

Headline:

U.S. Small Business Owners Question Online Sales Tax
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Article Description:

How would the Marketplace Fairness Act (MFA) impact your small business if passed?

Body

“Don’t tax internet sales,” say the majority of small- and mid-size businesses (SMBs). In [Endurance International Group’s 2015 Small Business Attitudes on Taxes survey](#), released in April of 2015, 63% of all small business owners who took the survey said they are concerned about online sales tax, while 55% want online sales to be totally tax free.

Online sales are a big market for companies large and small. Web sales totaled \$304.91 billion in 2014, up 15.4% from 2013, according to the U.S. Commerce Department.¹ It was the first time online sales were above \$300 billion. A lot of those sales were not taxed, but new legislation could change that.

[The Marketplace Fairness Act of 2015](#) was introduced in March by a bipartisan group in the U.S. Senate. A previous version of the bill failed in 2013. MFA would allow state governments to collect sales taxes from online and other out-of-state retailers who have no physical presence in their state but gross more than \$1 million per year, therefore not meeting the “small seller exception.” The move is designed to bring online sellers into line with brick-and-mortar stores that do pay state sales taxes.

What the MFA does not do is impose any federal taxes or any new state taxes. The situation now is if an online retailer has a physical presence in a state that charges a sales tax on most purchases, then that online retailer must charge sales tax on any items that are sold to customers within that state. However, if the online retailer is selling an item to a customer outside of its home state, it is not required to collect sales tax from that customer.

Why the Controversy?

Opponents say the expansion of online sales taxes will hurt small- and mid-size businesses (SMBs) that cannot go up against the big guys, such as Best Buy, Walmart and Amazon. They say the disadvantages to SMBs caused by the potential lost revenue could be nothing short of catastrophic as the U.S. economy is largely driven by the engine of small business. A negative impact on that sector could see ripple effects around the world. And since the Internet has been a tax-free zone in many ways for years, people don’t want to see that change.

Hower, [David French](#), senior vice president of government relations at the National Retail Foundation, says taxation of online sales will actually level the playing field for businesses. Different rules for different channels is what is unfair. He believes competition is good for consumers, so allowing businesses to compete will help everyone.

Supporters of the bill include Amazon, which collects state taxes from online shoppers in 24 states. They plan to continue setting up warehouses in many states, allowing them to offer quick shipping to consumers. Amazon argues that the benefit of quicker shipping will offset the

consumer having to pay taxes on online goods. The consumer will get something out of this, and Amazon will increase its profits.

Opponents say SMBs don't have the capital or resources to do the same thing as Amazon. What they will get if MFA is passed, they say, is the chore of looking up regulations in thousands of taxing jurisdictions across the country, and submitting tax revenues to multiple states, creating more bureaucracy. And consumers will stop shopping online if they have to pay sales taxes.

But supporters cite the fact that the MFA will give businesses free software to manage the new sales tax requirements. Good tax management software can calculate local rates, file returns and even send out payments. MFA also has requirements that states simplify their tax rules and that a centralized tax-collection system be created.

As for consumers abandoning online shopping if they have to pay sales taxes, many already do pay online sales taxes since they shop online at large retailers such as Best Buy and Walmart. And in a survey that was conducted by [Forrester in partnership with Bizrate Insights](#) in 2011, it found only 8% of consumers said that taxes were a priority consideration in online shopping.

What To Do About MFA

The EIG survey also showed that 90% of small businesses believe the federal government has not adequately represented their interests in tax reform efforts, while 52% believe the tax code reform would be "very helpful" to their business. Supporting groups that are lobbying for these tax reforms, as well as those opposing MFA, might be a good place for SMBs to start if they are concerned about the impact of this legislation. And some groups are advocating that the small business definition be changed from \$1 million to \$10 million, which would exempt many SMBs from collecting online sales taxes.

If MFA does pass, there are several avenues SMBs can take to mitigate potential business costs from MFA. Augmenting marketing efforts should be at the top of the list. Small business owners can develop a strategy, conduct research, test new products and services and run advertising campaigns to upgrade sales results.

Look for inexpensive ways to get the word out about your products. Sponsoring local sports teams or other events will build goodwill and promote your business and services. Larger SMBs can fund charity events. Use social media to engage with customers and start a conversation.

Another viable approach is raising prices. Reviewing price points and determining what competitors are charging is a good starting point.

Small business owners could also look at opening up new channels for their products or services particularly in the digital space. Check out what your competitors are doing and see if it works for you. And talk with your tax advisor to understand what you can do to mitigate the effects of this bill.

The Bottom Line

Opponents of Marketplace Fairness sometimes claim it will create a tax on the Internet or on businesses. But it actually does not; it's a tax on the goods and services that are sold over the Internet. While your business may have some new costs due to this legislation if it is passed, your business will not be paying any new taxes. Any additional taxes imposed by MFA are on the customer, not your business. Weighing the pros and cons of online taxes and coming up with a solid plan for your business might be the best route to prepare for the possibility of widespread online sales taxes.

¹ <http://www2.census.gov/retail/releases/historical/ecommm/14q4.pdf>

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