

The Internet and Taxes

Taxation of the Internet and the digital marketplace continues to pose a critical challenge to the development of the digital marketplace. From the patchwork of state and local sales and use taxes to state efforts to tax access to the Internet and assess discriminatory transactions taxes, continued growth of the digital marketplace hangs in the balance. SIIA promotes fair tax treatment of the Internet and the digital marketplace, and we support the following federal policy objectives to enable unfettered growth of the digital marketplace:

Permanent Ban on Internet Access Taxes and Multiple and Discriminatory Taxes on E-commerce Transactions

Undoubtedly, the Internet provides citizens everywhere access to valuable information and government services. While access to the Internet is significantly greater today than simply a few years ago, there are still significant impediments to many Americans. State taxes on Internet access amount to a tax on information, serving only as another impediment to low-income Americans that struggle to access this critical resource. Additionally, multiple, confusing and inconsistent state tax rules impose an incredible burden on interstate commerce and the economy.

SIIA strongly supports H.R. 49, S. 52 and S. 150 because these bills would permanently extend the moratorium on Internet access taxes and outlaw multiple and discriminatory taxation of electronic commerce. It is imperative that traditional tax rules be equally applied to Internet transactions as the offline world, rather than enabling multiple or discriminatory taxes on electronic commerce.

Simplification of the State Sales and Use Tax System

Congress and the President have a critical role to provide state guidance for clear and simple tax rules that work in today's borderless marketplace. Although it is essential for states to drive the process of implementing simplification, Federal guidelines are critical to a true, comprehensive approach to eliminating the existing patchwork of thousands of state and local taxing jurisdictions. SIIA supports Federal legislation to provide guidelines for state simplification, but we are also committed to ensuring that such legislation adequately addresses the key issues, including business activity tax nexus clarification and adequate rate and definition simplification.

Establishment of Bright-Line Nexus Standards for Business Activity Taxes

In conjunction with the development of uniform and clear rules for the taxation of all commerce, it is critical to enact appropriate bright-line nexus standards for business activity tax purposes. Lowering the sales and use tax nexus standards without at the same time explicitly clarifying the business activity tax nexus standards will leave companies with no defense to spurious state income tax claims. Therefore, as a component of Federal guidance for state sales and use tax simplification, it is critical to establish bright-line standards for physical presence regarding the collection of business activity taxes. Such a clarification of current standards would prevent the potential for double taxation by ensuring that a state is not able to impose business activity taxes on out-of-state businesses that do not have a substantial physical presence in that state.

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