Ecommerce Tax—Your Ultimate Guide to Simplify Tax Collection with Selldone / Stripe

Navigating the world of ecommerce tax can feel like traversing a maze blindfolded. With varying tax laws across countries, states, and even cities, it's no wonder many online entrepreneurs feel overwhelmed. But what if there was a way to simplify the entire process? In this comprehensive guide, we'll demystify ecommerce tax collection and show you how to set up taxes seamlessly using Selldone, a powerful business management and ecommerce platform. Let's dive in!

Understanding the Basics of Ecommerce Tax

Before we delve into the nitty-gritty of tax setup, it's crucial to grasp the fundamentals of ecommerce tax.

What Is Ecommerce Tax?

Ecommerce tax refers to the taxes that online sellers must collect and remit on sales made through their ecommerce platforms. This includes sales tax, value-added tax—VAT, goods and services tax—GST, and other regional taxes.

Why Is Tax Compliance Important?

Non-compliance can lead to hefty fines, legal complications, and damage to your business reputation. Being proactive about tax collection ensures your business remains in good standing with government authorities.

Key Facts Every Ecommerce Entrepreneur Should Know About Tax

1. No Service Can Automate Tax Calculation 100% Without Your Input

Automated tax services are helpful, but they aren't omniscient. They can't determine the tax rates for your products without knowing what you're selling. You need to define your products' tax classifications in Selldone or any other platform with advanced tax features.

Tip: Use Selldone intuitive interface to assign tax classifications to your products easily.

2. You Are Responsible for Collecting and Remitting Taxes

Regardless of the services or platforms you use, the ultimate responsibility of collecting and remitting taxes falls on you, the seller. Simply making sales doesn't necessarily mean you need to register for a tax code in every country.

- **Thresholds Matter:** Many countries have sales thresholds (e.g., $100,000) before you must register for tax purposes.
- **Know Your Operations:** If you have a physical or significant economic presence in a country, you likely need to register.

3. Start Small and Simple

If you're selling thousands of products in dozens of countries, tax compliance becomes exponentially more complex.

- **Focus on Limited Product Types:** Starting with a narrow range of products simplifies tax classification.
- **Use Buyer Location-Based Tax Rates:** Selldone allows you to define sales tax based on the buyer's location, making it easier to manage.

4. Selldone Supports Advanced Tax Calculations

Selldone offers robust tools for:

- **Product Tax Classification:** Assign different tax rates to different products.
- **Territory-Based Calculation:** Set tax rules based on countries, states, or even cities.
- **Automatic Calculation:** Taxes are calculated and displayed during checkout.

5. Do You Need to Set Up Stripe Tax?

While you can enable Stripe Tax, it requires manual tax definition for each product. Selldone streamlines this process by handling reliable tax calculations within the platform.

6. Know the Tax Rates for Your Products and Territories

Different products can have varying tax rates even within the same country.

- **Research Is Key:** Understanding the tax rates applicable to your products in different regions is essential.
- **Simplify with Selldone:** The platform allows you to set these rates effortlessly.

Coming Soon: Selldone is working on AI-powered tax classification and rate prediction to automate this process further.

Understanding Nexus: Physical vs. Economic [Operation Yes /No]

What Is Nexus?

Nexus refers to a significant connection between your business and a tax jurisdiction, obligating you to collect and remit taxes there.

Physical Nexus

You have a physical nexus in a state or country if you have:

- **People:** Employees, remote workers, or owners involved in day-to-day operations.
- **Property:** Inventory stored (e.g., in warehouses or fulfillment centers), vehicles, or leased property.

Tip: If you're just starting out, focus on where you have a physical presence and register for tax collection in those regions.

Economic Nexus

Economic nexus is established based on sales thresholds, typically:

- **Transactions:** A certain number of sales transactions (e.g., 200 transactions in a state).
- **Revenue:** A specific amount of sales revenue (e.g., $100,000 in a state).

Important: Economic nexus thresholds reset annually. Monitor your sales to know when you need to register.

You can find some transactional thresholds here if you use Stripe: https://dashboard.stripe.com/tax/thresholds

Navigating International Tax Obligations [Operation Yes /No]

Effectively Connected Income (ECI)

For foreign ecommerce entrepreneurs, **ECI** determines whether you need to pay income taxes in the U.S.

You have ECI if you:

- Have inventory in the U.S.
- Live in the U.S. for 31 days or more.
- Are a U.S. citizen.

