



Guide to Sales Tax for Fulfillment by Amazon (FBA) Sellers

For years, online retailers have taken advantage of the ability to sell goods without the legal requirement to collect sales tax. However, as online consumer spending has grown, state and local tax jurisdictions have become increasingly aware of the millions of dollars in lost sales tax revenue. There is evidence that more state tax agents are being hired to pursue businesses failing to collect sales tax and file returns.

For FBA sellers, there are specific steps involved in making sure your company is set up for sales tax compliance. As this guide will illustrate, every seller has their own requirements defined by the Amazon seller program they are enrolled in, their location, and their fulfillment structure.

This guide is broken into the following three parts.

Part 1: Sales Tax 101 for Amazon Sellers

Part 2: Selling on Amazon and Sales Tax Compliance

Part 3: Setting Up Sales Tax Collection on Amazon



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Part 1: Sales Tax 101 for Amazon Sellers

When to Collect Sales Tax

Determining when and where to collect sales tax can be a challenge for businesses of all sizes. Online research can often lead to complicated websites, misinformation, opinions, and outdated theories. For state and local tax authorities, the primary identifier of those who need to collect sales tax boils down to a concept known as nexus.

Nexus is defined as a “connection to or presence within a state,” and it’s the first thing you want to consider when determining sales tax exposure. For most businesses, nexus begins in any state in which a physical location such as an office exists. However, in recent years, states have extended the definition of nexus to include less tangible connections. Storing goods in a warehouse, using a drop shipper, and attending and conducting business at trade shows have the potential to trigger nexus.

It’s important to realize nexus rules vary by state and can be complicated and cumulative. It’s not uncommon for nexus to be triggered not by a single event, but by a pattern of events that, in total, show evidence that a business is connecting with a state with the goal of establishing a market for their business.

When analyzing sales tax nexus, it is recommended that businesses work with an accounting professional to fully understand where nexus may need to be conceded.

Sales Tax Registration

Once a business has determined they have nexus in a state, the next step is to register with state and local tax authorities to collect sales tax. This can be done online by visiting the appropriate website and completing the registration process. It is important to note that collecting sales tax prior to successfully completing registration is illegal in every state.

Upon successfully completing the registration process, businesses are assigned a state registration number and a filing frequency. This frequency is typically annual for new businesses, but can be semi-annual, quarterly, or monthly depending on the state and historic sales. Furthermore, as a business grows, states have the authority to increase the frequency in order to get sales tax revenue sooner rather than later.

Collecting Sales Tax

After registration has been successfully completed, sellers are ready to begin collecting sales tax. Modern shopping carts generally give sellers the ability to toggle sales tax collection by state based on where a business has nexus.

Remember, product taxability varies by tax jurisdiction. Businesses should review product taxability documentation for their nexus states to be sure they are collecting sales tax only when necessary.

Most modern online shopping carts feature integrated sales tax rate determination (in many cases powered by our AvaTax product). During checkout, shopping carts display charged sales tax as its own line item separate from the cost of the purchased items. The seller's primary responsibility is to file and remit the sales tax to the appropriate taxing authority prior to the assigned deadline.

It is important to remember any collected sales tax is not revenue, and the funds should never be treated as such. Businesses serve only as trustee or custodian of these funds until they are remitted to the state.

Filing Sales Tax Returns

At the end of each assigned filing period, businesses are required to file sales tax returns with the appropriate state and local tax authorities. In most cases, returns delineate the total sales tax collected and are submitted with a payment for the outstanding balance. Filing deadlines are unique to each tax jurisdiction and should be noted and respected. Late filing may lead to fines and interest payments.

It is important to file on time, every time. This is true regardless of whether any sales tax has been collected or whether any of the collected funds are not immediately available for remittance. If the total amount due cannot be paid on time, it is highly recommended that the business contact the tax authority to devise a payment plan.

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Part 2: Selling on Amazon and Sales Tax Compliance

How Amazon Collects Sales Tax

To understand how Amazon will collect sales tax on the items you are selling, consider the language published for sellers: "Tax is generally calculated on the total selling price of each individual item."

Furthermore, the total selling price of an item generally includes "item-level shipping and handling charges, item-level discounts, gift-wrap charges, and an allocation of order-level shipping and handling charges and order-level discounts."

How Fulfillment by Amazon Impacts Nexus

In Fulfillment by Amazon (FBA), Amazon has created one of the world's most advanced fulfillment networks. FBA products are stored in Amazon warehouses throughout the United States. This allows Amazon to strategically locate inventory to reduce shipping times and costs. The Amazon Prime program depends heavily on this strategy to support free 1-day shipping and same-day Prime Now delivery. From the seller perspective, the ability to offload picking, packing, and shipping of goods allows the business owner the opportunity to operate with a smaller staff and focus on other business priorities.

