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Taxation and E-Commerce

When customers are located across various provinces and countries, one of the biggest challenges facing e-commerce businesses is the collection of sales taxes. Often time revenues will be co-mingled with sales taxes and it is the responsibility of businesses to properly segregate all collections.

Most businesses are small suppliers if their worldwide taxable revenues, including those of associated persons, do not exceed \$30,000 in a single calendar quarter and over the previous four consecutive calendar quarters. Registration and the date on which GST/HST must begin to be charged depend on how and when the threshold is exceeded. To avoid double taxation, businesses may claim Input Tax Credits (ITC) for any sales taxes relating to expenditures. For example, if a business spent \$500 in sales taxes on overhead expenses and collected \$1,000 in sales taxes as revenue, then the business is only required to remit \$500.

In the United States, sales and use tax is generally governed at the state level, but local jurisdictions such as cities, counties, transit authorities and special districts may also impose additional local taxes. As a result, the total rate and filing requirements can vary by location. Five states do not have a statewide general sales tax: Alaska, Delaware, Montana, New Hampshire and Oregon. However, businesses should still check local rules, because some jurisdictions may impose local taxes or other transaction-based charges.

Sales tax is generally intended to apply to final consumer purchases, not inventory bought for resale. Businesses purchasing goods for resale may be able to provide a valid resale certificate to the seller, depending on the state's rules. Remote sellers may also have sales-tax obligations even without a physical location in a state. Many states apply economic nexus rules, meaning a business may need to register, collect and remit sales or use tax once its sales into that state exceed a specified threshold. For example, both California and Texas apply economic nexus rules for remote sellers. Businesses should confirm the current threshold, taxability rules, marketplace rules, exemptions and filing requirements with each relevant state tax authority before selling into that state.

For the E.U., an e-commerce business is required to collect the Value Added Tax (VAT) at the rate applicable to the country of delivery. Similar to Canada, businesses may claim tax credits for VAT spent on expenses. Below is a table of the Standard VAT Rate for each country.

VAT rates vary by EU member state and by the type of goods or services sold. Rates may change. For the current standard, reduced and special rates, consult the European Commission's VAT rates page. [European Commission - VAT rules and rates](#)



How to determine where the e-commerce is subject to income tax when selling in multiple jurisdictions?

No tax requirements exist if a business is merely selling goods without direct solicitation or the use of third-party companies or agents located within that jurisdiction. An e-commerce business must file treaty-based tax returns once it starts engaging with 3rd parties and local businesses to further sales. However, no tax is payable if there is no actual physical presence in the country. Income tax is only payable once the business actively solicits clients, directly engages with local businesses and independent agents, and hires employees or stores goods within the country.

Sole Proprietorship or Partnership or Corporation?

Structuring your e-commerce business as a sole proprietorship may be advantageous when there are few personal assets exposed to liability. Accounting for sole proprietorship is relatively simple. (additional details, maybe an example)

Partnerships on the other hand enjoy pass-through taxation as they are flow-through vehicles. Partnership firm is not taxed; instead income is allocated between partners and partners are taxed individually on their shares of the partnership income. This may be beneficial during the first few years when businesses are more likely to incur losses.

Corporations may be another great option when you are looking to limit personal liability. Taxes on net income may be deferred to later years. For an Ontario Canadian-controlled private corporation eligible for the small business deduction, the federal rate is 9%. Ontario's lower corporate income-tax rate is 2.2% effective July 1, 2026. For a taxation year entirely after that date, the combined rate is 11.2% on eligible active business income, generally up to the \$500,000 business limit, subject to eligibility rules and applicable reductions. Taxation years spanning July 1, 2026 are prorated.

Official Sources

[CRA - When to register for and start charging GST/HST](#)

[CRA - Input tax credits](#)

[European Commission - VAT rules and rates](#)

[CRA - Corporation tax rates](#)

[Ontario - Corporate income tax](#)

[U.S. Small Business Administration - Expand to new locations](#)

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