

Amazon aims to turn tax compromise into logistics advantage

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Spurred on by fanatically loyal shoppers like Christine Dugger of Sacramento, e-commerce giant Amazon.com is doing something it spent years trying to avoid.

On Saturday, Amazon will begin collecting [sales tax](#) from California customers.

The move will erase some of the price advantage Amazon enjoys over brick-and-mortar stores. But it will allow Amazon to blanket the state with distribution centers - the better to speed orders to consumers such as Dugger.

"I get anywhere from two to four shipments a week," said Dugger, a new mom who shops Amazon exclusively for diapers, formula, sippy cups and other baby supplies.

With shoppers craving overnight and even same-day delivery, Amazon plans to build a network of warehouses, or fulfillment centers, in California. The first two will be in Patterson and San Bernardino.

Before the centers could open, the company had to make a deal with California Gov. Jerry Brown. So it bowed to political pressure, supporting a law requiring Internet merchants to collect sales tax if they have a warehouse or other major physical presence in the state.

Amazon essentially traded taxes for warehouse space.

"They've taken a pretty calculated approach," said Scot Wingo, chief executive of e-commerce technology company ChannelAdvisor. "It's worth it to bite the bullet, collect the taxes (and) get a fulfillment center within a day of L.A., Sacramento and San Francisco."

It's doubtful other online merchants will start collecting when the law takes effect Saturday. They maintain they don't have a physical presence in California.

Amazon, more than other Internet retailers, is in a rush to build warehouses.

That's true outside California, too, prompting Amazon to give ground on the tax issue in multiple states. The company still drives a hard bargain where it can, but is gradually conceding that the era of Internet sales tax is at hand.

In Texas, Amazon closed a Dallas-area warehouse last year rather than collect sales tax. But two months ago, it started collecting the tax and promised to create 2,500 jobs over four years.

In South Carolina, the company agreed to build two warehouses after being granted a five-year tax holiday. After lawmakers killed the deal last year, Amazon halted construction - until the Legislature reversed course.

Amazon is also lobbying Congress in support of a nationwide law that would give states clear authority to tax Internet sales.

Amazon realized it was losing the political battle over taxes and "turned this into a strategic advantage," said Bryan Gildenberg, an e-commerce analyst with Boston consultant Kantar Retail.

"Kudos to Amazon for making ... a really good lemonade out of this brand of lemons," he said.

Amazon will open at least eight fulfillment centers in the United States this fall, including one in San Bernardino, expanding its distribution capacity by around 25 percent. The Patterson facility opens next spring.

The company offers same-day delivery in 10 U.S. cities, like New York and Chicago. Wingo said same-day service likely will come to the San Francisco Bay Area and Southern California once San Bernardino and Patterson are operational. Sacramento is less certain.

Shrinking delivery times is increasingly important in online retailing, Wingo said. Shoppers don't mind waiting a few days for computers or TV sets, but they want quick turnarounds on smaller items. And they're willing to pay for speed.

Dugger, like about 10 percent of Amazon's customers, belongs to Amazon Prime, in which shoppers pay a \$79 annual fee and get free two-day delivery on most items.

To her delight, some of the shipments "come the next day," said the McGeorge Law School student. "That's a huge benefit to us."

Dugger said paying sales tax is her civic duty. Others don't see it that way, and might stop buying from Amazon once the company starts collecting.

Spencer Christy, a Sacramentan who spends \$600 a year buying college textbooks on Amazon, said he'll now shop elsewhere.

"When you're a poor college student like me, you have to pinch every penny," said Christy, a student at California Polytechnic State University-

San Luis Obispo.

Overall, however, experts say Amazon's new strategy will increase sales. Its prices will still be lower than most competitors', and the speed factor will enhance customer loyalty.

Building more warehouses does more than just quicken deliveries; it also reduces shipping costs.

"We're trying to get geographically closer to customers," Amazon Chief Financial Officer Tom Szkutak told investment analysts recently. Company officials weren't available to discuss the warehouse strategy for this report.

Geography has always been important to Amazon.

The U.S. Supreme Court ruled years ago that catalog retailers couldn't be forced to collect sales tax unless they had a physical presence in the state. It's the reason Amazon's home office is in Seattle, not the Bay Area - the company didn't want to collect sales tax in the state with the most customers.

California legislators for years pursued Amazon on the tax issue anyway, crafting bills aimed at getting around the Supreme Court case. Not only did Amazon represent an estimated \$150 million in annual tax revenue, brick-and-mortar stores complained that online retailers had an unfair edge by not collecting tax.

The Legislature passed two bills taxing e-commerce; they were vetoed by former Governors Gray Davis and Arnold Schwarzenegger.

Last year, though, Brown sided with lawmakers. He signed a bill that said a retailer's California "affiliates" amounted to a physical presence,

satisfying the Supreme Court requirements. Affiliates are websites that earn fees by referring visitors to [Internet retailers](#).

Amazon refused to collect the tax and fired its affiliates. It also launched a ballot fight to overturn the law.

Then the company backed off and agreed to a compromise. The Legislature passed a new law. Amazon would collect the tax, following a one-year grace period that runs out Saturday.

Amazon rehired its affiliates and promised to bring 10,000 jobs to California. The Patterson and San Bernardino warehouses, announced in May, will employ 2,000 workers combined.

Will many other e-retailers collect the tax? Not likely.

The state has queried 200 Internet merchants. About 20 have responded, saying they won't collect taxes because they don't have a [physical presence](#) in California, said George Runner, a member of the Board of Equalization, the state's sales tax agency.

That's a concern for brick-and-mortar retailers, who believe all Internet merchants should have to collect.

"The playing field isn't level," said Rachelle Bernstein, tax counsel at the National Retail Federation.

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