

The Internet provides numerous substantial benefits to society. It is an important tool for educational research for students. It saves consumers time and money when ordering products and services and paying bills and helps reduce pollution. New developments in medical technology will soon make it possible for homeowners with chronic illnesses to remain in their homes while their conditions can be remotely monitored 24/7, thanks to wireless wearable medical monitoring devices. Yet broadband access is still not available in some areas and to some consumers.

New or unfair taxes on the Internet, taxes on Internet access, and expanding Internet sales tax collection will all slow the Internet's growth as a tool for commerce. The result would be to restrict the Internet's benefit to consumers. It will also slow more investments that are badly needed to both expand broadband access to rural and underserved consumers and increase broadband speeds.

Congressional action is needed to protect consumers from new and unfair Internet taxes. As the Internet commerce grew, many state and local governments sought to tax Internet access services and impose other taxes that discriminated against Internet commerce. This is duplicative taxation, since the primary means of Internet access at the time was via telephone wires, and telephone service was already taxed at many levels. Public opinion polls are strongly opposed to Internet taxation, and as a result Congress passed the Internet Tax Freedom Act (ITFA), which bars discriminatory taxes on e-commerce and Internet access. Today homeowners and other consumers don't have to pay a tax on their Internet access, and states can't discriminate against Internet commerce through higher tax rates. ITFA should be permanently extended, and existing grandfathered Internet access or other unfair taxes should be eliminated as well.

State and local governments have also sought federal legislation mandating that all Internet sellers collect all state and local sales taxes on all Internet sales and remit them to the thousands of state and local government taxing authorities in all 50 states. However, the existing U.S. Supreme Court Quill decision currently prohibits state and local governments in one jurisdiction from requiring sellers located in other states to provide sales taxes collection services for state and local governments outside of their home states. This is why many catalogue companies and Internet sellers don't have to collect sales taxes from most of their customers. The federal legislation would overturn the Supreme Court decision. If it passes consumers who have their yard sales on eBay and craigslist may have to provide sales tax collection services for the many thousands of state and local governments in the other 49 states. This would be quite a chore for them. It would also be unfair because non-Internet businesses, such as mail-order catalogue companies and magazine publishers, are not required to collect sales taxes for state governments outside of their home state.

The federal legislation repealing the Supreme Court decision would also include a requirement that state and local governments simplify and rationalize the many different state and local sales tax rates. Once that "Streamlined Sales Tax Initiative" achieved certain milestones, the Supreme Court's Quill decision would be voided and other states would be free to require you to collect their sales taxes for them. The goal of simplifying and standardizing the many different state and local sales tax rates is a very good idea in its own right, as long as total sales tax collections remain the same or are reduced. However federal legislation isn't required for state and local governments to work together to achieve that goal. The simplification is not a sufficient justification for overruling the Supreme Court decision and allowing a massive expansion of Internet sales tax collection.

Moreover the need for more state and local government tax revenues is questionable. State and local government revenues and spending have already grown substantially in recent years in part thanks to rapid growth in real estate taxes fed by double digit home appreciation during the first half of this decade. During that period real estate taxes went up at more than twice the rate of U.S. wages. Clearly state and local governments have been extracting more taxes at far faster than the rate of inflation from American homeowners in recent years, and it is doubtful whether new state and local tax collections that the public generally opposes are justified at this time.

This was prepared by the American Homeowners Grassroots Alliance, a consumer advocacy organization serving the nation's 75 million homeowners. For more information go to www.AmericanHomeowners.org, or contact Bruce Hahn at BHahn@AmericanHomeowners.org.