

Amazon Drops More Affiliates to Avoid Tax

BY GEOFFREY A. FOWLER

Amazon.com Inc. ended its business relationships with marketing affiliates in Rhode Island so the online retailer could avoid collecting sales tax in the state.

Rhode Island's state legislature recently passed a bill that would force companies to collect sales taxes if they have online-marketing affiliates—businesses that get a sales commission by featuring links to outside e-commerce sites on their own Web sites—in the state.

The Rhode Island termination follows a similar move by Amazon last Friday to end its relationships with affiliates in North Carolina as the state approached passing a similar law. Cash-strapped states across the

country have looked at similar legislation to boost revenue. Such a law went into effect in New York last year.

Amazon, based in Seattle, sent an email to its Rhode Island affiliates on Monday saying that it was closing their accounts immediately. "This is a direct result of the unconstitutional tax collection scheme passed by the Rhode Island General Assembly with a veto-proof majority," said the message.

Amazon spokeswoman Patty Smith said the company took the action now because the Rhode Island bill had passed with veto-proof majorities. "The bill would take effect immediately upon enactment—either the governor's signature or an override of his veto," she said.

Amy Kempe, press secretary for Rhode Island Gov. Donald Carcieri, said the governor was still deciding whether or not to sign the budget bill passed by the legislature and would do so by Wednesday. The state faces a \$590 million deficit for the fiscal year starting in July.

Rebecca Madigan, founder of the affiliate trade group Performance Marketing Alliance, estimates there are some 2,000 online affiliates in Rhode Island, who pay about \$3 million in state income tax. "We're seeing small businesses being hit. They are the collateral damage through all of this legislation, which inaccurately classifies affiliate marketers as sales agents" rather than advertising channels, she said.