



AMERICANS FOR TAX REFORM
**LEGISLATIVE
ALERT**

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Internet Tax Simplification: Is It Really That Simple?

By Emily Sedgwick

Americans for Tax Reform (ATR) opposes all efforts to increase taxes at the state and federal levels, and opposes the Streamlined Sales Tax Project (SSTP) to the extent that it poses a tax increase threat. Although there are provisions contained within SSTP that would improve tax system efficiency and reduce audits for businesses, SSTP also contains provisions that could reduce competition among local and state tax jurisdictions. In addition, the possibility exists that various definitions adopted in the name of efficiency or simplification would increase taxes in practice.

Forty-four states and the District of Columbia have joined the Multistate Tax Commission (MTC) in various capacities ranging from active members to observers. MTC organizes conferences throughout the year to formulate SSTP tax code definitions. In Indianapolis, Indiana in April 2003 for example, a group of 150 state revenue department administrators, lawmakers, and businesses discussed the tax implications of defining a “bundled transaction,” and whether various changes would tax services that currently are not taxed. The general consensus was that they would not. But another discussion arose regarding an uniform definition for “television services” to include cable, satellite, and dish providers – a situation in which an inclusive definition could increase taxes for one or more of those providers. And in North Carolina, business

service definitions would impose a *de facto* tax increase on postage in some cases.

Whether or not the adoption of “simplified” definitions will raise taxes for states is a question of great importance. The answer is, generally, yes. States will still choose to tax or exempt every service and sale, but will codify each service and sale according to SSTP-approved guidelines. While states will reserve the right to levy different rates against similarly defined products and services, the pressure will increase to levy taxes in similar fashion as do higher-tax states. Businesses already contribute \$378.9 billion in state and local taxes (2002), 41.3% of all tax collections, and yet businesses are at risk for tax increases if many SSTP-proposed definitions are adopted. Smaller-sized businesses are most at risk, because they do not have the staff or resources to lobby for advantageous definitions at the MTC planning meetings. Furthermore, states that join SSTP and adopt its recommendation do compromise their sovereignty with regard to maintaining competitive tax code definitions of their own.

Thus far in the negotiating process, SSTP cannot demonstrate complete tax neutrality with regard to potential burden on taxpayers. Until it has, **ATR strongly encourages Congress to renounce SSTP-enabling legislation and focus efforts on passing a permanent Internet Tax Moratorium. A clean business activity tax bill will achieve much more in the meantime.**