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California Sets Threshold for Sales Tax

The South Dakota v. Wayfair 2018 case overturned the physical presence test, meaning out-of-state retailers selling to South Dakota residents are obligated to collect sales tax even if they do not have a physical presence in the state. It was expected that many states would issue laws similar to South Dakota and California has done just that.

On April 25, 2019, California Governor Gavin Newsome signed into law AB 147, which impose sales/use tax obligation on out of state sellers that exceed $500,000 in California sales. This law became effective on **April 1, 2019**.

Another aspect of AB 147 is known as the "Marketplace Facilitator Act." The Marketplace Facilitator Act distinguishes between marketplace facilitators and marketplace sellers and their respective sales or use tax obligations. Beginning **October 1, 2019**, marketplace facilitators are statutorily the seller or retailer in a sales transaction they facilitate for a marketplace seller.

A Marketplace Facilitator is defined as a marketplace that contracts with third-party sellers to promote their sale of physical property, digital goods, and services through the marketplace. A good example of this is Amazon.

As the retailer, Facilitators must pay sales tax on all sales of tangible personal property into California, including sales made on behalf of its marketplace sellers if the facilitator's overall sales into California meet the $500,000 economic threshold. In calculating overall sales, the facilitator must combine sales in which they were the facilitator and those for which they were the direct seller.

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If you have any questions, please contact our tax team. Our professional tax experts are here to help you and your business on sales & use tax compliance functions.

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