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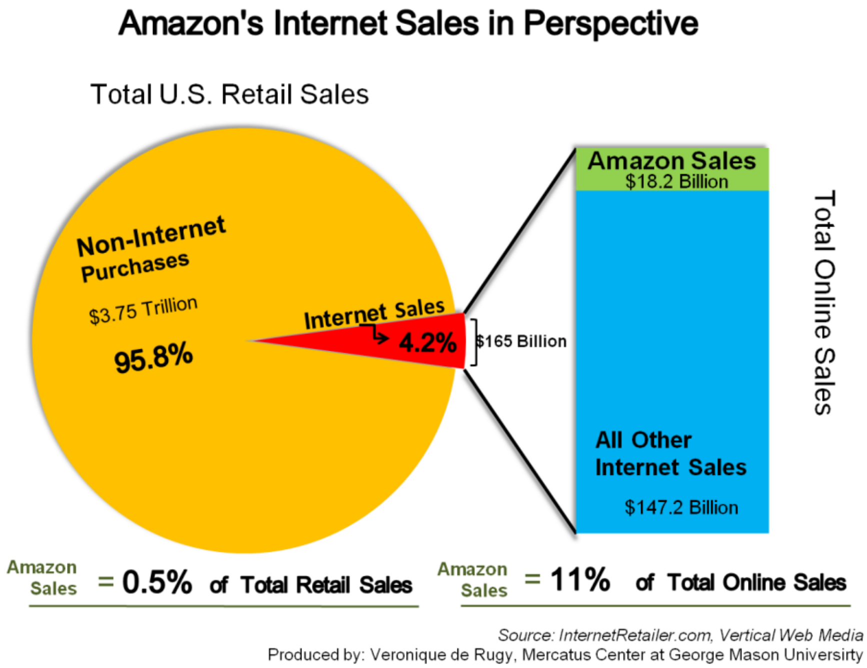

In this week's chart, Mercatus Center Research Fellow Veronique de Rugy puts Amazon's domestic sales in perspective. Some states are pursuing plans to devise an internet sales tax to increase their revenue, and some are basing their potential tax policy around one large retailer such as Amazon. Using studies conducted by Internet Retailer, an e-commerce intelligence company, this data illustrates why an Amazon-based Internet tax won't make a lasting impact on state budgetary problems. In 2010, overall U.S. retail sales amounted to $3.92 trillion, with 4.2% ($165.4 billion) coming from internet sales.

Also, most of the public discussion about the Internet tax has been focused on the largest e-retailer: Amazon, so much so that many commentators are talking about the Amazon tax. While it is true that Amazon is by far the biggest internet retailer, it only represents a small share the overall e-business. As this data shows, Amazon's domestic sales amounted to 11% ($18.2 billion) of all online sales. Thus, Amazon sales equal less than half of one percentage point of total U.S. retail sales. Therefore, attempts to base an Internet sales tax around one retailer such as Amazon will prove inefficient.

More importantly, even if Amazon's business wouldn't be hurt much by the added compliance and collection cost of the new tax, the millions on much smaller retailers that make the bulk of e-commerce will. Designing a tax policy based on the ability of the biggest player to cope with the new cost is bad economics and bad tax policy. Internet sales tax targeting one tax retailer comes with unintended consequences. Forcing online vendors to collect local taxes would create significant burdens on interstate commerce.

Apart from getting chronic state overspending under control, a better solution to the states' fiscal problems would be tax competition. Congress should adopt an "origin-based" sourcing rule for any states seeking to impose sales tax collection obligations on interstate vendors. This rule would be in line with Constitutional protections for interstate commerce, allow for the continued growth of the digital economy, and ensure that excessive, inefficient taxes do not burden companies and consumers. Such an approach would be good for retailers, good for consumers, and good for federalism.

Veronique de Rugy expounds on the internet, sales taxes, and tax competition in a Mercatus on Policy with Adam Thierer.

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