

TAX PLANNING

Online Shopping Could Get Pricier

States now have more latitude to collect sales tax on internet purchases.



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If you live in a state that charges sales tax, you could soon pay more for your online purchases. In June, the Supreme Court ruled that South Dakota may require online retailers with a certain volume of sales in the state to collect sales tax, even if the sellers don't have a physical presence in South Dakota. The ruling has paved the way for other states to collect sales tax on more online purchases.

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Hawaii, Kentucky and Vermont passed legislation effective July 1 of this year that requires remote sellers to collect sales tax. Alabama, Connecticut, Georgia, Illinois, Iowa, North Dakota and Wisconsin have new laws that will go into effect this fall or winter. Other states passed laws last year that would become enforceable pending rulings by the state courts. And several states—including California, Kansas and New York, which have high sales tax rates—are likely to tackle the issue in upcoming legislative sessions. In most states, you can expect to be hit with local sales tax for online purchases, too.

Generally, shoppers who buy from midsize online retailers will be the hardest hit, says Carl Davis, research director for the Institute on Taxation and Economic Policy. South Dakota's rule requires remote sellers to collect tax if they have at least \$100,000 in sales or 200 transactions in South Dakota. Other states are imposing similar thresholds. Many larger merchants already collect sales tax nationwide. Amazon.com charges state tax on direct sales in all states that have a sales tax. However, in most states Amazon doesn't collect taxes for purchases from third-party sellers that use its platform.

There's a thin silver lining. Customers who live in states that charge sales tax are supposed to pay "use tax"—usually when they file their state tax return—on taxable purchases from out-of-state retailers that don't collect sales tax. The vast majority of consumers don't pay use taxes, leaving them liable for penalties if their state chooses to enforce the rule. But if retailers collect the sales tax, online shoppers have less risk of running afoul of the law, says Diane Yetter, president of the Sales Tax Institute.