How does this impact your sales tax obligation? As mentioned, one criteria for establishing nexus in a state is having inventory stored within that state. Having nexus in a state likely means your business will need to register with state tax authorities to collect and remit sales tax.

A common misconception among Amazon sellers is that FBA inventory is the property of Amazon. In their [2016 annual report](#), Amazon made it a point to dispel this myth, stating “third-party sellers maintain ownership of their inventory, regardless of whether fulfillment is provided by us or the third-party sellers, and therefore these products are not included in our inventories.”

Although Amazon is expanding its warehouse network all the time, Avalara provides a list of [currently known warehouse locations](#).

Managing Refunds and Exemptions

Amazon sellers enrolled in the FBA program are not responsible for managing refunds and tax-exempt purchases. The responsibility of managing these events falls on the shoulders of Amazon. Buyers are required to submit their tax exemption documentation for the state to which their purchase is shipped in order to receive a sales tax refund.

If you are not enrolled in the Amazon FBA program, you may find customers contacting you directly to request a sales tax refund. Be sure to request a legal sales tax exemption certificate before fulfilling this kind of request and keep it on file.

Sales Tax Holidays

Sales tax holidays are a temporary period during which state sales tax is not collected or paid on qualifying items. Only a handful of states participate in such holidays.

There are three main types of sales tax holidays. The first coincides with the beginning of the school year, allowing consumers to purchase educational items such as clothing, computers, and school supplies tax-free. The second is scheduled prior to the start of the expected hurricane season and allows consumers to purchase hurricane preparedness supplies tax-free. The third focuses on tax-free firearms.

[Amazon participates in sales tax holidays](#), so be aware that during these periods, purchases of qualifying goods from customers within qualifying states will be tax exempt.

Amazon Sales Tax Compliance Risks

While the Amazon shopping cart offers reliable sales tax collection, sellers aren't without risk. Businesses aiming to avoid late penalties, interest fees, and the dreaded audit need to consistently meet filing deadlines and be sure to keep proper records and receipts. This guide outlines some of the most common risks for businesses managing sales tax compliance.

== Risk 1: Over- or Undercollecting Sales Tax

While sales tax collection on Amazon is automated, sellers have the ability to manually set state sales tax rates. This introduces the risk of setting incorrect tax rates and over- or undercollecting. Consider sticking with automated rate determination. Should you need to set rates manually, be sure to review the rates periodically, as they can change without warning.

== Risk 2: Failure to File Sales Tax Returns On Time

Amazon sellers registered to collect sales tax are required to file ongoing sales tax returns. A filing frequency is assigned by the state taxing authority. Failure to file on time may result in monetary fines. This is true regardless of whether any sales tax has been collected. Amazon sellers are encouraged to file on time, every time.

== Risk 3: Failure to Remit Sales Tax Revenue On Time

Like filing deadlines, Amazon sellers will be expected to remit sales tax revenue by assigned deadlines. Failure to do so may result in interest being collected on the outstanding sales tax revenue. In the event of a revenue shortcoming, businesses are encouraged to contact state or local tax authorities to investigate options for shoring up the lack of funds.

== Risk 4: Sales Tax Filing Errors

Humans are prone to making mistakes. Who hasn't had a typo slip through the cracks when sending an email or filling out a form? State tax jurisdictions cite such filing errors as the most common type of mistake. Incorrectly completing filing forms, forgetting to sign checks, and failing to include checks are just a few of the long list of oversights that can stop a sales tax return from successfully being filed.

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Part 3: Setting Up Sales Tax Collection on Amazon

To set up sales tax collection on Amazon, we recommend sellers prepare by completing the following three steps. NOTE: The recommendation to upgrade to an Amazon Professional Seller account is a requirement in order to collect sales tax.

1. Upgrade to an Amazon Professional Seller account ([Instructions](#)).
2. Determine the states in which your business has nexus.
3. Register with any state you identified as a nexus state in the prior step.

Your business should now be registered to collect sales tax in each of your nexus states. You should have registration numbers and filing frequencies for each state tax jurisdiction. You will need these when you enable tax collection on Amazon.

Amazon Tax Settings Overview

1. View Tax Calculation Methodology

This is recommended reading from Amazon. Whether or not you are new to sales tax, it doesn't hurt to take a few minutes to further familiarize yourself with how Amazon collects sales tax. Within this document, Amazon offers details about how they determine sales tax and collect sales tax. Other topics covered include returns, sales tax on digital content, and exemptions.

2. View Master Product Tax Codes and Rules

Amazon Seller Central offers predefined tax codes for a wide variety of product categories including (but not limited to) books, apparel, computers, sporting goods, and food. Take the time to locate the type of product you intend to sell and review the taxability details.

