

States Push for Online Sales Taxes

By

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Some people say nothing ever changes in Washington or in politics. About 15-20 years ago, I worked on the issue to bring a level playing field to marine retailing by pushing for sales tax on catalog sales. At that time and today, a catalog company had to have a business presence in a state to collect state sales taxes. This requirement put main street marine businesses at an economic disadvantage, because they had to charge sales tax, which can be a hefty 9-10% in some states. Then along came Internet sales, which also enjoyed the same perk.

Now new laws in New York, Rhode Island, and North Carolina will force retailers to collect state sales taxes for the first time on purchases from Internet retailers. Reeling from steady declines in tax revenues, states across the country are considering so-called “Amazon Laws,” which require many online retailers to collect sales taxes even if they are based in another state. The Supreme Court ruled that companies need to collect sales tax only if they maintain a “physical presence” usually a store or warehouse in the same state as the customer. That means until recently, if you lived in North Carolina and ordered something from a store based in Ohio, the company generally did not need to collect sales tax. The new laws get around the Supreme Court’s ruling by treating “in-state hosted affiliate websites” or independent sites that link to online retailers and share profits when customers click through, as the legal equivalent of a physical presence.

It is estimated states lose \$20 billion a year in tax revenue due to online shopping, according to a study by the University of Tennessee. With that kind of income loss, it’s no wonder state governments want online stores to collect state sales taxes, but they’re not the only ones. Main Street retailers also say the tax break for online shopping puts them at a disadvantage compared to their digital counterparts. This is the same position marine retailers took on catalog sales many years ago.

As with most issues, there is another perspective. Online retailers say forcing them to collect state sales taxes is a bad idea and unfair. One retailer is quoted as saying they are based in Utah and don’t have a vote in New York. It’s taxation without representation. The Utah retailer also complained that his business has become a tax collector for the state of New York.

Catalog sales continue to enjoy protection from the Supreme Court and generally do not collect taxes on their sales. I remember retailers in the marine industry saying that free ride on state sales taxes was unfair because it the catalog companies had an unfair advantage over them.

It seems the issue has come back and now both sides are claiming tax collection is unfair. This may be an issue to watch and get involve in as it comes to a state near you this winter.