

Must You Collect and Remit Sales Taxes in the United States if You Do Business There?

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In the preceding bulletin, we briefly explained the income tax rules applicable to corporate taxation in the United States. In this bulletin, we will examine the rules applicable to sales taxes.

There are two types of taxes in the United States which are found in most States and counties, as well as some municipalities: a sales tax and a use tax. Neither of these taxes is imposed by the federal government.

The sales tax generally applies to the retail sale of tangible personal property and to the use of a good or service. The vendor of the good or service is responsible for collecting and remitting the taxes payable to the state or municipality, just as is the case with the Quebec QST and the federal GST.

In order to determine whether or not the sales tax applies, one must determine whether there is a “nexus” with the State in question. For the purposes of the sales tax, the notion of “nexus” is the element that determines whether or not there is an obligation to collect sales taxes in a given State. In summary, the concept of “nexus” refers to the existence of a minimum connection between a foreign business and a State. In general, it is easier to establish a sufficient connection with a State for the purposes of sales taxes than for the purposes of corporate income tax.

There are certain principles that are common to each State as regards the application of the various sales taxes. For example:

- all the States impose the sales tax on tangible property delivered to customers who are located in the State in question;

- in general, the place where the merchandise is received is independent of its point of origin;
- the tax payable is determined according to the vendor’s gross revenues and no deduction is available for the vendor’s operating costs or for any other expenses incurred.

Vendors must be particularly vigilant in collecting taxes on goods and services. The failure to collect these taxes may entail the vendor’s liability therefor.

In conclusion, every company selling products or services in the United States should be aware of its obligations regarding the sales tax. A tax adviser will be able to inform you on the laws and regulations which might be relevant to your situation. For information, please do not hesitate to contact the following *Lavery, de Billy* lawyers: Luc Pariseau at (514) 877-2925, Stéphanie Séguin at (514) 877-2982 or Diane Bellavance at (514) 877-2907.



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