

Navigating The Internet Sales Tax Laws

By Tim Knox

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Online Entrepreneur Q&A
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Q: Do I have to charge sales tax on orders placed on my Web site? What if I have international customers?

A: Online companies with a physical presence, or nexus, in a state are required to collect and report taxes on sales made to customers living within that same state. For example, if your online business is based in California, you must collect and report sales tax derived from fellow Californians making purchases on your site.

Internet sales taxation has always been a hot topic for those of us who make our living selling goods and services online. One of the more controversial points is that no one, including our own government, has a clue how to implement a fair and logical Internet taxation process.

There are more than 7,500 state and local entities collecting sales taxes in the United States, each with its own system of rates and rules. A solution that satisfies them all may be a long time coming, indeed.

Online taxation has been a thorny topic for years. Even before Amazon.com sold its first book or Priceline.com booked its first flight, forward-thinking tax collectors knew the Internet might someday generate millions of dollars in taxable goods and services. The problem then--and now--is how the states would get their fair share of the pie.

In 1998, Congress did what it usually does when faced with a potentially explosive issue like Internet tax collection -- it decided to put off making a decision. Congress enacted a three-year moratorium on the collection of taxes to give an appointed advisory board time to come up with an

acceptable solution.

That moratorium ended last year, and, thus far, no one has come up with an efficient way for online businesses to easily collect and submit sales tax.

Some states have been working to simplify their sales tax structures to make it easier for online merchants to charge and pay taxes, but a consensus is still a long way off. In order for Congress to approve any standard process, there will have to be a major simplification of individual state tax codes and a consensus among the states.

And nobody knows how long that process could take, not even the states themselves. Many states are asking their citizens to take charge of the situation and voluntarily pay sales tax for purchases made online. It's sort of a "good citizen honor system" that I doubt few actual good citizens will willingly take part in.

In my home state of Alabama, for example, the sales tax collection department is airing radio spots asking Alabamians to step up to--and toss dollars into--the proverbial collection plate. The commercial kindly suggests that if I have purchased anything from an online retailer, I am honor-bound to proclaim such purchases and submit the appropriate sales tax to the collection department right away. They thank me in advance for my cooperation.

Now where did I put all those Amazon.com receipts...

The good news for online retailers is there's no evidence that people buy online to avoid paying taxes or save money, for that matter. If saving a buck were the motive, no one would willingly pay shipping charges.

People shop online because it's convenient to do so.

The Internet offers the ability to shop the worldwide market while sitting in the comfort of your own home - a convenience that most people are happily willing to pay for.

Here's to your success!

Tim Knox

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Online Entrepreneur Q&A is written by veteran entrepreneur and OnlineProfits4U.com founder, Tim Knox. Tim serves as the president and CEO of three successful technology companies: B2Secure Inc., a Web-based hiring management software company; Digital Graphiti Inc., a software development company; and Sidebar Systems, a company that creates-cutting edge convergence software for broadcast media outlets.

Tim is also the Ebusiness Startup and Design Expert for Entrepreneur.com, the website of the national publication Entrepreneur Magazine. As if that wasn't enough to keep him busy, Tim also writes the weekly newspaper column "Small Business Q&A" which focuses on small business startup and success.

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