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## PRODUCT & SERVICE GUIDE

# To avoid sales taxes, Amazon.com cuts ties with Minnesota bloggers

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Under the change, which goes into effect July 1, such independent bloggers and online reviewers will be seen as giving a company a physical presence in the state. That would force Amazon and other online merchants to start collecting sales tax on all of their Minnesota business.

Amazon sent an e-mail to its associates in Minnesota on Tuesday, saying it will close all seller accounts in the state to avoid the tax. Other online retailers are taking similar actions, according to affiliate marketers.

“This is a direct result of the unconstitutional Minnesota state tax collection legislation passed by the state legislature and signed by Gov. Dayton,” the letter from Amazon said.

The moves are part of a larger debate swirling nationally, as the House of Representatives considers a proposal that would allow states to require retailers to

collect tax on online sales, regardless of whether the company has a physical presence there. The U.S. Senate passed the bill, known as the Marketplace Fairness Act, in May.

Minnesota is the 11th state to lose online affiliate marketing programs over the issue of “nexus” — that is, how lawmakers define what counts as a physical business presence in a state.

The Department of Revenue expected Amazon and other online retailers to stop their affiliate programs in Minnesota, and had already priced the move into revenue projections, said Myron Frans, the state revenue commissioner. The change in law will still generate about \$5 million in new sales taxes, he said.

“If they’re really utilizing someone in the state of Minnesota to sell on their behalf, then that really should qualify as nexus, and therefore they should collect sales tax like everyone else,” Frans said. “We’re trying to level the playing field.”

No one from Amazon could be reached for comment.

The tax on online sales is not new, but until now the onus to pay has been on consumers, who rarely pay the tax. The new law puts the onus on online merchants, so long as they are paying anyone in Minnesota to direct sales their way, usually through links that credit the person for the sales.

Most of the people affected are like Aaron Hall, an attorney in Minneapolis with a part-time blog, who said he will lose a couple hundred dollars a month because of the change.

“A lot of bloggers have been hit,” Hall said.

But the effect of the change will be broader than people might think, said Rebecca Madigan, director of the Performance Marketing Association, a national trade group.

Minnesota has about 5,200 affiliate online marketers who earned about \$500 million in 2012 and paid \$35 million in state income tax last year, she said.

“It could be a blog,” Madigan said. “It could be a shopping comparison site. It could be a discount coupon site.”

The sellers create accounts with companies like Amazon, Overstock.com, RedEnvelope, Blue Nile and BuyCostumes.com and post links to their products in

blog posts, reviews and display ads. They earn a commission for any sales that come through their links.

Connie Arnold, who runs a discount coupon site called FlamingoWorld out of her living room in Northfield, said she has earned as much as \$1 million in 2010, and still makes in the high six figures by posting more than 10,000 coupons from over 4,000 merchants.

A least 100 merchants will drop her as a result of the change to Minnesota law, and she's been shifting her focus away from companies like that for the past year, anticipating that state law would change.

"It is going to hurt me a lot," she said, "but I'll just have to adjust."

What bothers her is that online affiliate marketers have been singled out, even though Amazon can continue to advertise on television in Minnesota and retailers can still mail catalogs to Minnesotans.

"I agree with what they're trying to do," Arnold said. "It's just that they're singling out a specific format."

Madigan said Amazon, a powerhouse website that gets much of its traffic without the help of links from affiliates, is among hundreds of companies that will terminate relationships with Minnesota affiliates as a result of the new law. But she said it's not the most important.

"If it was just Amazon, we wouldn't care if this passed or not," Madigan said. "But it's these thousand retailers that do the same thing, and that's where we see this economic devastation to Minnesota businesses."

In the past when states have done this, she said, a third of Web marketers moved out of state, a third downsized their business and a third closed their doors.

Amazon's position on online sales tax is complicated. It doesn't want to collect sales tax in any state where other online merchants without affiliates don't have to.

But Amazon has supported passage of the Marketplace Fairness Act, a federal proposal that would render the entire debate moot. The bill would allow states to apply sales tax to all online purchases and also has the support of the Minnesota Department of Revenue, the Performance Marketing Association, and big-box retailers like Target and Best Buy.

“Congressional legislation is the only way to create a simplified, constitutional framework to resolve interstate sales tax issues and it would allow us to reopen our Associates program to Minnesota residents,” Amazon said in its letter.

Frans said something similar. “If [small-business owners] would help us contact Congressmen to really move this ball forward, this is something all states could benefit from, and they could too.”

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