

Ban on Taxing Internet Access Gains, Online Sales Tax Uncertain

Ron Cowles

A U.S. House of Representatives panel approved the Internet Tax Nondiscrimination Act by voice vote. Yet in doing so the panel postponed debate on the most far-reaching issue — an Internet sales tax — which may be inevitable and, if enacted, will significantly affect the future of e-commerce.

NEWS ANALYSIS

Event

On 2 August 2001, the House Judiciary Subcommittee on Commercial and Administrative Law voted to ban Internet access taxes permanently and to extend by five years the ban on new taxes on e-commerce (due to expire in October 2001). The panel also voted against an amendment that would have supported states' interests in collecting Internet sales taxes. Proponents of that amendment promise a new effort shortly. This bill awaits approval by the full House and the U.S. Senate.

Analysis

Banning taxes on Internet access is an easy fix. Outside of a 103-year-old tax on all interstate phone calls — including calls made to an Internet service provider (ISP) — no laws tax access to the Internet. More difficult is determining whether the federal government should continue the ban on taxes on e-commerce. E-commerce via the Internet remains a new frontier in tax policy, with ongoing debates about whether and what to tax. (For example, the House panel's action calls for continuation of the ban on "multiple and discriminatory" taxes on e-commerce, without defining what such taxes might be.)

The hot action concerning Internet taxation will ignite if and when Congress takes up a proposal to tax online purchases. States with sales taxes complain that they lose out on revenue justly theirs when residents and enterprises buy CDs, books or business services over the Web and have them delivered or provided to their homes and offices. On the opposite side of the debate, enterprises active in business-to-business and business-to-consumer markets argue that such taxes will stifle — or even kill — e-commerce. Gartner predicts that the full House will take the easy road and pass legislation that bans taxing of Internet access and extends the moratorium. The Senate will probably follow suit, and the measure will become law, likely as part of a spending bill (0.8 probability). However, by 2003, the moratorium will end, with states lobbying for sales tax relief as they lose more sales tax revenue to online sales (0.7 probability).

Gartner believes that a revenue tax on e-commerce is inevitable, although the kind of tax and how it applies remain unclear. Therefore, enterprises should remain vigilant to all Internet tax proposals and should share with their representatives in Congress their views and supporting documentation on the potential impact of such taxes. Legislators rely on information from proponents and opponents of issues to help them fashion well-reasoned public policy. Enterprises will serve their best interests by ensuring that Congress weighs their concerns before enacting any Internet sales tax.

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