



The Amazon Tax Problem: What Collecting Sales Tax Costs the Online Retail Giant

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Amazon (NASDAQ: [AMZN](#)) has either made deals to or been forced by law to collect sales tax in a number of states -- sales for the site to households in those states have decreased by 9.5%, according to a [study](#) by researchers at Ohio State University.

The study also showed that the effect is "more pronounced" for larger purchases and that Amazon's loss becomes a 2% increase in purchases at local brick-and-mortar retailers and a 19.8% increase in purchases at competing online retailers.

If those numbers track out as Amazon either agrees to (or is forced to) collect sales tax around the country, the impact on business could be enormous (though less than a 9.5% drop in business because some states don't have a sales tax in the first place).

Amazon is the only company affected

Amazon has been such a huge success that it has taken business away from traditional retailers and affected sales tax collection across the country. Tax collection in general has fallen more into focus as the so-called "Great Recession" lowered revenues across the board and caused an increased demand on services. That has led a number of states to evaluate their tax collection systems. Amazon has fallen under scrutiny because the site not only avoids paying taxes to the state (which hurts the state), but not charging sales tax gives the online retailer a pricing advantage over actual stores.

Of course Amazon already has a pricing advantage over traditional retailers because the company does not have to maintain brick-and-mortar stores. The sales tax edge is another arrow in its quiver and one more reason customers might choose Amazon over a traditional store.

To combat this a number of states have adopted laws, which the OSU study refers to as an "Amazon Tax," to make all online retailers collect sales tax. "Amazon is usually the only retailer to have been affected by such laws because it dominates the online retail space," according to the study. While the new rules are supposed to apply to all online retailers, no tracking methodology was built into the laws making it easy for many companies to simply ignore them (which many if not most have done).

"The laws have been abject failures," Rebecca Madigan, executive director of the Performance Marketing Association, told Bloomberg BNA. "It boggles my mind that a state would pass a law without a way to track if the law is effective."

Amazon itself supports a national law that levels the playing field for everyone -- forcing all companies to collect applicable sales taxes. Amazon spokesman Ty Rogers told Bloomberg BNA the company supports the Marketplace Fairness Act and has consistently opposed state-by-state laws.

"Amazon is a fraction of the overall market so even if Amazon is collecting in a state, federal legislation is the only way for states to collect more than a fraction

of the revenue already owed," Rogers said in an email.

How big of an advantage did Amazon have?

"We are at a serious competitive disadvantage against out-of-state, online retailers who pay no taxes," **Barnes & Noble** (NYSE: [BKS](#)) Vice President Gene DeFelice told *The Los Angeles Times*.

Not having to collect sales tax made Amazon's already low prices even lower, which makes it awfully hard for customers to justify making purchases elsewhere even when they want to help local business. The OSU study showed that the advantage varied from state to state depending upon the tax rate. The researchers also believe the impact to Amazon's business to be long-term and not just a reaction to the law being implemented.

We rule out the possibility that this result is due to an anticipation effect (i.e., buyers temporarily increase purchases just before the implementation of the tax). In fact, the magnitude of the effect increases as we increase the window around the tax implementation date, suggesting that the decrease in Amazon sales is not driven by a temporary acceleration of purchases prior to the implementation of the law.

In some ways it appears that forcing Amazon to collect sales tax causes a change in customer perception because in many cases Amazon still offers a lower price, something the company notes in a response to the survey.

"As analysts have noted, Amazon offers the best prices with or without sales tax," Amazon spokesperson Ty Rogers said in an email to [GeekWire](#).

Amazon has to react

When Amazon starts collecting sales tax in Florida on May 1 it will be charging sales tax to over 60% of the country, [GeekWire](#) reported.

If collecting sales tax changes customers' perception of the brand's value proposition then Amazon needs to get in front of that story and push a comparison of its prices to competitor prices. A deeper concern however is that people liked not paying sales tax not just to save money, but also to not be paying that money to the government. To fight that Amazon must push lawmakers to add enforcement provisions to the "Amazon Tax" laws so no company can get away without paying.

It was never fair that Amazon enjoyed a tax advantage over traditional retailers and it's similarly not fair that smaller online retailers now enjoy that advantage over Amazon.

Having lower overhead so you can operate on smaller margins and being big enough to garner better pricing from vendors are business reasons for Amazon's success. Those advantages were planned and earned not the result of a tax loophole.

Amazon is getting a bit of a taste of its own medicine but the retailer never should have been able to get away with not charging sales tax. And as much as people might enjoy seeing the company suffer due to the tables being turned, the playing field -- at least as far as sales taxes go -- should be level for everyone.

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