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Online Sellers Consider How to Comply With Sales Tax Ruling.

NEW YORK — While a Supreme Court ruling on sales taxes will create more obligations and expenses for many small online retailers, owners are already thinking about how they'll comply.

The decision allows states to require out-of-state businesses to collect sales tax from customers in other states — for example, a retailer in Utah who sells goods to a customer in New York would have to calculate and collect the New York sales tax. The ruling potentially means thousands of small businesses that never collected sales tax except in their home states will be responsible for tax in some 10,000 state and local jurisdictions nationwide.

The ruling has angered many small online retailers and advocates for small companies because it will increase their expenses, mostly from the cost of software and services to help sellers collect the taxes and send the money to state authorities. But brick-and-mortar retailers who have had to collect tax simply because they have a store, office or warehouse in a state say the court has leveled the playing field, as online retailers will no longer have an advantage created by tax-free shopping.

The decision overturned two decades-old Supreme Court decisions that allowed companies without a physical presence in a state to avoid collecting sales tax. The internet has changed retailing, and Justice Anthony Kennedy, who wrote the new decision, said, "each year, the physical presence rule becomes further removed from economic reality." Kennedy also noted the existence of software that "may make it easier for small businesses to cope" with compliance.

Some internet retailers are shrugging and making plans to adhere to the new rules.

"I'll do what needs to be done and get it taken care of," said Dave "Lando" Landis, owner of Rocker Rags, a New Mexico-based online seller of clothing with photos and logos of rock musicians. "It's not something that needs to be a panic situation."

Adrienne Kosewicz who pays \$3,300 a year for tax compliance software for sales in her home state, Washington, expects that collecting taxes in other states will raise costs by a manageable 10 percent at her Seattle-based online business, Play It Safe World Toys.

The cost can be reduced for retailers who sell to customers in the 24 states that participate in the Streamlined Sales Tax Agreement, a plan aimed at simplifying tax collection. Under the agreement, retailers can use a sales tax compliance service of their choice without charge for transactions in the participating states, according to Craig Johnson, executive director of the Streamlined Sales Tax Governing Board.

There are still many unknowns. The ruling upheld a South Dakota law that exempts sellers with \$100,000 or less in sales in the state. Other states are free to set their own thresholds, and it's not known what they might be or how long it would take for all the states to weigh in, says David Campbell, CEO of TaxCloud, a provider of tax compliance software. It's also not known if Congress might set a uniform ceiling that all states would have to adhere to.

Kosewicz says for her, sales may not reach the threshold in each state.

States also still must announce dates by which retailers must be in compliance, says Scott Peterson, a vice president at Avalara, a manufacturer of tax collection software. He suggests retailers consult with their accountants to determine the states where they should be in compliance.

The tax compliance software and services are designed to work with the programs retailers use to process their sales transactions. They are linked to databases that track tax rates in the 45 states that charge sales tax, and in the thousands of counties and municipalities that have their own taxes.

But using the compliance services won't be without complications, says Jamie Yesnowitz, an accountant specializing in state and local taxes with the firm Grant Thornton.

"It's not as easy as pushing a button," because businesses will need to make decisions about where they're going to collect tax, Yesnowitz says. If a company doesn't expect to reach the threshold in a state, it may decide not to collect tax.

Owners will also have to absorb the costs of complying, or pass it along to customers — something they want to avoid.

"There must be another piece of overhead someplace else to reduce," says Bob Cuddihy, owner of True Citrus, a Baltimore-based online seller of drink mixes, water bottles and apparel. He's concerned about consumers cutting back their purchases when they see they have to pay sales tax, but he also believes in time they'll get used to the added cost.

Owners who have never collected out-of-state sales tax will need to get up to speed. Betty Lou Kranz initially worried about being able to stay in business if she had to track tax rates in hundreds of jurisdictions where her Port Jervis, New York-based company, The Pretzel Princess, sells candy and snacks.

"I will be learning a lot in the next couple of months," Kranz says.

The ruling also concerns some small business advocates, who see it as government interference in business. "It's taxes and regulation all combined in one unfortunate tax," says Raymond Keating, chief economist with the Small Business & Entrepreneurship Council.

But to brick-and-mortar stores, the ruling righted a decades-old imbalance that favored internet retailers and led to the demise of thousands of merchants.

"They've been getting an unfair advantage for 20 years. As much as I like the internet, real harm has been done," says Mike Brey, owner of two Hobby Works stores in Maryland. Brey, who also has an online business, has closed three stores. He plans keep building his internet business, and expects his company will eventually pass whatever thresholds are set in all the states.

Businesses that aren't traditional retailers hope they'll get back lost sales. Among them: veterinarians who write prescriptions for medicine and special food that clients have been able to buy tax-free online.

"Vets all over the country have lost a lot of income for a long time," says Dr. John de Jong, owner of Newton Animal Hospital in Massachusetts and president-elect of the American Veterinary Medical Association. He estimates his practice loses more than \$75,000 in sales annually to online stores.

By The Associated Press

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