



Questions and Answers

Q: What is wrong with the current system?

A: Common sense would dictate that if someone buys a product online, they should pay the same sales tax as anyone would if they had gone to the store in person. But a massive loophole is being exploited whereby online-only retailers are not collecting sales tax at the point of sale despite the fact that the tax is still due; and small brick-and-mortar businesses are at a significant disadvantage as they are collecting the tax as required by law. This is an antiquated system that needs to be modernized for the 21st century marketplace. A sale is a sale no matter where it happens.

Q: What is the Marketplace Fairness Act?

A: The Marketplace Fairness Act is intended to address nearly two decades of disparity between traditional brick-and-mortar retail stores and online-only retailers that – in most cases – are not required to collect sales taxes from their customers at the point of purchase. The legislation would streamline the country's more than 7,500 diverse sales tax jurisdictions and provide two options by which states could begin collecting sales taxes from online and catalog purchases.

Q: What is the Streamlined Sales and Use Tax Agreement?

A: The Agreement is the result of the cooperative efforts of 44 states, the District of Columbia, local governments and the business community to simplify sales and use tax collection and administration by retailers and states. The Agreement minimizes costs and administrative burdens on retailers that collect sales tax, particularly retailers operating in multiple states. It encourages "remote sellers" selling over the Internet and by mail order to collect tax on sales to customers living in the streamlined states. It levels the playing field so that local brick-and-mortar stores and remote sellers operate under the same rules. This agreement ensures that all retailers can conduct their business in a fair, competitive environment.

Q: How does the current system hurt small businesses?

A: The unfair disadvantage that local small businesses are experiencing leads to less commerce at the brick-and-mortar establishments that contribute so much to local communities. These employers cannot compete with online giants that do not collect sales taxes and do not have the same local presence in our communities. Local businesses support civic organizations, sports teams and are permanent members of the community. Unless the system is corrected, local retailers will become endangered species as they are being punished for following the law and collecting sales taxes, which their competitors are not.

Q: What actions might states take if the current system isn't fixed?

A: If some retailers continue collecting the sales tax at the point of purchase, while others exploit a loophole and do not, states that are currently experiencing massive budget deficits are going to increase other taxes and fees, like property taxes and/or income taxes, which is already happening across the country. The reality is that states have massive deficits and unfunded mandates they cannot finance without additional revenue or cutting essential services. It only makes sense to collect a tax that is already due before instituting new taxes on everyone.

Q: Why must there be a federal solution?

A: Local brick-and-mortar stores operate at a competitive disadvantage with remote sellers who do not collect or pay taxes. Local stores find themselves serving as showrooms for Internet and catalog sellers. Prospective customers check out the merchandise locally but buy the product online through a catalog to avoid paying sales tax. Local merchants are at a competitive price disadvantage simply because remote sellers do not collect sales tax. The U.S. Supreme Court in 1992 said in *Quill vs. North Dakota* that Congress has the power under the Commerce Clause to create a level playing field for local merchants.

Q: What are the states doing?

A: Several states that are grappling with record budget deficits have taken matters into their own hands to address serious concerns about the negative effect that the failure to collect the sales tax from online-only retailers is having on small businesses that are obligated to collect the tax at the point of sale. While these state solutions are not a perfect substitute for federal legislation, they certainly illustrate the need for Congress to act to prevent a patchwork of state laws.

Q: Is the Marketplace Fairness Act a new tax?

A: No, it is not a new tax. And this is not only about taxation. This is an issue about fundamental fairness. A sale is a sale no matter where it happens. Whether it takes place on the Internet or at a small business, the same rules should apply online that apply on Main Street. A massive loophole is being exploited whereby online-only retailers are not collecting the sales tax at the point of purchase despite the fact that the sales tax is still due, and small businesses are at a significant competitive disadvantage as they are collecting the tax as required by law.

Q: Is the Marketplace Fairness Act a tax on the Internet?

A: No. The Internet Tax Freedom Act created a moratorium on taxes relating to Internet access on any new, multiple or discriminatory taxes on the Internet. The act did not exempt sales taxes on Internet purchases, however. The Marketplace Fairness Act addresses a completely separate issue.

Q: Don't consumers already pay a tax on online purchases?

A: Many consumers are unaware that they are legally obligated to report and pay sales taxes on purchases made online. Online retailers fail to inform consumers about the fact that it is their responsibility to report the amount of sales tax due and pay it directly to the state. Add to this the patchwork of state laws, which is confusing to most consumers. At the end of the day, consumers should not have to bear the burden to calculate and report sales taxes for online purchases.

Q: Won't collecting a sales tax from online purchases be extremely burdensome?

A: No. The reality is that the software and Web applications necessary to collect the sales tax have already been developed and put in place by numerous retailers that choose to adhere to the law. The alternative is not the system that we have today where individual taxpayers are required to record purchases they make online and either carry an unmet tax obligation or pay at the end of the year, a responsibility most consumers are not even aware is theirs. The correct solution is for online-only retailers to harness Web applications that already exist for collecting the sales tax and to do so at the point of sale.

Q: Won't collecting a sales tax (on top of shipping) from online retailers put them at a disadvantage?

A: No. Consumers use online retailers because they are convenient not to avoid a sales tax (data has shown that many consumers are unaware that they are not paying sales tax on online purchases). Collecting sales tax from online retailers will simply level the playing field and ensure that brick-and-mortar stores are no longer at an unfair disadvantage.

Q: Will the Marketplace Fairness Act hurt e-commerce?

A: Most of the laws governing online commerce are more than two decades old – before online shopping really even existed. Today, unlike their brick-and-mortar competitors, online-only retailers are not required to collect and remit sales taxes in most cases. This loophole has given online-only retailers a competitive advantage over Main Street businesses. Competition among new businesses and new forms of commerce is important, but it must occur on a level playing field. Ensuring all retailers can operate in a fair and competitive environment will allow small businesses to keep their doors open and keep their workers employed.

Q: Will the Marketplace Fairness Act hurt small businesses that operate online?

A: No. It is important to understand that collecting the sales tax will not hurt small businesses that operate online. In fact, there will be exemptions for the smallest sellers and free tax assistance for people like eBay sellers.

Q: What impact will the Marketplace Fairness Act have on communities?

A: The impact will be far reaching. Its effects will be felt in communities across the United States. By collecting the owed tax revenue, states will be able to support communities with funding for schools, essential services, infrastructure and much more. In addition, by leveling the playing field between online retailers and brick-and-mortar stores, the Marketplace Fairness Act will help hundreds of thousands of small business owners: the backbone of the American economy.