



CENTER FOR INDIVIDUAL FREEDOM

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Taxing the Internet: *How Long Should the Moratorium Last?*

By Timothy H. Lee, Esq.

The 1998 Internet Tax Freedom Act, which received two extensions in 2001 and 2004, is again set to expire on November 1, 2007. Although the previous extensions have temporarily protected the Internet against crippling access and other taxes, continual extensions only repeat this contentious process and perpetuate the vulnerability to future taxation and regulation.

Only a permanent prohibition will provide the certainty and market freedom necessary for the United States to remain the world's technological and economic leader.

America is the home of the Internet, which has flourished precisely because it remains free of stifling tax burdens and other bureaucratic burdens. Since the Internet's inception and the United States Supreme Court's 1992 *Quill* decision, online commerce, computer ownership, technological literacy and informational abundance have simply skyrocketed. As a consequence, the Internet now serves as the engine of American economic prosperity, technological innovation,

commercial expansion, civic participation and the primary resource for public information. The Internet Tax Freedom Act has been absolutely critical to this growth and prosperity.

“The Internet Tax Moratorium must finally be made permanent.”

Allowing the Internet Tax Moratorium to end, however, would only place America at a worldwide competitive disadvantage, and increase tax burdens upon everyday American consumers. Not only would Internet taxation create a *de facto* tax increase and “nationwide sales tax,” it would also require new federal and state bureaucracies to implement and oversee the schemes. Internet taxation would also pass the increased cost of doing business to consumers, and invade consumer privacy through sales and taxation recordkeeping requirements.

An Internet tax would particularly penalize middle-class Americans, schools, libraries, hospitals and other critical services. America currently trails other nations in terms of broadband distribution, and Internet taxes would only place the country at further competitive disadvantage. Rural and poor communities would be particularly hard-hit, as broadband deployment would become even more expensive.

The Internet Tax Moratorium is the only thing protecting against these disastrous consequences. Future temporary extensions will only continuously repeat this cycle, and expose the Internet to destructive taxes being imposed at some future date.

American consumers and businesses simply cannot tolerate this risk. Accordingly, the Internet Tax Moratorium must finally be made permanent.

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