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Subject: SALT LS: Interesting twist on Market Place Fairness Act

Why Alibaba Offers Hope for Online Sales Taxes

Will Congress be swayed by the entry of a Chinese e-commerce competitor?

BY PENELOPE LEMOV | DECEMBER 11, 2014



Alibaba founder Jack Ma raises a ceremonial mallet before striking a bell during the company's IPO at the New York Stock Exchange. AP/Mark Lennihan

This past spring, things were looking bright: The states were closer to finally getting the OK to collect sales taxes from online purchases. By a comfortable bipartisan margin, the U.S. Senate had passed the Marketplace Fairness Act and the House had overcome a major hurdle when House Judiciary committee members agreed that the bill did not represent a new tax. Then came November. House Speaker John Boehner pronounced the Senate version of the act all but dead. The speaker, a spokesman announced, "has significant concerns about the bill, and it won't move forward this year."

After all that, though, there is still a glimmer of hope. It's not because of a lobbying push or the muscle power of allied interests. The little light that shines can be summed up in one word: Alibaba.

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Let's rundown why Alibaba could be the "open sesame" for the Marketplace Fairness Act.

What's Alibaba?

It's a Chinese e-commerce company whose founder, Jack Ma, started it out of his apartment in Hangzhou in 1999. To oversimplify, Alibaba is Amazon, eBay and PayPal rolled into one. It has an online shopping marketplace; a retail platform that features goods sold directly from brands; a global online wholesale marketplace for international customers; an online wholesale marketplace for small businesses; a digital payment system; and cloud services and infrastructure. All told, Alibaba and its smaller sites have hundreds of millions of users and host millions of merchants and businesses. At \$25 billion raised, the initial public offering is considered the biggest in the world. Alibaba itself is currently valued at upwards of \$230 billion. It dwarfs in size any existing e-commerce company. It accounted for \$248 billion in online sales last year -- more than those of eBay and Amazon combined. The bulk of its sales were in China, where it accounts for 80 percent of online retail sales.

What's Alibaba's link to state and local sales taxes?

There are clear signals that Alibaba is angling to move into the consumer marketplace here. In June, an online shopping site called 11 Main was launched by a San Mateo, Calif., company that is a wholly owned subsidiary of Alibaba. The site hosts some 2,000 businesses that sell fashion, jewelry, home goods, children's items, antiques and collectibles. 11 Main chooses which merchants can list its goods on the site, and nearly all are small businesses. As with other online-only sites, companies on 11 Main do not have to collect sales taxes unless they have a physical presence in the state where the transaction takes place.

What are advocates of the Marketplace Fairness Act doing about this?

Brick-and-mortar retailers are sending Congress a clear message that the sales tax loophole was bad enough when the competition was just Amazon, Overstock and eBay. But if Alibaba landed here, that could spell the end of thousands of brick-and-mortar businesses.

The "big 7" state and local associations -- the National Governors Association, the National Conference of State Legislatures, the Council of State Governments, the National Association of Counties, the National League of Cities, the U.S. Conference of Mayors and the International City/County Management Association -- and major retail groups are working together to hone their message. They've released a video clip produced by the Alliance for Main Street Fairness, which recounts Alibaba's financial history here in the U.S. and its marketing power. The narrator leaves no doubt about what Fairness advocates see as the danger: "Thanks to the online sales tax loophole this Chinese company will decimate our local retailers." The ad is being broadcast on Sunday

morning political talk shows and on cable TV news shows, as well as being shown online.

Can the China card triumph?

Where the Marketplace Fairness Act used to be dubbed the Amazon bill, the shorthand may morph into the Alibaba bill. Will the China connection be enough of an incentive for Congress to act to stop the drain online sales have had on state and local tax collections? Republican Rep. Steve Womack of Arkansas, who introduced the Marketplace Fairness bill in the House, has said that Alibaba may serve as "a moment of realization that this problem is now going to another level -- and it's the next level that could be the fatal blow to a lot of small time retailers that are so vital to the economic well-being of our local communities." To say nothing of a blow to state and local coffers. Those states that are reducing their dependence on income taxes in lieu of sales taxes might want to follow the Alibaba story line closely.

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