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A Bad Idea Whose Time Has Come

If you think the concept of state and local governments taxing your Internet access is preposterous – think again. For years, revenue-hungry governments have been itching for the opportunity to tax new technologies, and now they might actually have their chance. If no Congressional action is taken by this fall, state and local governments will be allowed to tax Internet access. If the current ban on Internet taxes is allowed to expire, it could increase Internet connection costs for the average user by \$85 or more per year.

In 1998, the United States Congress, in a move to protect the further development of the Internet-based marketplace, instituted a three-year moratorium on Internet taxation. This moratorium was renewed in 2001, and again in 2003. Today, if no congressional action is taken, the current moratorium is set to expire November 1, 2007.

If state and local governments are allowed to tax Internet access, individual and business consumers will unquestionably shoulder the burden. According to the National Association of Manufacturers, if the Internet Tax Moratorium is allowed to expire, it would give over 7,000 taxing jurisdictions the ability to tax Internet access for America's business community. This would further increase the cost of doing business in the United States and would harm the tremendous growth in productivity that the creation of the Internet has provided over the past decade.

Allowing state and local jurisdictions to tax Internet access will put U.S. firms at a disadvantage in their competition with foreign firms. Today, companies based in the U.S. already face the second-highest combined state and federal statutory corporate tax rate in the [Organization for Economic Co-operation and Development \(OECD\)](#) — higher than the corporate tax rates in even France and Sweden. Subjecting our domestic firms to an additional layer of taxation can only make America less competitive.

Of course, many state and local government officials will fight vigorously for the additional tax revenue that taxing Internet access would provide. However, increasing government revenue has never been the central aim of good tax policy.

Now more than ever, the electronic commerce industry needs to be left free from excessive government interference. Our nation's explosive economic growth in the past decade was spurred largely by increases in productivity. The main factor in this productivity growth was the uninhibited development of the Internet and related electronic commerce. This growth was further aided when Congress passed the moratorium on Internet access taxes.

The old economics axiom is true – when you tax something, you generally get less of it. Taxing the very technology that has fueled much of our economy's productivity growth doesn't sound like an economic or a political winner. The Internet is one of the last frontiers the tax man has been unable to conquer. Let's hope our representatives in Washington keep it that way.

As they say, "once the camel gets its nose in the tent, it is not easily removed."

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