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Amazon Sales Take a Hit in States With Online Tax

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By Adam Satariano

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Amazon.com Inc. (**AMZN** -1.25%, news) is taking a hit in states that are collecting an online sales tax.

In one of the first efforts to quantify the impact of states accruing more tax revenue from Web purchases, researchers at Ohio State University published a paper this month that found sales dropped for Amazon when the online charge was introduced. In states that have the tax, households reduced their spending on Amazon by about 10 percent compared to those in states that don't have the levy. For online purchases of more than \$300, sales fell by 24 percent, according to the report titled "The Amazon Tax."

The findings add to concerns about how much the world's largest online retailer can expand. The Seattle-based company, which reports quarterly earnings on April 24, has been grappling with decelerating revenue growth amid heavy spending by Chief Executive Officer **Jeff Bezos** on new initiatives. Amazon has enjoyed an edge against brick-

and-mortar retailers because consumers didn't have to pay a sales tax for purchases from the e-commerce site, yet that has eroded as states including California and Texas have unveiled the levies.

"There is no ambiguity," **Brian Baugh**, one of the report's authors from Ohio State's Fisher College of Business, said in an interview yesterday. "It has been their competitive advantage."

State Coffers

The push by states to collect taxes on Internet purchases has gathered momentum in the past few years. Amazon collects sales tax in 20 states, according to its website. More are set to follow as the company has become a popular target to help state governments generate more revenue to cover budget shortfalls; Florida is set to begin charging a tax on May 1. States lose an estimated \$23 billion a year in uncollected sales taxes from Web retailers.

"As analysts have noted, Amazon offers the best prices with or without sales tax," Ty Rogers, a spokesman for Amazon, said in an e-mail.

Amazon and other online retailers have fought some efforts to implement the taxes, with the U.S. Supreme Court in December rejecting an appeal by the company to rule against a New York law forcing it to collect money from customers. New York and others have said the push to tax Amazon is an effort to treat online and brick-and-mortar retailers equally.

Amazon supports federal legislation that would explicitly let states require tax collections by all online retailers above a certain size.

Some analysts have previously said the online taxes had a minimal effect on Amazon's sales. In a 2012 report, Matt Nemer, an analyst at Wells Fargo & Co., said consumers in Texas, which had recently introduced the levy, generally weren't aware of the tax and doubted it would "materially impact" Amazon's revenue.

245,000 Households

The Ohio State University researchers who wrote this month's paper tracked the spending of about 245,000 households that shelled out at least \$100 on Amazon during the first six months of 2012, and then kept tabs on them through the end of 2013. About a third of the subjects lived in California, New Jersey, Pennsylvania, Texas and Virginia -- states where new tax laws were implemented during that time.

In addition to quantifying the sales impact, the researchers also concluded that brick-and-mortar stores didn't hugely benefit from households reducing their spending on Amazon. That's because many shoppers simply turned to online alternatives.

Indirect Benefit

In total, brick-and-mortar retailers enjoyed a 2 percent bump in purchases in states that introduced an online sales tax, while competing online retailers got a 20 percent increase, the study found.

The biggest sales uptick -- 61 percent for big-ticket items -- went to merchants that use Amazon Marketplace. These outfits pay Amazon a fee to offer products through the Amazon website, yet don't collect taxes. The products are

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typically available alongside Amazon's own listings.

That means Amazon still indirectly benefits, since it collects a fee from merchants on its marketplace.

"If they make one extra click on Amazon, they can continue to realize these tax savings while still enjoying the whole Amazon ecosystem," Baugh said.

To contact the reporter on this story: Adam Satariano in San Francisco at asatariano1@bloomberg.net

To contact the editors responsible for this story: Pui-Wing Tam at ptam13@bloomberg.net Ari Levy

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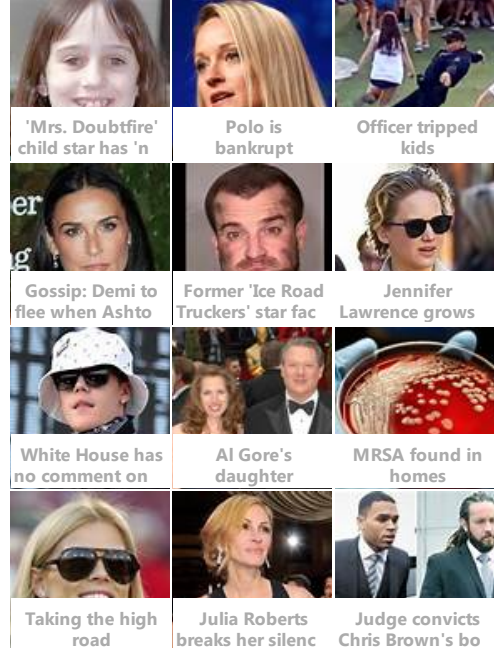


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