Setting up Sales Tax in the USA: example California

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The Sales tax collection rules in the US are generally as follows:

1. You must collect California Sales Tax from all customers in CA if they are ‘engaged in business’ in CA (see explanation below).

2. You must collect county tax only from customers who are in a county where you are ‘engaged in business’ (see explanation below).

3. You must collect the district tax only from customers who are in a district where you are ‘engaged in business’ (see explanation below).

Example:

California State Sales Tax is7.25%

Alameda County County Sales Tax is1.5%

City of San Leandro District Sales Tax is0.25%

City of Union District Sales Tax is0.5%

- If you are located in the City of San Leandro AND your customer is in the City of Leandro, then you must collect State, County, and District Sales Taxes.
- If your customer is in the COUNTY of Alameda but NOT in the City of San Leandro, you only have to collect State and County taxes.
- If you customer is in any OTHER county, you only have to collect California State Sales Tax.

Since July 2011, ShopFactory and most other eCommerce solutions do not allow calculating tax on a district level. The solution usually is to add the highest district tax to the county tax and to collect it from anyone in that county. Using the example above, you would assign 2% Sales tax to Alameda Sales from customers who are also located in Alameda (and of course you would also have to be in Alameda). We will add city level state tax as soon as possible.

You are not responsible for collecting taxes in regions where you are not engaged in business.

What does "engaged in business" mean?

You are "engaged in business" or have a Nexus in a district if you are a retailer who:
Maintains, occupies, or uses any type of office, sales room, warehouse, or other place of business in the district, even if it is used temporarily, indirectly, or through an agent.
Has any kind of representative operating in the district for the purposes of making sales or deliveries, installing or assembling tangible personal property, or taking orders.
Receives rentals from a lease of tangible personal property located in the district.
Sells or leases vehicles or undocumented vessels which will be registered in a district.

Note that in California, Illinois, and Colorado Affiliate Partners are regarded as doing business through an agent.