

"The Future of Affiliate Marketing..."

ALERT!

June 29, 2009

Dear Entrepreneur:

When New York decided that out-of-state online companies making a certain amount of money in New York had to start collecting taxes on behalf of their affiliates and remitting it to the government, most of the large Internet businesses simply disqualified New York residents from being affiliates. Problem solved. No affiliate commissions meant no sales tax collection.

North Carolina (and a few other states) is in the process of making the same mistake as New York. In response, Amazon.com just canceled *all* affiliate relationships it has in North Carolina. "This is a direct result of the unconstitutional tax collection scheme expected to be passed any day now by the North Carolina state legislature and signed by the governor."

Unconstitutional or not, it is a growing trend by government to make Internet companies tax collectors for their affiliates' sales. There's also discussion by the broke U.S. federal government of imposing a value-added tax (VAT) on both online and offline companies.

In addition, the U.S. Federal Trade Commission (FTC) is considering new regulations that would hold Internet businesses responsible for misrepresentations made by affiliates. If these new regulations are issued, imagine how much time it will take to read every affiliate product review, affiliate email, blog post, tweet etc. to ensure that what's being said about your products isn't fraudulent or deceptive.

Will affiliate marketing survive? Yes, but not in its current form.

Some companies will decide that the risks outweigh the rewards and simply get rid of their affiliate programs. Others will adapt like the MLM/networking marketing industry (Amway, Mary Kay, Primerica, etc.) by providing affiliates with marketing materials that cannot be changed without written permission, and with a list of do's and don'ts for affiliate marketing. If you think everyone sends the same promotional emails for a product launch now, just wait until businesses require it to be that way.

What can you do to prepare?

- If you have an affiliate program, you'll want to train your affiliates to use ethical practices in marketing your products and services. This includes *clearly telling your affiliates what they can and cannot do*. Adopt a zero tolerance policy for affiliate marketing misconduct because it only takes one lawsuit to cost you far more money than a bad affiliate will earn you. If you define the

boundaries of acceptable conduct and randomly check to ensure compliance, you will both reduce your risks and ensure that your business name isn't tarnished by unethical claims made to generate an affiliate commission.

- As for taxes, make it clear to your elected politicians that you already create jobs and pay taxes on income. If they vote to make you a tax collector for affiliates, you'll vote for their opponents in the next election and relocate your business if necessary to avoid paying unnecessary taxes.

Please note that this is not legal advice. Consult your Internet business lawyer to address specific legal issues.

To your success!

A handwritten signature in cursive script that reads "Mike".

Michael E. Young, J.D., LL.M.
Attorney & Counselor at Law
Law Office of Michael E. Young PLLC
Legal Solutions You Can TrustSM
mike@mikeyounglaw.com