

Amazon cuts off California affiliates

June 30 2011, By RACHEL METZ , AP Technology Writer

(AP) -- Amazon.com Inc. and much smaller Overstock.com Inc. are cutting off their advertising affiliates in California because of a new state rule forcing online retailers to collect sales tax there.

In an email Wednesday to California-based affiliates, Seattle-based Amazon said it would cut ties with affiliates who reside in the nation's most populous state if the law became effective. Gov. Jerry Brown signed the law Wednesday as part of a larger state budget package.

The new rule requires online retailers to collect California [sales taxes](#) if they have in-state affiliates. "Affiliate" is the term the online retailers use for individuals or companies who run websites that refer visitors to them and then get paid a commission on any resulting sales.

For Amazon affiliates, these fees vary from 4 percent to 15 percent of a sale.

This move doesn't affect the third-party sellers who sell items through Amazon.com. Amazon says they already are responsible for determining what taxes must be collected on a sale and often include taxes in the prices they charge customers.

In its email, Amazon called California's new rule "unconstitutional" and "counterproductive." Amazon would not disclose how many affiliates it had in California, but in the [email](#) it said that for more than a decade it has worked with "thousands" of people in the state.

Overstock also ended its relationship with California affiliates because of the new law, spokesman Roger Johnson confirmed Thursday. Overstock too declined to say how many affiliates in California refer sales to it, but it said they number "in the hundreds."

Passage of the law, which is projected to net \$200 million annually, adds California to a growing list of states that have enacted such legislation in hopes of bringing in more tax revenue. Its legislature passed such a law in 2009, but then-Gov. Arnold Schwarzenegger vetoed it.

Billions of dollars are at [stake](#) as a growing number of states look for ways to generate more revenue without violating a 1992 U.S. Supreme Court ruling that prohibits a state from forcing businesses to collect sales taxes unless the business has a physical presence, such as a store, in that state. When consumers order from out-of-state retailers, they're supposed to pay the tax that is due, but they rarely do and it's difficult to enforce.

States are trying to get around the Supreme Court restriction by passing laws that broaden the definition of a physical presence. Online retailers, meanwhile, are resisting being deputized as tax collectors.

California will become the latest state in which Amazon has parted ways with members of its Amazon Associates Program. Already it has said goodbye to affiliates in states including Arkansas, Connecticut and Illinois due to the passage of similar online sales tax laws. Salt Lake City-based Overstock also has shuttered its affiliate programs in several states due to the laws.

Amazon does collect sales taxes in North Dakota, Kansas, Kentucky and its home state of Washington. It collects in New York, too, as it fights the state over a 2008 law that was the first to consider local affiliates enough of an in-state presence to require sales tax collection.

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Citation: Amazon cuts off California affiliates (2011, June 30) retrieved 9 April 2024 from <https://phys.org/news/2011-06-amazon-california-affiliates.html>

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