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History of Amazon

Amazon A–Z: Sales Tax

“It sounds counterintuitive, but physical location is very important for the success of a virtual business. We could have started Amazon.com anywhere. We chose Seattle because it met a rigorous set of criteria. It had to be a place with lots of technical talent. It had to be near a place with large numbers of books. It had to be a nice place to live – great people won’t work in places they don’t want to live. Finally, it had to be in a small state. In the mail-order business, you have to charge sales tax to customers who live in any state where you have a business presence. It made no sense for us to be in California or New York.”

This is how Jeff Bezos explained the decision to locate the company in an interview for “Fast Company” magazine in 1996. When you think about the fourth criterion, you get the impression that tax evasion has been part of Amazon’s business model from the very beginning.

In the U.S., there is no value-added tax on every commodity, which is common in Europe. Instead, state authorities have the right to impose a sales value tax. The legal premise, obliging companies to pay sales tax only in states they have a “physical presence” in, is the result of the 1992 judgment of the U.S. Supreme Court in *Quill v. North Carolina* case. Thus, Amazon initially had to pay tax only on goods purchased within the state of Washington (with its capital in Seattle, where Amazon has its main office) or in the states where it located its warehouses - although it initially tried to build them in a way to minimize taxes.

It’s hard to deny Bezos’s attitude of logic, since it was in full compliance with the complicated US tax law. The strategic choice of the location of his outlets is a pure business calculation. But as Brad Stone writes in his book *The Everything Store*, Amazon’s actions did not end there.

“Amazon had avoided sales-tax collection for years with various clever tricks. In states where it had fulfillment centers or other offices, like Lab126, it skirted the definition of what constituted a physical presence by classifying those facilities as wholly owned subsidiaries that earned no revenue. For example, the fulfillment

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center in Fernley, Nevada, operated as an independent entity called ‘Amazon.com.nvdc, Inc.’ These arrangements were unlikely to hold up under direct scrutiny, but Amazon had carefully negotiated with each state when opening its facilities, securing hands-off treatment in exchange for the company’s generating new jobs and economic activity.”

The path to full taxation of internet sales was opened by the U.S. Supreme Court in 2018, revising a sentence from 26 years ago. But there are many other ways in which Amazon, like other corporations, is trying to minimize its obligations to states and societies. As Elizabeth Weise writes in “USA Today”, the company actively – and effectively – protested against the Seattle city council’s proposal to impose an additional tax on large companies based on the number of employees.

The project was initiated by socialist city council member Kshama Sawant, with an annual tribute of \$500 per employee. Although the proposal was first accepted in a halved version, it was rejected in a second vote, according to “The Nation”. Hallie Golden adds that at the same time Amazon spent \$1.45 million to support an organization that subsidizes pro-business candidates in the next city elections. In spite, or maybe exactly because of this, Sawant has won her seat again and announced further attempts to introduce the tax.

sources:

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