

Keep Internet Tax Issues Separate

By Sen. George Allen

In the fall of 2001, the Senate extended by two years a moratorium on Internet-access taxes — monthly fees imposed in addition to your Internet service provider bill. At the same time, we extended a moratorium on taxes that discriminate against the Internet as a form of commerce.

However, what should have been an uncontroversial moratorium was temporarily held hostage because some wanted to chainlink it to much more controversial and complex issues regarding how to collect and remit taxes on purchases made on the Internet.

Few people openly admit they are in favor of taxes on Internet access,

which are regressive and hit people with lower incomes the hardest, further widening the “digital divide.” But those who favor broadening the reach of tax collectors on the Inter-

a phrase for this: “taxation without representation.”

In the world of brick-and-mortar commerce, this would be like forcing a gift store in Leesburg, Va., to identify customers from nearby West Virginia or Maryland, for example, and then compelling that store to collect taxes on that sale and send the revenue to West Virginia or Maryland.

Now imagine forcing businesses to collect sales and use taxes for the 7,600 separate taxing jurisdictions nationwide, with their unique, disparate individual laws and tax codes. It would take an army of accountants to comply with such an absurd burden. This burden of making collection and remittance of sales and use taxes more simple should be on the government, not on people and enterprises.

Such barriers to interstate commerce helped bring about the U.S. Constitution. Before then, it was common for states to tax the commerce of other states. This was clearly a major burden on commerce among the states, and it was prohibited under the Constitution, even though Congress can make laws in this area. It was envisioned then that the United States would be one large free-trade zone within our national borders.

As the two-year moratorium expires this November, the debate over the taxation of Internet sales will clearly resurface during the discussion of a permanent — and unrelated — moratorium on Internet-access taxes. Many tax-hungry states and localities will no doubt try to grab Internet taxes, rather than making tough choices regarding their own budgets and tax policies. Some politicians would take the “easy way” out by taxing enterprises and people outside their jurisdictions — people who cannot,



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and never will be able to, vote them out of office.

It is my hope that Congress will choose once again to address the two issues of Internet-access taxes and the taxation of e-commerce separately, and for the most part, the “tollbooths” will remain idle and unmanned except for in the states that imposed the taxes before the moratorium was adopted six years ago.

For now, with injunction of new taxes on the Internet, the viability of e-commerce, and the individual empowering benefits of the Internet, will live to see another day until this fall, when the battle will flare again.

Sen. George Allen (R-Va.) is a member of the Commerce, Science and Transportation and the Small Business and Entrepreneurship committees.

How should Congress approach the expiring moratoriums on Internet access and e-commerce taxes?

E-commerce taxes would be like forcing a store in Virginia to identify customers from West Virginia or Maryland and then compelling the store to collect taxes on those sales and send them to those states.

net incorrectly portray the Internet as a “tax-free zone.”

Nothing prevents states from requiring companies to collect sales and use taxes on Internet commerce. However, there are a number of Supreme Court rulings that govern such interstate commerce, originally based on catalog sales and sales over the telephone.

The Supreme Court has said states or localities may compel businesses within their jurisdictions, or which have a “substantial physical presence” in their boundaries, to collect sales and use taxes. This makes sense because those businesses benefit from the services those governments provide, such as police or fire protection, schools and other public infrastructure.

Some Members of Congress and many governors want a federal law that would let state and local governments force businesses outside their jurisdictional borders to collect and remit sales and use taxes on Internet commerce in up to 7,600 jurisdictions!

These businesses receive no benefit of government services, and their employees would not be allowed to vote in elections for the government officials who enact these taxes, but they would be compelled to collect and remit sales and use taxes to those governments anyway.

Virginia’s first governor, Patrick Henry, had



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