

"Amazon tax" payoff starts to arrive in some U.S. states

Nanette Byrnes, Reuters

(Reuters) - Sales tax from Internet commerce, a prize pursued for years by U.S. state governments, is starting to arrive in California and a few other states, providing millions of dollars in new revenue, though not as much as a benchmark study once forecast.

After fighting hard to get e-tailers such as [Amazon.com Inc](#) [1] to start charging sales tax, and eventually passing a law requiring collection, the California Board of Equalization reported last week it took in \$96.4 million in September-December 2012, its first full quarter of collections.

Coinciding with the holiday shopping season, that result put the state well on its way to meeting its forecast budget of \$107 million in new e-taxes for the fiscal year that began July 1, 2012, as set by the California Department of Finance.

But that revenue falls far short of ambitious expectations set in 2009 by a University of Tennessee study that greatly influenced the online sales tax debate nationwide.

The study estimated that California, if it did not act to collect more online sales tax, would miss out on as much as \$1.9 billion in 2012 revenue. Nationwide, it estimated, states would fail to collect \$11.4 billion in 2012.

The Tennessee study fueled states' demands in recent years for more tax power over online commerce. Like California, more states will be collecting new e-revenues in months ahead. So it is too soon to make firm judgments, but early results suggest the Tennessee study and others like it were over-ambitious.

"To the extent the estimates being used are overstating reality, and I think they are, it is not solving anyone's deficit problem," said Jeff Eisenach, a managing director at economic research group Navigant Economics.

Eisenach co-authored a study on e-commerce and sales tax and said he advises being "conservative rather than hopeful."

Eisenach's study, sponsored by NetChoice, a trade group that opposes online taxation, pegged the national online sales tax potential at \$3.9 billion, about a third of Tennessee's number.

The dawning of sales tax as a reality in the world of online commerce marks a turning point not only for the states that are starting to collect it, but for Internet vendors and consumers.

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Amazon, for instance, for many years and in most states, did not collect sales tax, enjoying as a result a pricing advantage over older, bricks-and-mortar retailers. That is changing fast.

At the moment, Amazon is collecting sales tax in nine states including California, and will add seven more in the next year. In some states the online retailer has struck agreements to collect, in others like California and New York it is complying with new state law.

Having to do that may partly explain a recent deceleration in growth for the world's largest online retailer, said RBC Capital [Markets](#) [2] analyst Mark Mahaney, though he added that over time that effect should ease.

For consumers in states where the tax is now being charged online, it means an end to tax-free shopping on the web, at least when it comes to the largest and most developed e-tailers.

Despite moderating revenue expectations, more states are sure to keep pushing for e-commerce taxation because that is where the growth is. Online sales growth has outpaced that of traditional stores for years. By 2015, \$175 billion a year will migrate online from stores, Deloitte Consulting estimated.

HIGH HOPES FROM UNIV. OF TENNESSEE

In the long struggle between states and e-tailers over online sales tax, the Tennessee study was widely cited by those who have pushed for more taxation at the state level and for national legislation to address the issue.

Some state politicians have used figures similar to that of the Tennessee study as a basis for building future Internet sales tax receipts into their budgets.

Virginia Governor Robert McDonnell has projected the state could get \$1.6 billion in online sales tax over the next five years. He has predicted that Congress will pass by July 1 a bill to give states the right to require online retailers to collect sales tax. Though this measure has languished in Congress for years, it has recently gained some new political support.

On Thursday, 53 members of the Senate and the House of Representatives reintroduced the bill in Congress.

Representative Steve Womack, a Republican from Arkansas, where the nation's largest brick-and-mortar retailer Wal-Mart Stores is based, said the lack of collection of sales tax online is hurting state and local governments.

"It affects everybody," he said at a press conference for the bill. "It affects schools. It affects policemen, it affects firemen, it affects anybody engaged in public service."

Amazon quickly pledged its support for the national legislation, as it has done in the

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past.

At the same time, in New York, Amazon and Overstock.com are fighting a state sales tax collection law.

Retailers there are collecting the tax as they fight it out in court. Online retailers have remitted \$360 million in sales tax on more than \$4 billion in taxable retail sales as of February 2012, according to the New York State Department of Taxation and Finance.

That is 90 percent of all taxable online sales, New York said, but far less than the \$2.5 billion the University of Tennessee study predicted for the state over the same period.

In Georgia, the most recent state to require sales tax collection by remote sellers, local retailers said Amazon is not collecting sales tax though the law has required it to do so since January 1. The state's proposed fiscal 2014 budget includes \$18 million in new Internet sales tax revenue.

Amazon declined to comment.

"If this revenue doesn't come through we'll have to cut education or some other important area," said Georgia Senator Steve Henson, Democratic leader of the state Senate.

Professor William Fox, leader of the Tennessee study, said that the difference between his study's estimates and lower state collections may reflect the fact that smaller e-retailers often are exempt from collection.

Broader trends support the study's findings, he said, including the fact that sales tax collections have lagged overall economic growth. To Fox, that suggests that untaxed e-commerce has grown, continuing to sap sales taxes.

(Additional reporting by Alistair Barr in San Francisco and Kim Dixon in Washington; Editing by Kevin Drawbaugh and Chizu Nomiyama)

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