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# Amazon's eroding tax advantage, bid to sustain growth in focus in first quarter

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The sun reflects off Amazon's logistics centre in Graben near Augsburg December 16, 2013. CREDIT: REUTERS/MICHAELA REHLE

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(Reuters) - Amazon.com Inc's quarterly results on Thursday may heighten worries that its edge over online and even traditional brick-and-mortar rivals is narrowing as it charges sales tax in more states, curtailing growth in its core business.

Amazon, which has expanded aggressively into mobile devices and computing services to try to sustain its pace of growth, may lose customers to a growing crop of retail startups and major chains that had been slow to react but are now focusing on their own online commerce strategies, analysts say.

Longer term, the imposition of sales taxes across a growing number of states could exacerbate that trend.

"The imposition of state sales taxes in major markets such as California, Texas, and Pennsylvania may have caused a growth drag," RBC Capital Markets analyst Mark Mahaney wrote in a note this week. He listed five other potential reasons, including aggressive price cuts by retailers that undercut Amazon's advantage.

The largest U.S. online retailer's year-over-year unit sales growth - a closely watched measure of how many items Amazon has sold - has slowed considerably over the past two

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years. This has hobbled the stock, down more than 17 percent this year and the ninth worst performing stock in the S&P 500 index.

RBC Capital expects unit sales to grow in the mid-20 percent range in the first quarter. This would approach the fourth quarter's 25 percent jump but fall short of the 30 percent rise of a year ago and the 49 percent jump in the first quarter of 2012.

Amazon is expected to report first-quarter earnings per share of 23 cents. Revenue is expected to jump 21 percent to \$19.4 billion. Rival eBay Inc will report earnings on April 29.

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One big reason for the deceleration in unit sales growth is the growing number of U.S. states forcing Amazon to levy sales tax, analysts say. Amazon says it now collects taxes in 20 states - including California and Texas - and will begin doing so in Florida next month, with Maryland next up.

In states where it collects taxes, household spending on Amazon's website fell about 10 percent, according to a survey of 245,000 households that spent at least \$100 a month in 2012's first half, conducted by Ohio State University.

Since the financial crisis, U.S. states have been looking to plug holes in their budgets. State governments have said they lose \$23 billion a year in uncollected sales taxes.

The so-called "Amazon Tax" has shifted consumers' shopping behavior, Ohio State researchers found. This is particularly true for purchases exceeding \$300, when Amazon sales fall by 24 percent if a state sales tax is imposed.

"There's no question that there's going to be a near-term headwind," Pacific Securities analyst Chad Bartley said of the sales tax.

Amazon is now investing heavily to develop media content and expand its lineup of devices, while continuing to build a cloud computing service popular with businesses looking to outsource data center management.

On Wednesday, Amazon clinched a deal with HBO to stream older HBO shows, including "The Sopranos" and "The Wire."

The company is also building warehouses in states that impose sales taxes, laying the groundwork to expand same-day and next-day delivery services to more U.S. consumers.

"As they build out that capability, they're going to be able to deliver products even faster and eliminate one of the last advantages that a brick and mortar has," Bartley said.

(Reporting by Deepa Seetharaman; Editing by Cynthia Osterman)

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