



E-Commerce Stores Have Competitive Edge When They Don't Collect Sales Tax

By Chad Brooks, BusinessNewsDaily contributor / Published April 25, 2014 / FOXBusiness



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Having to collect sales tax is hurting online businesses, new research suggests.

Evidence from investors, analysts and consumers reveals that online stores have a competitive edge when they don't have to collect sales tax from shoppers, according to two separate studies from researchers at Ohio State University and the University of Washington.

"Internet taxation is an important issue that will be debated for years to come," said Itzhak Ben-David, one of the study's authors and an assistant professor of finance at OSU. "But we're starting to learn how much Internet retailers really benefit from not having to collect sales tax from customers in some states."

In one study, researchers examined retail transactions for about 1.3 million households in 2012 and 2013 from five states that began collecting tax on Amazon purchases during this time: Texas, Pennsylvania, California, New Jersey and Virginia. They found that after the introduction of the tax collection, Amazon sales fell 9.5 percent among these consumers.



The effect was particularly pronounced on larger purchases.

Researchers discovered that consumers decreased their spending at Amazon by nearly 24 percent on purchases of \$300 and above.

"If you're going to make a big-ticket purchase like a big-screen TV or a laptop, there are currently huge incentives to go online to avoid the sales tax," said Brian Baugh, one of the study's authors and an OSU doctoral student. "These incentives are much stronger for large purchases than for small purchases, and our findings confirm that large purchases are indeed more sensitive to the introduction of this tax."

Researchers said if the goal of these new tax-collection laws was to help local brick-and-mortar stores compete against Amazon, they only had limited success. The researchers estimate that households use local brick-and-mortar retailers for about half of the lost Amazon purchases.

"For the most part, consumers simply switched their spending to other online retailers that didn't have to collect the tax," Ben-David said.

The findings show that, overall, the piecemeal state-by-state legislation to tax online purchases will only give slight benefits to local brick-and-mortar stores.

"Unless there is some kind of national legislation, there will be loopholes that consumers can use to continue to avoid sales tax on some online purchases," said Hoonsuk Park, one of the study's authors and an OSU doctoral student.

In the second study, researchers looked at proposed federal bills that, if passed, would force online retailers to begin collecting sales tax. They then identified major event dates for each piece of legislation in which there was news coverage suggesting that passage of the bills was more likely.

The study's authors found that online retailers saw their stock returns drop 0.7 percent more than expected on days when these proposed laws hit the news.

"Investors perceive that these e-tailers have a competitive advantage because they don't have to collect sales tax, and when that advantage is threatened, their stock prices go down," said Jeffrey Hoopes, an OSU assistant professor and one of the study's authors.

In addition, the study, which was co-authored by Jacob Thornock and Braden Williams of the University of Washington, found that, around the times of these news events, stock analysts forecast about a 1.5 percent decline in projected future sales revenue for online retailers as a result of potential federal sales tax legislation.

Overall, Hoopes said this study provides a company-level view of the effects of sales-tax legislation in the states.

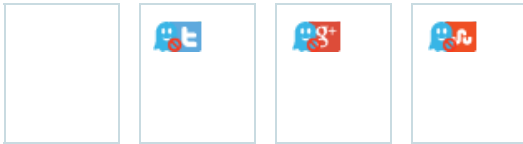
"Most of the previous research focuses on the consumer, and whether they will buy fewer products from e-tailers if they have to pay sales tax," he said. "We examined if collecting sales tax would actually hurt the firms themselves, and found evidence that it would."

Hoopes added that concerns that there isn't a level playing field for all retailers may be justified, as least as it is perceived by the market.

Both studies were recently posted on the Social Science Research Network.

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