



# Online Sales Tax



## Key Takeaways:

- Before June 2018, startups which sold products online were only responsible for collecting and remitting sales taxes from online purchases in states where they had employees, or a “physical presence.” This is no longer the case.
- The Supreme Court’s recent decision in *South Dakota v Wayfair* forces startups to comply with over 10,000 different taxing jurisdictions, dramatically changing the way startups will be required to collect sales taxes online.

## What is online sales tax?

The Internet allows startups to reach customers throughout the country and around the world. Until recently, businesses only paid sales tax on products sold online in jurisdictions where they had physical presence. In a recent Supreme Court decision, *South Dakota v Wayfair*, the court overturned this regulatory framework, subjecting online retailers to a 50-state patchwork of over 10,000 taxing jurisdictions. This ruling opens the door for companies to collect and remit sales tax at the state level, even in jurisdictions where they only have an online presence.

## Why does it matter to startups?

Startups rely on quick scalability to prove their business models, but increased taxation and red tape makes it much harder to sell to customers in locations far away from headquarters. The *Wayfair* ruling will disproportionately harm startups which will be forced to bear high compliance costs and keep up with ever-changing tax laws. Navigating various tax jurisdictions is a tricky task, and software used to do this can easily cost up to \$150,000 per year. This could be crippling for businesses which rely on national sales. The ruling also creates uncertainty for startups in the retail space which may find it harder to secure investment given the higher barriers to entry.

## Where are we now?

States across the country are starting to enact new legislation to increase sales taxes for online sellers, seeing a new source of revenue. The House Judiciary Committee is currently working on legislation to protect small businesses and startups from onerous tax burdens.

Questions?

Contact Engine's Policy Team at [policy@engine.is](mailto:policy@engine.is)