

Online sales taxes have cut Amazon business by nearly 10 percent

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Online sales taxes are cutting into Amazon's business in a big way, says a new study.

Getty Images

Buy \$300 worth of calculus textbooks or platform wedges at the store and you can end up paying a hefty extra chunk of taxes. Buy them on Amazon, however, and in many states you can simply pay \$300.

That may soon change, thanks to the Marketplace Fairness Act, a law Congress is currently considering that would allow states to collect taxes on all e-commerce purchases. Currently, only some states can collect sales tax on online purchases. And those taxes have taken a sizable chunk out of Amazon's sales, according to a new working paper from the National Bureau of Economic Research.

What the study shows

The paper finds that Amazon took quite a hit in states that have imposed sales taxes. Using data from nearly 245,000 households' transactions over the course of two years, researchers at Ohio State University found that customers' Amazon spending fell by 9.5 percent across five states that implemented online sales taxes.

And it appears customers substituted by flocking to other retailers — sales at competing online retailers grew by nearly 20 percent, and sales at competing brick-and-mortar stores ticked up slightly, by 2 percent.

The effect was more extreme for bigger purchases. Spending fell by 15.5 percent on purchases equal to or bigger than \$150, and spending fell by nearly 24 percent for purchases equal to or bigger than \$300. Those buyers were also more likely to seek out other retailers once a tax was in place; sales at competing online merchants grew by 23.7 percent for people spending over \$300, and local brick-and-mortar stores saw sales go up by nearly 7 percent.

Customers' likelihood of using Amazon in a given week and their number of transactions per week also fell off, each by around four percent.

What it doesn't show

As with all studies, the researchers had to draw a few boundaries to make the research manageable. For example, they only considered the top 25 retailers in the nation (not counting grocers and drug stores) as substitutes for Amazon. This means transactions in which customers substituted purchases not only at grocery and drug stores, but also small local businesses, did not get counted.

However, one of the authors says the team is planning on researching how so-called mom-and-pop stores will be affected by these taxes.

Likewise, researchers limited their study to families that made \$100 or more in purchases in the first half of 2012, meaning the study does not capture the effects on more occasional Amazon shoppers.

What it means

It is, first of all, a clear sign that retailers really do shop around for the best deal, to the extent that a sales tax will send them running elsewhere for their purchases. And as such, it's a sign that a lack of sales taxes has given Amazon an advantage. Currently, Amazon only collects sales tax in 20 states, [according to the company's website](#) (<https://www.amazon.com/gp/help/customer/display.html?nodeId=468512>). Amazon and other online retailers are currently only required to collect taxes in states where they have a physical presence, though there is some debate over the definition of "[physical presence](#)." (<http://www.cnet.com/news/confused-about-online-sales-taxes-youre-not-alone/>)

Amazon has lobbied against those laws, but it has pushed for the Marketplace Fairness Act, which could make for much more widespread Amazon sales tax collection by allowing a state to collect taxes, even if Amazon (or whatever online retailer) does not have a presence in that state.

Why on earth is Amazon pushing for that law in the first place? There could be a few reasons. One, floated by [NPR's Planet Money](#) (<http://www.npr.org/blogs/money/2013/04/22/178407898/why-amazon-supports-an-online-sales-tax-bill>), says that Amazon has an advantage of scale — for such a huge company, devising a way to collect sales taxes is less of a burden than it might be for a smaller retailer. And Amazon may not need the sales-tax advantages, says [The Daily Beast's Megan McArdle](#), because it already has the advantages of not-being a brick-and-mortar store: there are fewer staff per customer, the warehouses don't have to be decorated nicely, and they're [all-around more efficient](#) (<http://www.thedailybeast.com/articles/2013/05/06/why-is-amazon-supporting-a-plan-to-tax-the-internet.html>) than, say, a Walmart.



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