

Different kinds of Internet taxes

Submitted May 28, 2003 to the Congressional Internet Caucus

- Organization: Computer Professionals for Social Responsibility
- Author: Andrew Oram, member of CPSR, 617-499-7479, andyo@oreilly.com, <http://www.praxagora.com/andyo/>
- Topic: Internet Tax Simplification: Is It Really That Simple?

Although policy makers and the media speak loosely of "taxes on the Internet," the topic should be broken down into at least four different policy areas, each with its own legislative history and controversies.

Direct taxes on Internet services

A few states put a tax on the fees collected by Internet providers. Some call such taxes heresy and a grievous blow against technology. But the most expensive forms of Internet access are provided to large businesses, and there is no reason to consider this cost of doing business to be more exempt from taxation than buying pencils or hiring a carpet cleaning company. Nevertheless, CPSR supports tax breaks for Internet access, because the progressive vision is to eventually make such access universal.

Taxes on material provided over the Internet

Internet access is a territory with porous borders. If you signed up in the Boston area with The World (the first company to offer dial-up Internet access to the general public), twenty dollars per month in 1990 would get you an email account and twenty hours of access to a shell prompt from which you could telnet and FTP. Comparable Internet access today might include a VPN and Quality of Service options. But if the access fee includes your own personal Web page, domain name registration, and free music samples, should these all be tax-free? We recommend that Congress delineate what elements of Internet service deserve tax relief and what elements are regular commercial transactions that happen to use the Internet.

Taxes on phone services

Now that ADSL and cable modems are popular, many traditional telecom fees appear to be taxes on Internet access. But they come from a completely different regime. Most aren't taxes at all, but cogs in a payment system of dizzying complexity that balances price regulation, income transfers between different parts of the telephone system, and the universal service fund. Tinkering with them is a risky game of pick-up sticks that could upend the whole pile. We recommend that these issues be left to those currently dealing with them in the FCC, the state utility commissions, and elsewhere.

Sales taxes

As with Internet access, people forget that most Internet transactions are business-to-business. Both personal and business purchases over the Internet are expected to grow rapidly. So maintaining the status quo is actually a way to starve state and local governments, which are already in grievous financial shape. Furthermore, the status quo is an illegal one, because purchasers are supposed to pay a "use tax" in their home state equivalent to its sales tax.

There is nothing sacrosanct about the Internet when it comes to taxation. But there is nothing sacrosanct about current taxation structures either. Let the technological shake-up brought by the Internet foster deeper discussions about what services we want from governments and how we want these services funded. There should be an equitable and efficient way for states and local governments to collect the use taxes they deserve.