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Small and mid-sized retailers are divided over the impact of the proposed Marketplace Fairness Act (MFA) legislation, largely based on company size, according to recently released results from a McGladrey survey of decision-makers at small and mid-sized online retailers.

The survey sheds light on why smaller online retailers have been portrayed as both the victims and beneficiaries of the proposed law, while also making clear that the legislation's $1 million revenue threshold will leave many companies exposed. The results, which are based on a survey of more than 240 executives, owners, and decision-makers at online retailers with annual revenues between $10 million and $1 billion, demonstrate a substantial gap in the anticipated impact of the legislation even within the small and mid-sized segments of the online retail industry.

According to the survey, only 38 percent of small and mid-sized online retailers with revenues between $10 million and $1 billion project that the MFA would have a negative impact on their profitability. However, the picture changes significantly when comparing projections in the higher versus lower revenue ranges. While 50 percent of executives at companies with annual revenues between $10 million and $50 million project negative impacts on profit, the number drops to 22 percent for executives at companies in the $150 million to $1 billion range. Smaller retailers said they fear the MFA's passage would pinch their profitability, while larger retailers indicate they are not as troubled.

"These results make clear that the potential impacts of this legislation are wide-ranging and highly complex," said McGladrey's Dustin Petersen, a partner with McGladrey. "While small and mid-sized companies are understandably concerned about losing a competitive advantage and incurring higher compliance costs, those

on the higher end of the revenue range appear to see this as somewhat of an

companies were in the lower revenue range, indicating a clear sense of urgency at firms of that size.

While the survey suggests that less than 40 percent of small and mid-sized online retailers expect to be hurt significantly by the law, it nonetheless indicates that passage of the MFA could have substantial impacts on both the market and the consumer experience, with shuttered online sales operations, higher retail prices and greater competition among a wide range of predictions. Forty-three percent of all respondents said they were either somewhat or very likely to consider terminating some online sales in response to the MFA, and nearly all (98 percent) said they would pass along increased compliance costs to the consumer.

Most large online retailers currently have processes in place to address remote sales tax, but many smaller companies do not. To comply with the MFA, these smaller remote sellers would need to adopt new technologies and processes to automate their transactions. The survey indicates that most of these companies will pass the cost of these investments onto their customers, while others are predicting that they will opt to terminate their online sales altogether to protect their traditional sales revenues.

"While the MFA's prospects have dimmed substantially since its passed the Senate earlier this year, the momentum it had at the time and the continuing interest of media, major players in the business community and state governments is sure to keep it among the top tax issues in Washington for the remainder of this year and beyond. As the debate continues, it is critically important that we understand as much as possible about how different types of firms might be impacted by a veritable sea-change in their tax obligations, as well as how they might ultimately respond to those changes," said Petersen.

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