The Evolving Definitions Of “Sales Tax Nexus” Increase The Likelihood Corporations Are Overpaying Sales Taxes

“Sales tax nexus” is the definition of connection of a company to a state. Having at least 50 definitions brings complexity, causing businesses to overpay.

PHILADELPHIA, PENNSYLVANIA, UNITED STATES, May 27, 2024 /EINPresswire.com/ -- In 2018, the United States Supreme Court decided the case South Dakota vs. Wayfair, and the world of sales tax compliance would never be the same. Although the Wayfair decision was primarily directed at the retail industry and especially towards online retailers, it actually has had an effect on most companies doing business in multiple states. Prior to 2018, companies needed a physical presence in a state in order to be responsible for the collection and remission of sales tax. After the Wayfair case, companies only needed what the Court defined as an “economic presence” in the state in order to qualify for sales tax liability. Although the Supreme Court made this monumental ruling that applied to all states, it left the details up to each state.

> With sales tax rates often exceeding 10%, recovering overpayments can make a significant impact on the bottom line for companies that typically average net profit margins well under 10%.”
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> *Bill Flick - President & Co-Founder FM Cost Containment*

As a result, businesses have the different sales tax laws of 50 different states with which to contend. This issue of “sales tax nexus” is the degree of connection to the state that a company meets in order to qualify it as responsible for collection and remission of sales tax in that state. Now, in addition to a business’ physical presence in a state, there are at least 50 different definitions of sales tax nexus, based on size of gross volume done in a particular state, number of transactions made in a particular state, or some combination of both.

According to forensic sales tax thought leader, Bill Flick, President & Founder of FM Cost Containment, "Unfortunately, sales tax nexus is not an issue that can be simplified. For a company buying and selling products in several states, misapplying sales tax nexus frequently causes businesses to overpay sales taxes.” To further complicate matters, most states exempt certain types of products and services from being taxed, even though in some states exempt sales can count towards achieving one’s sales tax nexus.

The issue of sales tax nexus is not a static affair. States are continually revising their definitions of sales tax nexus and that of companies' tax liabilities.   Some of the trends include:

- adding or eliminating exempt products or services,
- changing the length of time nexus continues after a company stops having an "economic presence" in a state,
- tightening the qualification definition for a company to achieve sales tax nexus status,
- eliminating the transaction count qualification in favor of only having a dollar volume threshold.

Bill Flick - Co-Founder & President FM Cost Containment

When a company is buying and selling goods and services over a number of states, conflicting nexus definitions and sales tax exemptions can often lead to sales tax refunds where a company can look back at their activity over as many as three years.

Flick notes that until recently, the sales tax overpayment issue had not been the priority it is today. He says, "Now with typical sales tax rates near or exceeding ten percent of sales, recovering sales tax overpayments can make a significant impact on the bottom line for companies, who after all, frequently have an average net profit margin well under 10%"

ABOUT FM COST CONTAINMENT

FM Cost Containment is one of the leading forensic tax recovery firms in the United States. FM specializes in tax confirmation and recovery of overpayments of taxes, as well as tax audit defense, utilizing proprietary research and knowledge of little-known technicalities in the tax laws of each of the 50 states, including over 10,000 tax entities throughout the nation. Headquartered in the Philadelphia Metropolitan Area, FM Cost Containment provides services throughout the U.S.

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