

The true cost to Amazon of the ‘Amazon Tax’

By Sarah Halzack January 13

Traditional retailers long have railed against tax laws that allow Amazon.com and others of its online ilk to avoid charging many customers a sales tax on their purchases.

According to federal law, a retailer does not have to charge sales tax on purchases made in a state where it does not have a presence. And thus the argument has been that online-only retailers — which have only distribution centers instead of a massive fleet of stores dotting every state in the country — have enjoyed an advantage over their brick-and-mortar counterparts because they could effectively beat them on price by not having to charge that tax.

But e-commerce is still fast-growing and oft-changing, and so it's been hard to pinpoint exactly how much the lack of an online sales tax really shapes shoppers' buying habits.

A study from researchers at Ohio State University sheds some light on that issue, and also perhaps offers some insight on how Amazon has pulled off such explosive growth in sales and market share. (Jeffrey P. Bezos, the chief executive of Amazon, owns The Washington Post.)

The researchers studied household spending data in 19 states, examining what happened to shoppers' spending on Amazon after their state chose to implement what they call an “Amazon Tax,” or legislation that requires Amazon and other e-commerce sites to charge them sales tax.

The effect is significant: When the so-called Amazon Tax was put in place, shoppers spent 8.3 percent less on products on Amazon after the tax went into effect. The researchers described that dip in spending as a “permanent decline” even though shoppers' total tabs remained essentially unchanged. In other words, shoppers were shelling out the same amount overall on purchases on Amazon, but because a share of that tab was now going to taxes, the shopper was getting less product for their spending and Amazon was pulling in less revenue from that transaction.

Amazon did not immediately respond to a request for comment.

That Amazon lost some sales dollars when it began charging the tax would seem to support what a chorus of retail industry voices have long contended: Amazon enjoyed a tailwind by not having to charge a sales tax in many places.

As the e-commerce giant rapidly expands its network of fulfillment and sorting centers and ramps up offerings such as same-day and one-hour delivery, it will have to beef up its physical presence and its workforce in more locations. And so conversation around whether Amazon will be compelled to charge a sales tax may take a different shape as it has more robust operations in more states and thus becomes more like its traditional brick-and-mortar counterparts in the eyes of the law.

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But it may suggest that the retailer's booming growth was in its early days at least partially fueled by its ability to undercut its rivals on tax-inclusive price.

The study also sought to uncover what shoppers did when they didn't shell out for something on Amazon. Did they not buy an item at all, or did they take their business to a competitor? To evaluate this, the team looked at the electronics category, examining what happened to sales at rival electronics sellers in states that implemented an Amazon Tax. One store, the online-only Newegg, saw an 11.3 percent sales bump after the tax began. This suggests that shoppers sometimes ditched Amazon for Newegg when they realized that Newegg could still sell them goods without the tax. But perhaps more interestingly, the researchers also found that Best Buy — a traditional retailer that charges a sales tax — also saw a 7.1 percent uptick in sales.

The study also examined whether the implementation of an Amazon Tax has had disproportionate impact on the habits of a particular group of shoppers or certain types of purchases. Indeed, the researchers found that low-income households reduced the amount they spent on goods on Amazon by 12 percent, while high-income households pulled back by 9 percent. The researchers suggested this makes sense given that low-income shoppers generally tend to be the most price-sensitive.

The Amazon Tax had an especially chilling effect on big-ticket purchases that totaled more than \$250, the study found. On these transactions, Amazon sales declined 11.4 percent once the tax was put in place. It seems fairly logical that a shopper might give more consideration to sales tax on a large purchase for which the dollar value of that figure is going to be relatively high.

The research, conducted by Brian Baugh, Itzhak Ben-David and Hoonsuk Park, used transaction-level data from 422,452 U.S. households that had spent money on Amazon before the sales tax implementation. They were provided the data by a website where consumers can track their bank accounts, credit card activity and investments. The team first published research on the effect of the Amazon Tax in 2014; this latest version uses a larger sample size and what researchers describe as "more precise" estimation methods.

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