Why should you take the time to review product tax codes and rules? You might not be aware of the fact that candy made with flour is excluded from the "candy" category as are candy baskets that have really nice baskets. Every product type has some sort of exception. Be sure you understand the taxability of the goods you are selling.

3. Edit Your Tax Collection, Shipping & Handling, and Gift Wrap Tax Obligation Settings

This is the most important screen. Now that you've reviewed the manner in which Amazon collects sales tax, you are ready to set up your tax collection rules. This is a multistep process and will be outlined below. To begin, scroll to the bottom of the page to where you can set up taxation rules for each tax jurisdiction as well as shipping & handling taxability and gift wrap taxability.

Setting Up Amazon Sales Tax Collection

Now that you've covered the administrative steps, it's time to set up sales tax collection. Let's review the required steps.

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Choose Your Product Tax Codes

When choosing product tax codes (PTC), you have the following three options to consider: collecting no tax on any sales, collecting tax on every sale, and collecting tax on specific product sales.

The table below shows these options along with the appropriate product tax code you'll want to choose from the drop-down menu. Be aware that Amazon states they will not collect any sales tax on offers you do not assign either a seller-defined default PTC or an offer-level PTC.

Tax Collection Setup	Product Tax Code to Select
Do not collect sales tax on any sales	A_GEN_NOTAX
Collect sales tax on all sales	A_GEN_TAX
Collect sales tax on specific product types	Choose from the list of product tax codes found in the drop-down menu

2 Define Tax Collection Obligations

If you have elected to collect sales tax, select the regions for which you want the Amazon tax calculation engine to charge sales tax by checking the appropriate checkboxes (State, County, City, and District).

Guidance: If you are a new seller, it is always advisable to begin with your home state as this is the state in which you will definitely have nexus.

3 Input Your State Registration Number(s)

For each state in which you elect to collect sales tax, you must input your state sales tax registration number.

Guidance: Plan ahead. State sales tax registration takes time to complete. If you are registering your business in multiple states, you may need more than a single day to complete this step.

4 Specify a Custom Tax Rate (OPTIONAL)

Should you choose to, you can set a custom tax rate for any state. This rate will override the tax rate used by the Amazon tax calculation engine.

Guidance: Generally speaking, this is not a high priority for new Amazon sellers. However, as your business grows and your tax exposure becomes greater and possibly more complex, it is good to know you have the option of setting custom state sales tax rates.

5 Choose Taxability on Shipping & Handling and Gift Wrapping

Decide whether or not to collect sales tax on shipping & handling and gift wrap charges. This sales tax is on the service of gift wrapping, not the actual wrapping supplies. Amazon will tax this service at the same rate that is being applied to the item being shipped to the buyer.

Guidance: Take time to review the specific sales tax rules on shipping, handling, and gift wrapping for the states in which you are collecting sales tax. Don't assume anything here; different states have different rules.

Exporting Amazon Sales Tax Data

Many users need to export their sales data from their ecommerce, shopping cart or accounting software in CSV form. Many of the platforms you are currently using have published instructions, but they can be difficult to find. For Amazon users, the process is quite straightforward.

Below you'll find step-by-step instructions for how to export your sales tax data from your Amazon Seller Central account. Be sure to log in to your Amazon account to get started.

Before we begin, however, it's important to note that Amazon FBA sellers using Avalara TrustFile can connect TrustFile directly to their Amazon Seller Central account and sync data automatically. With that said..

Amazon Sales Tax Download Instructions

1. Log in to your Amazon Seller Central account.
2. Click the link for reports.
3. Click "View the report" from Sales Tax Report.
4. Click the "Generate new report" button, and a pop-up will appear.
5. Within the pop-up, select the time period for which you'd like to export sales data.
6. After the report is generated, download it.

Final Thoughts

Congratulations! You've set up sales tax collection on Amazon and are ready to start collecting sales tax and filing ongoing sales tax returns. It's important to remember Amazon may move your inventory to new warehouse locations periodically. This can change where your business may have nexus and demands periodic review of your inventory distribution.

[Consider trying Avalara TrustFile to make ongoing filing quick and easy.](#)

About Avalara

A privately held company, Avalara helps businesses of all sizes achieve compliance with transactional taxes, including sales and use, VAT, excise, communications, and other tax types. The company delivers comprehensive, automated, cloud-based solutions that are designed to be fast, accurate, and easy to use. Avalara offers hundreds of pre-built connectors into leading accounting, ERP, ecommerce and other business applications, making the integration of tax and compliance solutions easy for customers. Each year, the company processes billions of indirect tax transactions for customers and users, files more than a million tax returns, and manages millions of tax exemption certificates and other compliance documents. Headquartered in Seattle, Washington, Avalara has offices across the U.S. and overseas in the U.K., Belgium, Brazil, and India.