

With state budgets in red, push for online sales tax gains steam

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At The Regulator Bookshop in Durham, N.C., co-owner Tom Campbell says he is losing business as customers come in to photograph his books or jot down notes, conducting their research before they buy the books online to avoid a sales tax.

But he says Congress could end the practice by giving states the option of forcing online retailers to collect sales taxes from their customers.

"Places like Amazon are literally getting a free ride with the [sales tax](#) issue - because our customers pay the sales tax that goes toward maintaining the roads that their [delivery trucks](#) drive on," Campbell said in an interview. "And if that's not a free ride, I don't know what is."

The argument has picked up steam on [Capitol Hill](#) and in statehouses across the nation, with governors eyeing an online sales tax as a way to help cash-strapped states raise billions of dollars.

Backers say it would help equalize competition among all retailers, particularly as online sellers become bigger players in world trade. But critics say it would be wrong to let states impose yet another tax on savvy consumers who have found an easy and popular way to save a few bucks.

In a letter to congressional leaders last week, the bipartisan National Governors Association said that collecting the tax would bring \$23 billion in new revenue to the states, serving as a stimulus to grow the economy.

Washington Democratic Gov. Chris Gregoire, a leading advocate, said the plan would raise \$934 million for her state alone by 2017, based on an estimate from the state's Department of Revenue.

She said that supporters have growing momentum on their side, noting that even Amazon has lined up behind the idea. And she called it "our single best opportunity to bring this fairness issue to a close."

"I'm not down on the Internet - I shop on the Internet myself - but I want fairness," Gregoire said in an interview. And if Congress does not allow states to collect the tax, she said, "it's going to continue to erode the ability of the brick-and-mortar businesses in our state to stay in business."

In the letter, signed by Gregoire and Republican Gov. Bill Haslam of Tennessee, the governors noted that 2012 online sales during the holiday season are up by 14 percent over last year and that sales on "Cyber Monday" this year - the Monday after Thanksgiving, the online equivalent of "Black Friday" - hit \$1.47 billion, a record high. And they complained that Congress is giving online sellers "an unwarranted yet growing subsidy" by letting them escape the sales tax.

The issue has a long history.

In 1992, the Supreme Court ruled that retailers don't have to collect sales taxes for out-of-state shipments if they don't have a physical presence in the state.

But the high court left the door open for Congress to establish new rules.

In November 2011, three senators - Democrat Dick Durbin of Illinois and Republicans Mike Enzi of Wyoming and Lamar Alexander of Tennessee - introduced the Marketplace Fairness Act, which would grant

the taxing authority to the states.

At a Senate hearing on the proposal earlier this year, Durbin said that online retailers now have a 5 percent to 10 percent price advantage over local retailers because they don't have to collect the tax.

And Enzi said that passing the bill would give states "less of an excuse to come knocking on the federal door for handouts," since they'd have a new way to raise money on their own.

But there's plenty of opposition.

S.T. Karnick, director of research for the Chicago-based Heartland Institute, which bills itself as a free-market think tank, called the proposal "just another tax hike to prop up big government" after Congress spent too much money in the past decade.

At the hearing of the Senate Commerce, Science and Transportation Committee in August, South Carolina Republican Sen. Jim DeMint said retailers use different business models with different cost structures and that Congress shouldn't take "an unprecedented action" to make them uniform.

"We've got a precedent that we're establishing here that's going to open a door that I think all of us are going to regret," he said.

Another opponent, New Hampshire Republican Sen. Kelly Ayotte, said the legislation would penalize her home state, one of only five that currently has no sales tax.

"Frankly, we do have a leaner state government," she said. "This bill in my view tramples on New Hampshire's choice not to have a sales tax."

But Steven Bercu, owner of an independent bookstore in Austin, Texas, said it's time for Congress to pass the plan and that people who don't want to pay the sales tax "should go live in New Hampshire or something."

"All it is, in the simplest language, is a fair deal," said Bercu, president of the Austin Independent Business Alliance and owner of BookPeople, which employs about 100 people. "If all the merchants in the state of Texas have to collect sales tax, why should someone get to sell to our citizens and not collect sales tax?"

Bercu, who testified at the Senate hearing, said in an interview that not so long ago shoppers were embarrassed to admit that they planned to buy their books online after coming to his store to get recommendations and look over the merchandise. Bercu and other retailers call it "showrooming," and he said the behavior of some shoppers has become "pretty outrageous" as of late.

"Somebody will spend 30 minutes winnowing down the selections of something they want and then they will whip out their smartphone and buy it online," he said. "You're stunned if you're helping them - it takes a lot of nerve, right? ... But people are just apparently no longer embarrassed at all about using you as a resource and going somewhere else to buy the stuff."

Campbell, whose store in Durham is celebrating its 36th anniversary this month, said his customers aren't quite that bad.

"Durham is a little bit smaller of a town," he said. "It's not quite that brazen here yet, but it's trending in that direction."

Campbell said that many of the shoppers at his bookstore use their cellphones to photograph his books as they browse the store.

"Some of them are old-school and they write things down on sheets of paper and walk out," he said.

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