Operating a small business involves understanding how different taxes apply to you based on the products or services you sell. If you charge your customers sales tax, **your income is not affected by passing the amount to the state**. The gross receipts tax, on the other hand, is **based on your total revenue** and directly impacts the profits you earn.

**Sales Tax**

Sales tax is a percentage of the purchase of certain goods and services that the consumer pays to the merchant, who then sends the amount to the state government. The tax is over and above the price of the products, so the retailer's revenue is not impacted. The percentage of tax varies by county or region, and some states don't charge it at all. By obtaining a resale license from the state, business owners do not pay sales tax on wholesale items. Normally, only the end user pays tax on the sale.

**Gross Receipt Tax**

The gross receipts for your business are the same as the total revenue collected, excluding returns and discounts, such as coupons or specials. Gross receipts do not take into consideration the cost of goods sold, operating expenses or invoices that haven't been paid. Some city and state jurisdictions charge businesses a tax on the total of gross receipts reported. This amount differs for each state. If you operate a business in a state that does not charge sales tax to consumers, such as Delaware, you still may owe a gross receipts tax.

**Difference**

Sales tax and gross receipts tax have common calculations based on the total amount of sales. However, the two are inherently different. **Sales tax is paid by the consumer based on the amount purchased.** This is not an expense to the business owner because the amount owed to the taxing authority is no more than what the customer has paid. On the other hand, the **gross receipts tax is a percentage of revenue paid by the merchant to the state, which ultimately impacts your profit and loss statement.** Although some states do not charge sales tax on services rendered, you still must pay gross receipts taxes on the amount that you collect for those services.
Considerations

If your company is operating at a net loss, but you have revenue from sales, you may have to pay the gross receipts tax based on the amount that you collect from customers. You also can be taxed by local county and city authorities, in addition to the state. When developing your business plan, calculate the estimated cost of the gross receipts tax in your income and expense projections to ensure the viability of your enterprise.
About the Author

Carol Deeb has been an editor and writer since 1988. Her work has appeared in magazines, newspapers and online publications, as well as a book on education. Deeb is a real-estate investor and business owner with professional experience in human resources. She holds a Bachelor of Arts in English from San Diego State University.

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