Advice: If you don't have ECI, your tax obligations in the U.S. may be limited. Always consult a tax professional.

Tax Planning Strategies for Foreign Sellers

- **Dual Entities:** Set up a U.S. corporation for U.S. operations and a foreign entity for management services.
- **Transfer Pricing Agreements:** Formal contracts defining the financial relationship between your entities.
- **Separate Financials:** Maintain distinct bank accounts and records for each entity.

Example: A seller in Ireland could operate a U.S. corporation for sales and an Irish company for management, optimizing tax liabilities in both countries.

Leveraging Marketplace Facilitators for Tax Compliance

What Are Marketplace Facilitators?

Platforms like Amazon, eBay, Etsy, and Walmart that:

- Provide a platform for sellers. (In selldone set 'Direct Shipping Mode' in your marketplace settings + Using Stripe Connect in Selldone to split payments at the first place ♥)
- Facilitate payment processing.
- Often handle tax collection and remittance on your behalf.

Benefits

- **Simplified Tax Compliance:** They collect and remit sales tax for you.
- **Focus on Selling:** Spend less time worrying about taxes and more on growing your business.

Note: Even if you surpass economic nexus thresholds, you may not need to collect taxes yourself if selling exclusively through these platforms.

The Importance of Transfer Pricing for Global Sellers

What Is Transfer Pricing?

A method used to allocate income between related entities in different tax jurisdictions, ensuring profits are taxed appropriately.

Why It Matters

- **Tax Optimization:** Legally reduce tax liabilities by distributing income.
- **Compliance:** Avoid penalties by adhering to international tax laws.

Advice: Implement a transfer pricing agreement if you operate in multiple countries. Consult professionals to structure it correctly.

Staying Compliant: Regular Monitoring and Reporting

Monitor Your Sales Data

- **Quarterly Reviews:** Assess sales volume and revenue by region.
- **Threshold Alerts:** Know when you approach economic nexus thresholds.

Use Selldone Reporting Tools

- **Generate Reports:** Easily download financial summaries.
- **Detailed Breakdown:** Understand tax collected per item and per region.

Stay Updated on Tax Laws

- **Changes Happen:** Tax laws can change annually.
- **Professional Advice:** Consult tax experts to stay compliant.

Setting Up Tax in Selldone—Step by Step

Now that we've covered the essentials, let's walk through how to set up tax collection in Selldone.

Step 1: Access the Tax Settings

Navigate to your Shop Dashboard and go to **Accounting > Tax**.
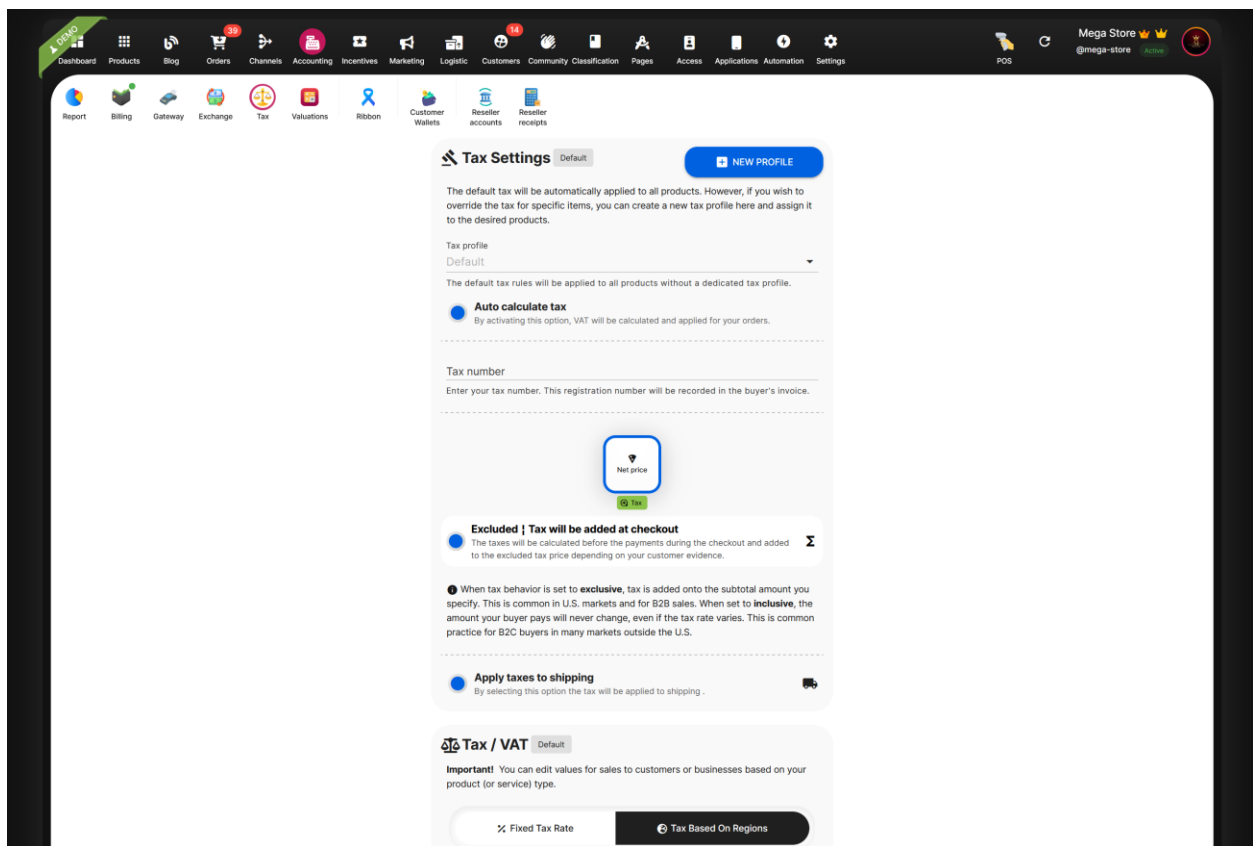
Step 2: Define Default Tax Rule

