AFFILIATE STATE TAX NEXUS 101

WHAT IS THE SALES TAX NEXUS ("NEXUS")

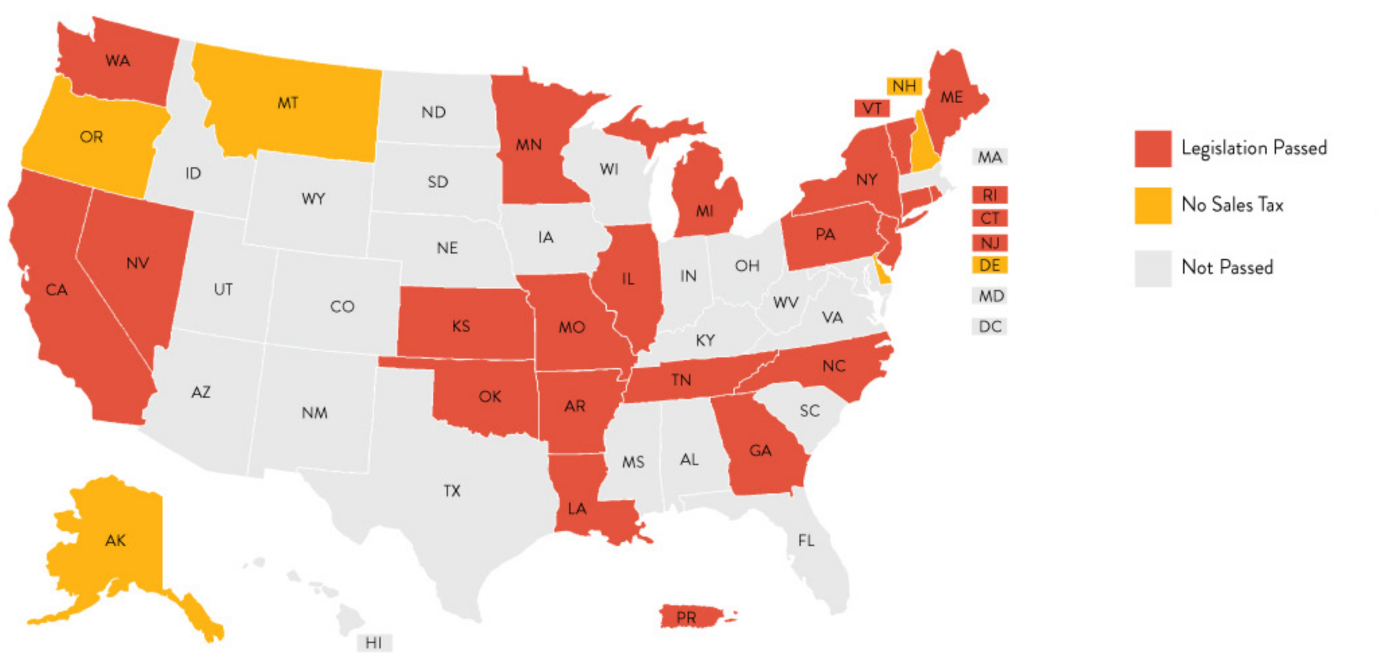
Nexus, also called "sufficient physical presence," is a legal term that refers to how companies doing business in a state must collect and pay tax on sales in that state. For example, if you are an online retailer with a warehouse or home office in the state of California, you may have to file and pay California state sales tax.

It sounds relatively simple, but it's anything but. Prior to the emergence of e-commerce, a company's physical presence in a state was fairly straightforward. With the rise of online retail, states felt that they needed to find new ways to collect sales and income taxes from companies that conduct business virtually.

Increasingly, states are passing "Affiliate State Tax Nexus" or "Click-through Nexus" laws. These laws essentially state that if an online retailer works with and pays online affiliates residing in that same state commission for generating sales, then the retailer has a "presence" in that state and is thus required to pay taxes (if certain criteria are met). This not only effects the online retailer, it also effects potential affiliate partners and could limit the growth of an affiliate marketing program.

What's more is that many states define Nexus differently, so Nexus is subject to each state's particular taxing authority, making it a complex, layered issue. Determining what Nexus may mean for your company and online retail activities can be a confusing, time-consuming process. We recommend you consult with a qualified attorney before making Nexus decisions for your program.

AFFILIATE STATE TAX / CLICK-THROUGH TAX NEXUS BY STATE



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