

Name: _____

Date: _____



Taxing Online Purchases

Forty-five states and the District of Columbia collect sales taxes. However, sales taxes are often not collected when purchases are made online. From their beginning, many Internet businesses argued that they were not required to collect sales taxes except in the states where their businesses were located. The U.S. Supreme Court agreed when it ruled that states are prohibited from collecting sales tax from businesses that have no physical presence in their state unless Congress specifically passes a law to allow it. Congress has not yet enacted such a law.

Traditional businesses argue they are at a competitive disadvantage because they are required to collect the sales taxes and online businesses are not. Internet businesses respond that their customers have the additional cost of product shipping, so there is no real price advantage. State

governments contend that they are losing billions of dollars of tax revenue each year because they cannot impose sales taxes on e-commerce.

Rather than waiting for Congress to pass a law, the National Governors Association and the National Conference of State Legislators developed the State Sales and Use Tax Agreement (SSUTA) to create uniformity and to simplify the more than 8,000 different state and local sales tax laws. SSUTA suggests that states ask retailers to voluntarily collect and submit sales taxes based on customer addresses. The agreement also outlines procedures that could be used if the U.S. Congress passes the necessary legislation to allow states to collect sales tax on Internet sales. Currently, 15 states have changed their laws to conform to the agreement and other states are planning changes.

Software development companies have taken notice of the current situation and have created programs that make it easy for businesses to calculate, collect, and process sales taxes. These software programs are currently being used by businesses that are voluntarily collecting sales taxes for Internet purchases. Depending on what Congress does, the demand for these programs could increase if online businesses are required to collect the sales taxes for multiple states and localities.

Think Critically

1. Do you believe sales taxes should apply to online sales? Why or why not?
2. Use library or Internet resources to determine if your state has laws and procedures related to e-commerce sales tax.

Answers: