



Middle East & North Africa Regional Conference 2025

Navigating State and Local
Sales Taxes for Foreign
Inbound Companies





Presenter

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The U.S. Progressive Tax System

The U.S. has separate has a progressive tax system with varying taxes imposed on federal, state and local levels.

Federal Income Tax: This tax is imposed by the federal government (collected by the IRS) on income.

State and Local Tax: This tax is imposed by state and local entities (including cities, counties, and other municipalities) on goods and services

Sales Tax



The Old SALTy (Sales Tax) Road

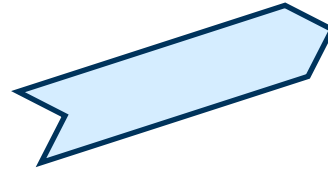


“Nexus” – Are you physically or economically connected to the United States

NEXUS

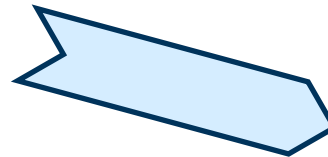
The relationship between a company and a state that creates a sales tax obligation

- Traditionally, nexus was established through **physical presence nexus**.
- The 2018 Supreme Court Case (“Wayfair”) expanded nexus to include **economic nexus**.



physical nexus

- Your business is **located** or **registered** in the state
- You have an **employee** in the state (including work-from-home employees)
- You store **inventory** in the state
- You provide **services or repairs** in the state
- & more



economic nexus

- You sell a **minimum dollar amount** to customers in the state in 1 year
- You have a **minimum number of transactions** selling to customers in the state in 1 year



BEWARE: NEXUS RULES VARY BY STATE

Sales Tax Obligation & Estimated Exposure

when you have nexus:

AND your product/service is TAXABLE



Collect sales tax from your customers
on eligible purchases



File returns & remit sales tax to the state
(deadlines vary by state)

HOW DO YOU KNOW HOW MUCH SALES TAX TO REMIT

Generally, sales tax exposure depends on the state's tax rate, the product or service sold, and the volume of transactions.

Sales tax rates can vary significantly from state to state, and even localities.

Penalties and Interest may have accrued.

PRACTICE TIP: CONDUCTING NEXUS STUDIES CAN ASSIST COMPANIES WITH ESTIMATING SALES TAX LIABILITY

Sales Tax Obligation

BEWARE

- **Since 2011, there have been 2,202 new sales and use taxes**
- **There are more than 13,000 sales and use tax jurisdictions in the U.S. alone**
- **In 2021, there were more than 123,000 rate and taxability updates in the U.S.**

- If an international company has nexus (and its product is taxable) in a US state, it has an obligation to collect and remit sales tax in the state.
 - An international seller being from a country that has a tax treaty with the US does not exempt it from the sales tax laws of the states where they have “nexus.”
 - If the company has nexus, then they are just like any other US domestic out-of-state seller and must take steps to comply.
 - Generally, states require a company officer to be included on the registration. The international seller may need to obtain an Employer Identification Number (EIN) or an Individual Taxpayer Identification Number (ITIN).

Can the sales tax liability be mitigated (lowered)????

- **Exemption Certificates**

- Sales tax exemptions are available for certain types of products, transactions, and customers. Understand the exemptions that apply to your business and how to properly claim them.
 - **Resale exemptions** allow companies to avoid paying sales tax on items that will be resold.
 - **Manufacturing exemptions** allow companies to avoid paying sales tax on items that will be used in the manufacturing process. This exemption requires proper documentation and verification that the items will be used in manufacturing and not for personal use.

- **Certification of Use Tax Paid**

- When a buyer is not charged sales tax by the seller, and the buyer knows it is subject to tax, such buyer should accrue use tax.
- The buyer can issue proof to the seller that certifies that they have paid the tax due to the appropriate taxing authorities.

- **Voluntary Disclosure Agreements (VDAs)**

- **What are VDAs:** A way for companies to manage & mitigate their tax liabilities by voluntarily disclosing historical tax liabilities.
- **What are the benefits of VDAs:** Limited lookback period for assessing tax liabilities and extinguishment of penalties.
 - Contract entered into between State and Taxpayer.

Foreign Inbound Sales Tax Considerations

Taxability

- Are the good and/or services being sold taxable?
- Does the company have exempt customers? If so, does it have the proper documentation on file to support the exemption?

Nexus:

- Does the company have inventory, employees, office or other property in the state?
- Does the state(s) in question have economic nexus laws? If so, what are the economic nexus thresholds?
- If applicable, when were the economic nexus thresholds crossed?

Exposure and Compliance

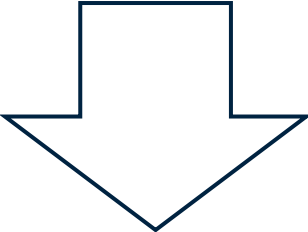
- Based on nexus (where there is a filing obligation), what is my estimated liability?
- Can the exposure be mitigated, and if so, how?
- Do I need to register? If so, what are the registration requirements.
- What is the frequency of return filings (monthly, quarterly, annually)/
- Will sales tax compliance be handled manually, outsourced, with sales tax software, or some combination of all?

Sales Tax Compliance

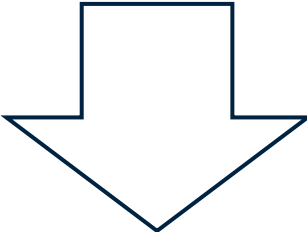
- Sales Tax Compliance requires a business to...
 - Understand revenue streams and whether they are taxable or not
 - Know (or have access to) state and local sales tax rates in order to calculate correct sales tax liabilities
 - Track and manage exempt sales (including proper documentation to support exemptions)
 - Register to collect for sales tax purposes
 - Remit sales taxes to the proper tax authority
 - File timely

Sales Tax Compliance

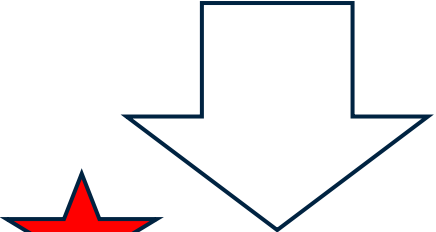
What's the best way to manage sales tax compliance?



Manual
Self-Management



Outsource



Sales Tax
Automation

Key Takeaways

- Understanding U.S. state and local sales tax requires knowledge of nexus, taxability, and exposure.
- Economic nexus has changed the landscape for foreign companies.
- Regularly assess your taxability, nexus and exposure to avoid penalties and interest.

BEWARE: SALES TAX IS HIGHLY NUANCED AND COMPLEX, SO WHEN IN DOUBT, COLLABORATE WITH A SALT EXPERT



Hypothetically Speaking

A company based in Dubai (the “Company”) primarily sells SaaS. As of Jan. 1, 2016, when the Company started making sales into the United States, it had 5 employees located in 5 different states in the United States. The Company sells its SaaS products to customers in 20 states (5 of which are where the employees are located). The sales in each of those states exceed \$200K USD.

(Pre-Wayfair): The Company only had a filing requirement in 5 states, which is based on where the employees are located (physical presence nexus standard).

(Post-Wayfair): Now the Company has a technical filing requirement in a total of 20 states.

- Based on Physical Presence (employee location) and Economic Nexus (sales and/or transaction threshold exceeded)

BEWARE: THE COMPANY SHOULD REGISTER FOR SALES TAX PURPOSES IN ALL REQUIRED STATES AND REMIT THE APPROPRIATE SALES TAX.

THE COMPANY SHOULD MONITOR NEXUS & EXPOSURE PERIODICALLY.