

For nearly 20 years the Institute for Policy Innovation (IPI) has been advocating lower taxes and fewer regulations. More than a decade ago IPI began a campaign to explain the consequences of Internet taxation and became an advocate of the permanent moratorium. That campaign continues today as demonstrated in this article written by IPI resident scholar George Pieler.



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Your Long-Feared 'Net Tax May Be Coming

George A. Pieler 06.13.07, 6:00 AM ET

WASHINGTON, D.C. -Some bad ideas never go away. Taxing the Internet is one. No matter how often the idea is swatted down, intellectually, politically and common-sensibly, it keeps being run up the flagpole by some politician desperately concerned about "unmet needs" of government. The return of Congress to Democratic control may be just the margin of difference to finally make it happen.

The story so far: Congress has barred discriminatory state and local taxes on the Internet *per se* since 1998 (with one brief hiatus), but keeps extending the ban rather than making it permanent. Since the ban expires this year, senators in particular are eager to give the issue a "fresh look."

As Senate Commerce Committee Chairman Daniel Inouye, D-Hawaii, said at an Internet tax hearing last month, "Listening to the testimony, I would opt for a temporary extension, if at all."

Other senators propose redefining the Internet tax ban to make clear that needy states can still tax all telecommunications, including voice-over-Internet phone service, if bundled together with Internet access. Sens. Tom Carper, D-Del., and Lamar Alexander, R-Tenn., call this "closing a loophole."

Yet the Internet tax moratorium, for almost 10 years now, has never interfered with state, local or federal taxes on telecom services. My cable bill shows state and county sales taxes, communications sales tax (whatever that is!), unspecified "government costs" and a cable "right of way fee"--all this on a cable TV, high-speed Internet bundle.

The Internet tax moratorium is and always has been aimed at "multiple and discriminatory" taxes on the Internet. The proposed Carper-Alexander carve out for taxing telecom-over-the-Internet has obvious potential to allow jurisdictions to expand their Net-taxing ambitions with the aim of putting multiple taxes on various services accessed over the Internet. However you look at it, it is designed not to close a loophole for citizens, but to open a big pro-tax loophole for bureaucrats.

There are two fundamental misconceptions in the Internet tax debate. First, we are told that as the modern economy shifts in favor of Web-based commerce, taxes must follow as fast and furiously as possible, or else governments will be starved of revenue. Well guess what? State tax revenues grew an average of 5% a year between 2000 and 2005, prime years for the Internet Tax Moratorium.

Indeed, as Chris Edwards of the Cato Institute points out, the average would be higher except for the down year of 2002--a consequence of the post-Sept.11, 2001, national economic slowdown.

State governments, like the federal government, get more revenues the better the economy performs. They have no shortage of revenue-raising devices on the books, and have in no way suffered from not *also* being able to impose duplicate new taxes, which discriminate against the Internet.

Further, we are told that Internet taxes are the "way of the future," and the U.S. is falling behind the rest of the world in coming to that conclusion. Well, if the U.S. did indeed lag behind its competitors in slapping new taxes on Internet commerce, that should help, not hurt, the U.S. in global competition.

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