Set a default tax rate that applies to most of your products.

- **Tax Rate:** Enter the standard rate (e.g., 25%).
- **Shipping Tax Rate:** Set if shipping is taxable.
- **POS Tax Rate:** Applicable if you use point-of-sale systems.
- **Tax Inclusion:** Decide if tax is included in product prices or added at checkout.

- **Apply Tax on Shipping:** Choose whether to tax shipping costs.

Excluded ¦ Tax will be added at checkout
The taxes will be calculated before the payments during the checkout and added to the excluded tax price depending on your customer evidence. Σ

ⓘ When tax behavior is set to **exclusive**, tax is added onto the subtotal amount you specify. This is common in U.S. markets and for B2B sales. When set to **inclusive**, the amount your buyer pays will never change, even if the tax rate varies. This is common practice for B2C buyers in many markets outside the U.S.

Apply taxes to shipping
By selecting this option the tax will be applied to shipping . 🚚

⚖️ **Tax / VAT** Default

Important! You can edit values for sales to customers or businesses based on your product (or service) type.

| % Fixed Tax Rate | 🌐 Tax Based On Regions |

VAT
Add to purchase   **25**   %

Shipping tax
Add to shipping   **25**   %

🗄️ **POS Tax Settings** Default

This tax will be applied to in-store purchases made through the POS system.

📍
Net price

⊕ Tax

Excluded ¦ Tax will be added at checkout
The taxes will be calculated before the payments during the checkout and added to the excluded tax price depending on your customer evidence. Σ

POS VAT   **25**   %

In store tax rate.

💾 Save

Step 3: Limit Service Countries

To set different tax rates based on location:

- Go to **Dashboard > Settings > Locations**.
- Select the countries where you offer services.
- Customers outside these countries won't be able to make purchases.

Countries Where Service Is Provided

Select the countries where you want to sell your product from the list below.

1 Option 1. Simple mode

Set no location restriction. In this scenario, all people in all countries can buy from you. Also you can not define tax rates based on territory and states.

2 Option 2. Advanced mode ✅

Set location restrictions. In this scenario, only people in activated countries can buy from you. So you can define tax rates based on territory and states.

Customers — Restriction — Rocketiox

✕ Delete Restriction

▦ **Select all**   🔍 Search...

Country	Currency	Available
🇦🇽 Åland Islands	✓ EUR	✓
🇦🇱 Albania	✓ ALL	✓
🇩🇿 Algeria	✓ DZD	✓
🇦🇸 American Samoa	✓ USD	✓
🇦🇩 Andorra	✓ EUR	✓
🇦🇴 Angola	✓ AOA	✓
🇦🇮 Anguilla	✓ XCD	✓
🇦🇬 Antigua and Barbuda	✓ XCD	✓
🇦🇷 Argentina	✓ ARS	✓
🇦🇲 Armenia	✓ AMD	✓

☑ Only available

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Step 4: Override Tax Rules by Territory

In the tax panel, you can create overrides:
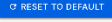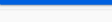
- **By Country:** Set specific tax rates for different countries.
- **By State/Region:** Further refine rates within countries.

