

Subj: Privacy and Tax: Perspectives of Americans For Tax Reform
From: Grover Norquist
Americans For Tax Reform (ATR)
To: Internet Caucus Advisory Committee

NET TAX SCHEMES THREATEN PRIVACY

Another critical issue raised during the Commission's deliberations was that of protecting Americans' privacy from nosy government bureaucrats and tax collectors. The proposal put forth by the National Governors Association, which would enlist "trusted third parties" to serve as interstate tax collectors, provided a prime example of how state and local politicians will sacrifice taxpayers' privacy in their quest for higher taxes.

Under the system envisioned by the NGA, all remote vendors would ultimately be required to collect personal consumer information and transmit such information to a "trusted third party" (which could be anything from the federal government to the United Nations), which would then calculate the applicable sales tax and separately charge the tax to the consumer's credit card. **Privacy advocates quickly ripped the NGA's proposal to shreds.**

In order to guarantee the integrity of the trusted third party system, regular auditing would be required, which could not be accomplished unless the third party kept electronic records of an individual consumer's transactions. The notion of a government-controlled database keeping track of everything you ever bought, where you were when you bought it, what you paid for it, and where it was shipped is an idea that offends every principle of limited government and the privacy to which Americans are entitled. The Internet is an incredible phenomenon in the development of Western civilization. But it must not be used as a means for government to track the behavior of its citizens.

The idea of a national sales tax collection scheme for the Internet is not a popular one. Congress opposes it, as do a majority of Americans. The advocates of higher taxes indeed have a steep hill to climb if they are to realize their vision of the tax man being only a mouse-click away from every American's desktop. As a result, they have enlisted the support of numerous taxpayer-funded organizations to wage an intense lobbying and public relations campaign designed to make their tax scheme appear more palatable.

The National Governors Association, the Council of State Governments, the National Conference of State Legislatures, the National League of Cities, the International City/County Management Association and the U.S. Conference of Mayors all receive some form of direct or indirect funding from taxpayers. Yet, each of these groups is engaged in a campaign to impose new tax collection schemes on the American people. In other words, taxpayers are being forced to fund a campaign which, if successful, would result in higher taxes on those same taxpayers.

This report supports the position of the Republican Congressional leadership for a tax free Internet that is accessible to all Americans. Regulating interstate commerce is a power the Constitution reserves exclusively to Congress. Congress must now use that power to protect taxpayers and consumers from would-be cyber tax collectors.

Sincerely,

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To: Internet Caucus Advisory Committee

Privacy, the Internet, and Taxes

by Ron Nehring,
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The Advisory Commission on Electronic Commerce rejected calls for a national sales tax collection system for the Internet. One of the reasons it did so had nothing to do with taxes or economic growth, but rather protecting Americans' privacy in cyberspace.

Polls and recent media attention show that Americans are increasingly concerned with protecting their privacy when they go online. People are naturally uncomfortable with the idea of somebody else following them around and keeping track of which websites they visit, what they buy, how much the pay, where they live, and other personal information.

Yet, if some government officials have their way, that is precisely what could happen. But it wouldn't be some nameless, faceless company keeping track of all of your purchases. Instead, it would be the government.

For sixty years, California has tried to force catalog companies, telemarketers, and other out of state "remote sellers" to collect California sales taxes on their sales to Californians. Trouble is, these efforts have consistently run into legal trouble, and the U.S. Supreme Court has consistently rejected attempts by states to impose sales tax collection duties on vendors with no substantial presence in their state. The Court held that to force a company to comply with the sales tax collection, remittance, reporting and auditing requirements of 6,600 taxing jurisdictions would impose an unacceptable burden on interstate commerce.

With the advent of the Internet government officials are at it again, trying to come up with a way to force out-of-state companies to collect sales taxes. The chief proposal to do so should frighten any American concerned about protecting their privacy from snooping cyber-tax collectors.

Last November, the National Governors Association, which represents all 50 governors, proposed a system where states would hire "trusted third parties" to collect sales taxes for them. According to the NGA, every remote seller (such as J. Crew, Amazon.com, and other) would ultimately be required to transmit a customer's name, credit card information, and a list of their purchases to the "trusted third party," which would then calculate the sales tax, and bill a customer's credit card for the appropriate tax.

The plan sounds simple enough, until one considers that any sales tax system would quickly lose integrity unless transactions can be audited at random and verified. To do that,

records would need to be kept of what consumers bought, from where they bought them, what they paid, and the corresponding credit card information.

Once such a database is built, the opportunity for abuse is enormous.

State revenue agencies could use the information to build profiles of individual taxpayers' spending patterns to determine if an income tax audit is warranted. At the federal level, whistleblowers at the IRS have already admitted targeting less affluent taxpayers for audits, knowing that wealthy taxpayers are far more likely to fight an audit while the poor and middle class tend to give in rather than face an invasive examination of their lives. Giving the tax man a record of all your purchases, in advance, gives the government an enormous advantage in any tax collection dispute.

Not even California Senate President Pro Tempore John Burton could ignore the privacy ramifications of an Internet tax collection scheme. In testimony before Burton's Revenue and Tax Committee on his bill to make all online sales tax free in California, Senator Ray Haynes raised the issue of the database that would be required if a Net tax system were put in place. Burton, otherwise hostile to a tax-free Internet, took notice when Haynes explained how a database of consumer purchases would be required to ensure the integrity of such a system.

Internet users and businesses should be free to exchange information online, as long as such arrangements are voluntary. Allowing the government to track consumers' actions and behavior in cyberspace, in the name of collecting new taxes, is an idea only George Orwell could love. Americans should reject such a system as an unacceptable infringement on the liberties and privacy to which we are all entitled.