Drop shipping and new tax laws after Wayfair

A guide to navigating new tax regulations and drop shipping following the South Dakota v. Wayfair ruling

If you provide drop shipping. . .

Does the seller have nexus?

- N → **Did your company deliver \$100K+ or 200+ transactions* into the state on behalf of the seller?**
  - N → **Does your company have nexus?**
    - Y → Collect sales tax or a valid resale exemption certificate from the seller.
    - N → The customer is responsible for paying use tax.
  - Y → **Alert! Drop shipping has triggered sales tax for the seller.** → Collect a valid resale exemption certificate from the seller.
- Y → The seller collects sales tax, and you collect a valid resale exemption certificate from the seller.

What is nexus?
Any connection or involvement in a given state that creates a tax obligation.

If you use drop shipping. . .

Does your company have nexus?

- N → **Did your supplier deliver \$100K+ or 200+ transactions* into the state on your behalf?**
  - Y → **Alert! Drop shipping has triggered sales tax for the seller.** → **Is your customer tax exempt?**
  - N → **Does your supplier have nexus?**
    - N → The customer is responsible for paying use tax.
    - Y → Fill out a resale exemption certificate for your supplier.*
- Y → **Is your customer tax exempt?**
  - N → Collect sales tax.
  - Y → Collect a valid resale exemption certificate from your customer.

Definitions

Seller: The company (usually retail or ecommerce) that accepts a product order *from* a customer.

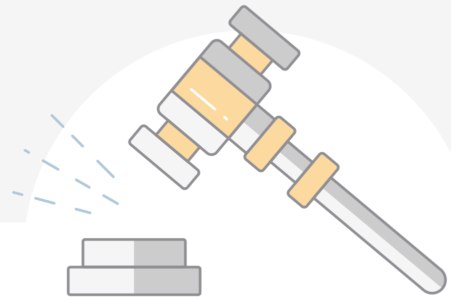
Supplier: The company (often a manufacturer or wholesaler) that delivers the product *to* the customer.

Customer: The person or entity that placed the order.

*Varies by state. Consult your tax professional.

Avalara
Tax compliance done right

Changing regulations and increased exposure



If you're drop shipping, particularly to numerous states, ensuring tax compliance is a complex process. As a result of Wayfair, many manufacturers and distributors will see exponential growth in the number of exemptions certificates they're obligated to collect and maintain.

Those obligations revolve around nexus – the connection between a seller and a state that requires sellers to collect and remit sales tax. Since 1992 nexus applied when remote sellers had a physical presence and/or employed staff in a particular state.

That changed with the Supreme Court's South Dakota v. Wayfair decision in favor of South Dakota. It paved the way for that state and others to impose sales tax obligations on out-of-state transactions – regardless of physical location.

Now each state can impose sales tax on remote sellers

Post-Wayfair, physical presence remains a standard. But now, each state can also impose sales tax obligations on remote sellers based on economic nexus, which includes thresholds relating to the volume or dollar value of sales or a combination of both. **South Dakota, for example, now defines economic nexus thresholds as more than $100,000 in sales or 200 or more separate transactions within a calendar year.**

Other states are jumping on that bandwagon, adopting their own economic nexus requirements based on sales revenue and transaction volume – changes which may require you to collect and maintain tax documentation on a much larger scale.

Scale quickly with automation

If your company is growing or you anticipate growth, the new economic nexus thresholds will increase your tax obligations, particularly if a big part of your customer base is in one state or you sell a lot of small items.

If your systems aren't optimized for changing tax requirements, your firm may be at risk for errors and audits

And if your financial systems aren't optimized for changing tax document management requirements, you use out-of-date homegrown technology, or your staff is untrained, your firm may be at risk for errors and audits. Even a small set of documents deemed invalid in an audit could bring large penalties.

Avalara automates the process in a way that helps eliminate risk, allowing your firm to stay compliant now and into the future. It works with businesses large and small, and integrates seamlessly with enterprise resource planning systems and order management software.