≡ Honduras		0%	
★ Hong Kong		0%	
≡ Hungary	🔵	27%	
≡ Iceland	🔵	0%	
≡ India		18% ~ 28%	**2 x** Overrides ⎢ 7 Territory, 28 State
≡ Indonesia		10%	
≡ Iran		9%	**1 x** Overrides
≡ Iraq		0%	
▌▌ Ireland		0%	
⚏ Isle of Man		20%	

For example, override the sales tax rate in the U.S. based on individual states.

United States | Tax settings

- 👤 **For sale to customers:** Tax rate = Country Tax + Customer VAT
- 📖 **For sale to businesses:** Tax rate = Country Tax + Business VAT

| Region		Label	Country Tax	👤 Customer VAT	📖 Business VAT	🚚 Shipping	Override
Alabama ● State	● Override	Sales Tax	4.4%	0%	0%	0%	↻ RESET TO DEFAULT
Alaska ● State		Label Sales Tax	0 %	0 %	0 %	0 %	
Arizona ● State		Sales Tax	5.6%	0%	0%	0%	
Arkansas ● State	● Override	Sales Tax	7.5%	0%	0%	0%	↻ RESET TO DEFAULT
California ● State		Sales Tax	7.3%	0%	0%	0%	
Colorado ● State		Sales Tax	2.9%	0%	0%	0%	
Connecticut ● State		Sales Tax	6.35%	0%	0%	0%	
Delaware ● State		Sales Tax	0%	0%	0%	0%	
District Of Columbia ● State		Sales Tax	6%	0%	0%	0%	
Florida ● State		Sales Tax	6%	0%	0%	0%	
Georgia ● State		Sales Tax	4%	0%	0%	0%	

✓ Close

Step 5: Define Different Product Tax Classes

Some products may have different tax rates (e.g., luxury goods, essentials).

- Click on **"New Profile"**.
- Enter **Profile Name** and **Tax Label** (how it appears on invoices).
- Set specific rules and rates for this tax profile.
- Optionally, assign an icon for easy identification.
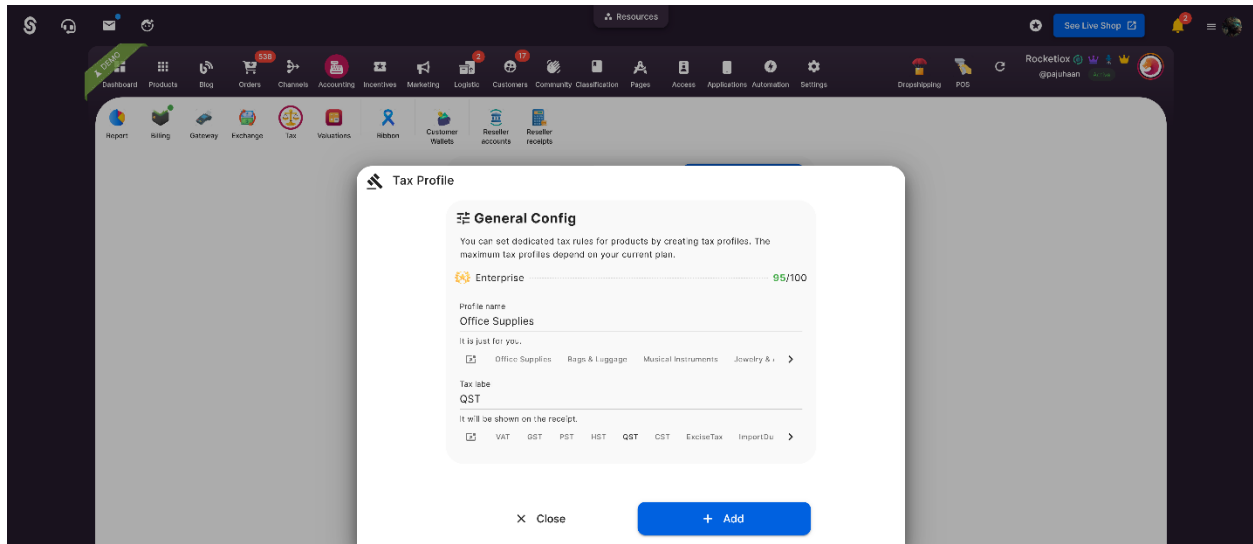
Now you can set different rules and rates for this Tax Profile. Also, you can set an icon for it.
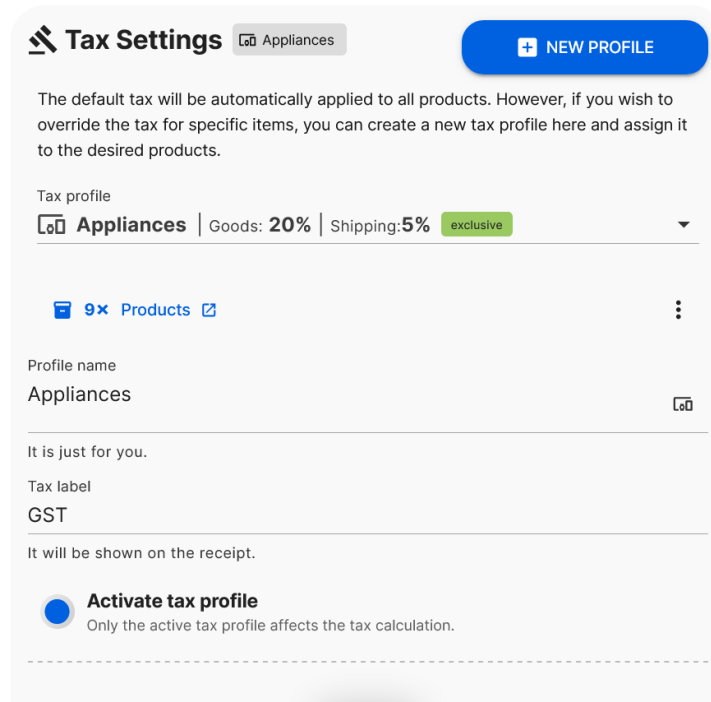
Note: If you sell subscriptions via Stripe, you can define the **Stripe Product Tax Code** here.

