

Tax-free Internet shopping jeopardized by bill

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WASHINGTON (AP) — Tax-free shopping on the Internet could be in jeopardy under a bill making its way through the Senate.

The bill would empower states to require online retailers to collect state and local sales taxes for purchases made over the Internet. The sales taxes would be sent to the states where a shopper lives.

Under current law, states can only require stores to collect sales taxes if the store has a physical presence in the state. As a result, many online sales are essentially tax-free, giving Internet retailers a big advantage over brick-and-mortar stores.

The Senate voted 74 to 20 Monday to take up the bill. If that level of support continues, the Senate could pass the bill as early as this week.

Supporters say the bill is about fairness for businesses and lost revenue for states. Opponents say it would impose complicated regulations on retailers and doesn't have enough protections for small businesses. Businesses with less than \$1 million a year in online sales would be exempt.

"While local, community-based stores and shops compete for customers on many levels, including service and selection, they cannot compete on sales tax," said Matthew Shay, president and CEO of the National Retail Federation. "Congress needs to address this disparity."

And, he added, "Despite what the opponents say this is not a new tax."

In many states, shoppers are required to pay unpaid sales tax when they file their state income tax returns. However, states complain that few people comply.

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"I do know about three people that comply with that," said Sen. Mike Enzi, R-Wyo., the bill's main sponsor.

President Barack Obama supports the bill. His administration says it would help restore needed funding for education, police and firefighters, roads and bridges and health care.

But the bill's fate is uncertain in the House, where some Republicans regard it as a tax increase. Heritage Action for America, the activist arm of the conservative Heritage Foundation, opposes the bill and will count the vote in its legislative scorecard.

"It is going to make online businesses the tax collectors for the nation," said Sen. Kelly Ayotte, R-N.H. "It really tramples on the decision New Hampshire has made not to have a sales tax."

Many of the nation's governors — Republicans and Democrats — have been lobbying the federal government for years for the authority to collect sales taxes from online sales, said Dan Crippen, executive director of the National Governors Association. Those efforts intensified when state tax revenues took a hit from the recession and the slow economic recovery.

"It's a matter of equity for businesses," Crippen said. "It's a matter of revenue for states."

The issue is getting bigger for states as more people make purchases online. Last year, Internet sales in the U.S. totaled \$226 billion, up nearly 16 percent from the previous year, according to Commerce Department estimates.

The bill pits brick-and-mortar stores like Wal-Mart against online services such as eBay. Amazon.com, which initially fought efforts in some states to make it collect sales taxes, supports it too. Amazon and Best Buy have joined a group of retailers called the Marketplace Fairness Coalition to lobby on behalf of the bill.

"Amazon.com has long supported a simplified nationwide approach that is evenhandedly applied and applicable to all but the smallest-volume sellers," Paul Misener, Amazon's vice president of global public policy, said in a recent letter to senators.

On the other side, eBay has been rallying customers to oppose the bill.

"I hope you agree that imposing unnecessary tax burdens on small online businesses is a bad idea," eBay President and CEO John Donahoe said in a letter to customers. "Join us in letting your members of Congress know they should protect small online businesses, not potentially put them out of business."

The bill is also opposed by senators from states that have no sales tax, including Sens. Max Baucus, D-Mont., and Ron Wyden, D-Ore.

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Baucus said the bill would require relatively small Internet retailers to comply with sales tax laws in thousands of jurisdictions.

"This legislation doesn't help businesses expand and grow and hire more employees," Baucus said. "Instead, it forces small businesses to hire expensive lawyers and accountants to deal with the burdensome paperwork and added complexity of tax rules and filings across multiple states."

But Sen. Dick Durbin, D-Ill., said the bill requires participating states to make it relatively easy for Internet retailers to comply. States must provide free computer software to help retailers calculate sales taxes, based on where shoppers live. States must also establish a single entity to receive Internet sales tax revenue, so retailers don't have to send them to individual counties or cities.

"We're way beyond the quill pen and ledger days," Durbin said. "Thanks to computers and thanks to software it is not that complex."

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