



Texas Taxes: The State Targets Amazon

In May 2008, the Dallas Morning News questioned why Amazon.com, America's largest online retailer, didn't charge sales taxes even though it maintained a distribution center in Irving, Texas, between Dallas and Fort Worth. The question resulted in an investigation by the Texas comptroller's office, and now the state has sent a \$269 million bill (including penalties and interest) to Amazon for uncollected sales taxes.



The Dallas paper's October 23 edition reported that the mega-bill covers [purchases made by Texas residents](#) from December 2005 to December 2009. The action wasn't disclosed until Friday in Amazon's regulatory filing with the SEC, but the company believes Texas "did not provide a sufficient basis for its assessment and that the assessment is without merit. Depending on the amount and the timing, an unfavorable resolution of this matter could materially affect our business, results of operations, financial position, or cash flows. We intend to vigorously defend ourselves in this matter."

The *Dallas Morning News* quoted R.J. DeSilva, spokesman for the Texas Comptroller of Public Accounts, who said the bill was sent to Amazon.com in August. "The company has requested a re-determination, which means this is an ongoing audit and could be decided as part of the administrative hearings process. The company would send documents, and this process will continue."

DeSilva said he couldn't answer any questions because sales tax and audit information is largely confidential under Texas law.

[Daily Finance](#), AOL's money and finance site, reported Monday that Amazon's quarterly report "trumpeted much better news of \$7.56 billion in revenue and a 16% jump in earnings for the third quarter of 2010."

Daily Finance continued, "The issue of uncollected sales tax runs deeper in Texas. The company defended its lack of sales tax collection by saying Amazon doesn't actually own the distribution center. It's owned by a subsidiary, Amazon.com KYDC LLC, which is technically based in Kentucky. Assigning the distribution center to a different holding company, by Amazon's logic, means it doesn't have nexus there — and that's why it feels it's off the hook."



Written by [Kelly Holt](#) on October 26, 2010

In spite of controversies, though, the company's stock price has continued to climb in recent weeks. This altercation isn't Amazon's first rodeo, however. As regards sales tax issues, anyway, its most recent being with the state of [North Carolina](#). With cash-strapped states looking for ways to bolster the coffers, it may not be the last. Texas' two-year budget shortfall is estimated at \$21 billion.

Governments at all levels are facing huge shortfalls, perhaps the most notable being the state of California. There, one creative proposal under consideration is touching drivers in the San Joaquin Valley for additional fees to pay for [cleaning up air pollution](#), but other states may be tempted to jump on the sales-tax collection bandwagon.

Michael Mazerov, senior fellow in the State Fiscal Project of the Center on Budget and Policy Priorities (CBPP) in Washington, D.C., estimated in a 2009 study that state and local governments lose more than \$7 billion a year in uncollected sales taxes.

CBPP's website posts this article, "[States Continue to Feel Recession's Impact](#)," which asserts that at least 46 states struggled to close shortfalls when adopting budgets for the current fiscal year.

Even though pundits claim the recession is over, consumers don't know it and have continued belt-tightening behavior. Sentiments surrounding mid-term elections find those consumers screaming for spending cuts and reform in an out-of-control central government, and voters would be well served to be especially wary of federal solutions to state problems. Especially when it comes to solving financial woes. As always, the consumer will be doomed to pay — again.

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