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State Tax Policy

The Internet Alliance urges states to examine carefully and cautiously all proposals to tax the Internet and online commerce. The Internet Alliance opposes the imposition of a state tax on Internet access and is pleased the Congress has extended its moratorium for an additional two years. The Internet Alliance believes state sales and use taxes affecting purchases made online must be uniform, fair, certain and administratively simple.

Internet tax issues are complex and the solutions not readily apparent. Consumers will benefit most from a vibrant, competitive Internet marketplace. Access taxes threaten that market. They are unnecessary, will inhibit the growth of e-commerce and drive up access costs at a time when there is a real need to make the Internet affordable, especially for low-income families.

Taxing online commerce is problematic. Taxes on remote sales are collected according to the so-called “nexus standard” created by the U.S. Supreme Court in a North Dakota catalogue sales case. The “nexus standard” allow states to require out-of-state merchants to collect taxes in the state the product was purchased if the merchant has a physical presence in the state. Online sales can be more difficult to identify and police. Products like software are purchased and shipped electronically. The product may exist online in a site maintained in one state, the billing may be housed in another and the home office in yet another. This makes it difficult to identify the state in which the product was purchased.

The Internet Alliance recognizes that states are working together and through their national associations to find common answers to these problems. The Internet Alliance applauds these efforts and participates actively in these discussions.

The Internet Alliance believes state efforts to tax Internet-based purchases should not interfere with a merchant’s need to reach the nationwide marketplace. There should not be any unnecessary barriers to trade across state borders. Online commerce empowers consumers by offering them a wider selection of products and merchants. To keep Internet trade barrier free across state lines lawmakers should:

- Adopt uniform definitions.
- Establish a single rate within each state for any applicable tax.
- Tax the purchaser based on the transaction amount.
- Submit the tax to the state in which the product was purchased.

The Internet Alliance and its members have extensive expertise on the issue of Internet taxation and look forward to working with lawmakers to find a mutually acceptable resolution to these tax issues.

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