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Should You Pay Sales Tax on Amazon?

California and other states are trying to get revenue from online sales, but Amazon is fighting to be exempt.

Opening the Door to Higher Taxes

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The Internet gives people more options, which is good for consumers but bad for governments. One example is the viability of state sales tax systems, particularly in places like California that have punitive tax levels. While convenience is the dominant reason for online shopping, it's also true that consumers often have the freedom to escape high tax burdens by using the Internet to buy products from out-of-state merchants.

This annoys politicians, who are trying to stop this "tax leakage" by imposing so-called Amazon taxes, which are based on the theory that companies in one state should be obliged to follow the tax laws of another state. This is a rather bizarre legal approach, sort of akin to Florida passing a law requiring Nevada casinos to arrest Sunshine State residents who want to play some blackjack on a trip to Las Vegas. Indeed, the Supreme Court has decided that states do not have this extra-territorial legal authority – unless Congress enacts a law to enable some sort of state sales tax cartel.

Not surprisingly, greedy politicians at the state and local level want Congress to create such a nationwide cartel. These lawmakers claim that they want to "streamline" and "simplify" retail sales taxes so that there will be a "level playing field" between Main Street merchants and e-commerce, but the real goal is to grab more money. But trying to solve the state over-spending crisis by giving more money to politicians is like trying to cure alcoholics by giving them keys to a liquor store.

This scheme to facilitate a nationwide web of "Amazon taxes" would be a very bad idea for two reasons. First, it would undermine tax competition between states. Once governors and state legislators realize that consumers have no easy way of escaping, it is a given that higher tax rates will be forthcoming. Amazon would pay, to be sure, but so would the rest of us once the playing field was further tilted in favor of government.

Equally worrisome, a national sales tax cartel would be a gross invasion of privacy. It would require the collection of data on individual purchases and the sharing of that information with various state and local governments. It's not clear who would maintain this database, but consumers would have legitimate reasons to worry about the safety and security of their personal financial data and in many cases will be uncomfortable with governments having easy ability to look at their purchases.

States like California have every right to impose onerous tax laws on things that happen inside the borders - including taxes on Amazon if the company has a physical presence in the state. They can even try to enforce "use taxes" in hopes of collecting sales tax from California residents who buy goods and service from merchants in other states. But no state should have the ability to impose laws – either good ones or bad ones – on individuals and companies from other parts of the country.

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