

Internet sales may soon be taxed

By Jia Lynn Yang, Washington Post

The days of tax-free online shopping could finally be numbered.

The Senate is planning to vote on a bill as soon as this week that would give states the authority to collect sales taxes on all Internet purchases, handing local governments as much as \$11 billion per year in added revenue that they are legally owed – but that hasn't been paid to them for years.

Since before the dawn of Internet shopping, the basic rule was that as long as a retailer didn't have a physical presence in the state where the consumer was shopping, the company wouldn't have to collect a sales tax. Technically, shoppers are supposed to track these purchases and then pay the taxes owed in their annual tax filings. Few people, however, do this or are even aware of it.

The result: Online retailers have been able to undercut the prices of their non-Internet competitors for years. Over time, shoppers learned that they could browse products in the aisles of a Best Buy, only to click "purchase" on their smartphones for a tax-free deal from an Internet retailer.

As states have become more strapped for cash since the recession, local officials have fought back. New York passed an "Amazon tax" in 2008 that forced the giant online retailer to collect sales taxes from shoppers who live in the state, even though Amazon didn't have a brick-and-mortar presence there.

Others followed suit. Nine states require Amazon to collect sales taxes, including California, Pennsylvania and Texas.

The bill introduced by Sen. Mike Enzi, R-Wyo., called the Marketplace Fairness Act, would grant all states the power to collect taxes from out-of-state vendors selling goods to their residents.

States are so eager to see the funds that some have already passed legislation that counts on Congress approving the new law.

The Maryland state legislature passed a measure this year that raises the gas tax to help pay for transportation projects. The bill calls for raising the gas tax even more – unless Congress passes some version of the Marketplace Fairness Act.

Likewise, Virginia passed a transportation funding bill that relies on money from a tax on Internet sales.

Enzi's bill technically would not add a new tax liability because these purchases are already supposed to be taxed. It also would not require states to collect the money; it would simply give them the authority. Companies with out-of-state revenue of less than \$1 million would be exempt from the provision.

The measure appears likely to win a filibuster-proof majority in the Senate because members approved the idea in March in a 75 to 24 symbolic vote.

Support does not fall along partisan lines, according to those who have followed the debate. A number of senators in both parties are former governors who understand the fiscal woes of local governments.

But there remains some resistance. Sen. Max Baucus, D-Mont., chairman of the Finance Committee, opposes the bill because he argues that it would force businesses to keep track of far too many different tax codes. (Montana does not have a sales tax.)

Observers say there may also be some Republican House members

who balk at the idea of the government collecting more revenue. Grover Norquist, founder of Americans for Tax Reform, which is influential among Republicans, has raised concerns about the new bill, saying it essentially adds a new tax to consumers.

The legislation also seeks to simplify the process by helping states make their tax laws more uniform. Enzi argues that there's a way to make the process easier for retailers so that the added work of collecting the tax doesn't become a costly burden.

A spokesman for Enzi pointed to the senator's recent comments on the floor of the Senate.

"Do not let the critics get away with saying this kind of simplification cannot be done," Enzi said in March. "The different tax rates and jurisdictions are no problem for today's software programs."

Enzi's bill is garnering strong support from brick-and-mortar retailers.

"The Marketplace Fairness Act is a commonsense piece of legislation necessary to modernize our federal and state understanding of sales tax laws so that they can keep current with real-world changes in the marketplace," said David French, senior vice president for government relations at the National Retail Federation, in a letter to members of the Senate last week.

The NRF represents companies such as Wal-Mart, which have lobbied for years to get a law like the one proposed by Enzi.