

Web stores brace for sales taxes

Small Internet shops fret about looming compliance burdens from proposed law

BY KEN M. CHRISTENSEN

Dave Bolotsky launched his e-commerce business, UncommonGoods, at the height of the Internet boom in 1999. Persuading artists to sell their work through his Brooklyn-based online gift and design marketplace, he helped them navigate the once-difficult task of reaching customers nationwide.

“Now we ship products to all 50 states,” he said.

Soon, however, he may be taxed by 45 of them—the states with a sales tax—not to mention thousands of jurisdictions in between.

\$866M

ESTIMATED UNCOLLECTED TAX REVENUE in NY state from out-of-state e-commerce sales

Source: National Conference of State Legislatures, 2012 data

Mr. Bolotsky is among many small e-tailers in New York who have enjoyed the benefits of a largely sales-tax-free Internet.

But in a bipartisan vote on May 6, the U.S. Senate approved the Marketplace Fairness

Act, signaling that the end of that luxury may be near. If the bill passes in the House of Representatives, the law will allow states to force online retailers with annual out-of-state revenue over \$1 million to collect and remit sales taxes, regardless of a company’s location.

Mr. Bolotsky believes the law “will only have a mild, negative impact on demand, given that all or virtually all online retailers will be required to charge the tax.” However, he worries that following it will be cumbersome.

“Congress needs to make sure that it’s not burdensome to companies large or small,” he said.

Proponents of the law say that e-commerce retailers should not be exempt from charging taxes that brick-and-mortar stores must collect. The National Retail Federation projects U.S. online retail sales will reach \$248.7 billion in 2014, up from \$155.2 billion five years earlier. States missed out on collecting \$23 billion on remote sales in 2012, according to the National Conference of State Legislatures.

State and local governments can’t force out-of-state retailers to collect sales taxes from their residents on such purchases, under a 1992 Supreme Court decision that cited the complexity of existing tax laws. The onus is on consumers to pay sales and “use” taxes when they file their income taxes, though it is commonly

believed that many don’t comply.

The bill will require states that want to collect the taxes to “simplify” their sales-tax codes and provide businesses with free software to help. However, some New York-based e-commerce sites say the logistics of accounting and potential audits could overwhelm small businesses. UncommonGoods, for one, earned more than \$10 million from out-of-state sales last year—more than 80% of total revenue.

Brooklyn-based crafts market Etsy has vocally opposed the bill. Its director of public policy, Althea Erickson, said in a recent statement that many sellers are home-based businesses that lack the capacity to comply with the law.

Potential hit

Many online retailers have reached \$1 million in sales, and some could be hit hard by the law, noted Roger Wu, founder of Coop-

eratize.com, a public-relations service in Manhattan. “One million in revenue is not a lot of money when your margins are thin,” he said.

Bob Schwartz, president of Eneslow Shoes in Manhattan, argues that untaxed Internet vendors have an edge over stores like his. He questions exempting any small e-tailers from the law.

“If we should be collecting sales tax, we should be collecting sales tax,” he said. ■



WORRIED: Online retailer Dave Bolotsky fears it could be hard to comply with the new law.

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