Ribbon

You activated Ribbon (subscription) on your shop. We can not add the tax to the subscription on Selldone, but we send product tax information to your payment services, and they will apply tax on the customer's payment. The tax will be calculated by the following `tax code` and the `inclusive/exclusive` option above.

Stripe Tax Code

stripe

A Stripe tax code, which maps to a product tax category. It used only for **subscription products**. You can find the list of tax codes **here**.

Step 6: Assign Tax Profiles to Products

- In the **Product Edit** page, scroll down to the **Profiles** section.
- Click on the **Tax** row.
- Select the appropriate **Tax Profile**.
- Click **Save**.

If no tax profile is assigned, the default rule applies.

Profiles

You can define warranty, return policy, shipping, and guide and assign them to this product. It will be shown as new tabs on the product page.

Warranty
A warranty is part of a contract where the manufacturer pro...

Return Policy
Return policies outline how customers can return or exchang...

Guide
A guide could include a size chart for apparel or a selection ...

Shipping
A shipping policy details the key aspects of shipping for onli...

Tax > Appliances
Dedicated | TAX: 20% | Shipping: 5%.

Location
Assign a location to the product if it's a location-based item.

Included in the product
Include a list of items that come with the product or service package.

Save & Continue →

Ctrl + S

Step 7: Review Tax Calculations

Selldone calculates and collects tax automatically.

- In any **Order Page**, view detailed tax calculations.
- Click on **Details** to see tax per item and the applied tax rule.

When you click on details it will show calculated tax per item and applied Tax Rule

Item		Rate	Tax	Mode	Profile	Detail
Wallet	$-24.91			Paid by customer's wallet.		
Tax	$116.65					Hide... ▲
Stainless Steel Water Bottle		4%	$0.20	Exclusive	🍾 Liquor	🇺🇸 US > 🏙 New York
Sports Leggings		7%	$48.46	Exclusive	📕 Books VAT	
GEN-V Wireless (Silver Metal / Navy Coated)		20%	$57.40	Exclusive	📺 Appliances	
Other items			$10.59	Exclusive	default	
Shipping tax	$2.50					
Gift Card	$-100.00			5678-6314-5079-7582 🎁 Giveaway		Expiry date July 4, 2024 Management ☑

Step 8: Generate Tax Reports

Stay on top of your tax obligations by generating reports.

