain the status quo. In this case, many municipalities lose out on sales tax revenue, and an uneven field is created with “brick & mortar” retailers.

Whether you are an online business, a “brick & mortar” business or a consumer the Internet Sales Tax issue affects you. You can be paying more for your purchases, or more in taxes to make up for losses from tax revenue your City or State may not be able to collect. Businesses may have to start charging more for their items to make up losses from having to file additional reports and hire additional employees. It is worth paying attention to the current case in front of the Supreme Court and whatever outcome there may be.