

# INTERNET TAXATION

In the last ten years the Internet industry and electronic commerce have suffered a dramatic rise followed by a sharp down turn. While painful, this cycle taught us many lessons, and firms with sound and sensible business models have begun to turn the corner, while others are poised to spring to profitability. This nascent industry has great potential to deliver a wide range of goods and services and help revitalize the tech economy. However, even as these firms struggle for viability, there are some who are advocating a stranglehold on this industry: the imposition of an Internet sales tax.

The Computer & Communications Industry Association (CCIA) has consistently advocated for making permanent, the moratorium on Internet sales taxation. The problems associated with an Internet tax are not just pricing considerations to the consumer, but also the administrative headaches associated with complying with a myriad of state, county, city, and other jurisdictional taxes.

Currently, 45 states, the District of Columbia, 4,696 cities, 1,602 counties, and 1,113 other tax jurisdictions impose some form of sales and use taxes on purchases. By imposing sales taxes on purchases made through the Internet, an on-line vendor will be required to identify where their customer resides or made the purchase (which could be two separate places) and then how to comply with the various 7000 plus sales taxes. Undoubtedly, this will raise the transaction costs to unacceptable levels, discouraging new entrants, and harming current online businesses.

Some have advanced the argument that it is only fair to tax Internet sales since customers must pay these taxes when shopping at “brick-and-mortar” stores. However, these retailers enjoy comparative advantages such as no costs or delays associated with shipping. Internet retailers are in a comparable position to catalogue retailers who have not caused significant harm to traditional retailers. Yet there actually has been no movement to require catalogue retailers to navigate through the thousands of disparate taxation systems. They are only required to collect taxes from customers that share a physical presence or “nexus” to a jurisdiction. In most cases, a customer will never have to pay sales tax on any catalogue purchase, yet under these proposals, they would be required to do so for Internet purchases. CCIA does not believe there is any logical distinction to require someone to pay taxes on goods they purchase from [www.llbean.com](http://www.llbean.com) yet not on goods ordered through an L.L. Bean catalogue.

As states face budgetary crunches, some believe there is an untapped jackpot in the form of uncollected sales taxes on e-commerce. However, a recent Wired Magazine news report indicates that Internet sales account for “a minuscule 1.6 percent of total retail purchases.”<sup>1</sup> Taking into account the costs of enforcement, CCIA questions how much extra revenue can be derived from this paltry sum, and if this modest, if even existent, revenue stream, outweighs the huge burden to an emerging industry. In CCIA’s view, it does not.

We strongly oppose any state effort to enact an Internet taxation scheme, and support Congressional efforts to extend the Internet tax moratorium or make it permanent. For more information, please contact CCIA Vice President & General Counsel Jason Mahler at (202)783-0070.

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<sup>1</sup> *Internet Sales on the Rise*, WIRED NEWS, February 24, 2003, (<http://www.wired.com/news/business/0,1367,57786,00.html>).