- Go to **Shop Dashboard > Accounting > Report**.
- Select the **Start and End Date**.
- Click on **Download Finance List**.
- An Excel file will provide a detailed breakdown.
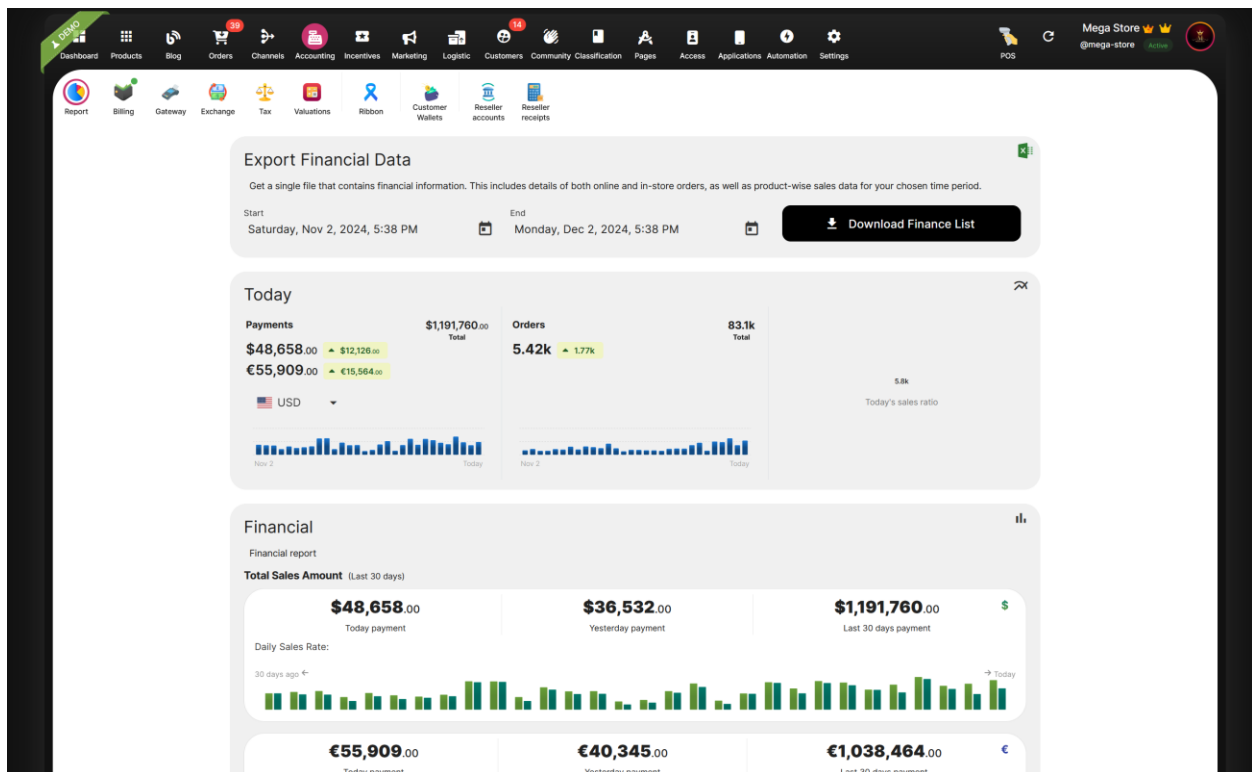
Excel Output:

Discount	Tax	Shipping Tax	Tax Included in Price	Status	
86.70	114.80	2.5		Paid	
78.87	176.38			Paid	
48.70	57.40	-0.05		Paid	
98.37	66.59			Paid	
35.40	17.51			Paid	
22.32	32.94	0.56		Paid	
79.00	53.76			Paid	
27.17	13.75			Paid	
37.66	33.30			Paid	
47.63	6.09			Paid	
50.80	2.37			Paid	

Practical Checklist for Tax Setup

To ensure you've covered all bases, here's a handy checklist:

1. **Access Tax Settings** in Selldone.
2. **Set Default Tax Rules** (rates, shipping, inclusion).
3. **Limit Service Countries** to where you operate.
4. **Override Tax Rules** based on territories if necessary.
5. **Create Tax Profiles** for different product classes.
6. **Assign Tax Profiles** to individual products.
7. **Review Tax Calculations** on order pages.
8. **Generate and Review Tax Reports** regularly.
9. **Stay Updated** on tax laws in your service regions.
10. **Consult Professionals** if unsure about any step.

Final Thoughts

Tax compliance doesn't have to be a daunting task. With the right tools and knowledge, you can simplify the process and focus on what you do best—growing your ecommerce business. Selldone offers a comprehensive suite of features that make tax collection and management a breeze.

Need more help? Ask me anything, we will answer them here.