

Taxing the Golden Goose: The Case for a Tariff-Free Environment

With a booming and apparently inflation-proof economy supported by the cradle of the World Wide Web, why would any sane person want to change a regulatory status quo that has, at the very least, harmed no one?

by Lane F. Cooper

It's a conundrum. With an estimated \$8 billion having rung in over the Web during the 1999 holiday season, according to researchers from New York-based Harris Interactive, Washington is jealously eyeing a stream of revenue that remains pretty much untapped by federal, state or local tax authorities.



Similarly, brick and mortar operations – which must belly up to the tax bar and who perceive a digital assault on their own bottom lines from e-tailers – are beginning to cry foul. As a result, an odd coalition of public and private interests are lobbying the powers that be for an electronic commerce taxation paradigm in the interest of simple fair play. The Internet industry, they argue, has matured past infancy and is now in a position to shoulder its fair share of the sales tax burden.

On the other side of the fence are the infopreneurs and marketplace visionaries who – equally simply – respond: are you nuts? With a booming and apparently inflation-proof economy supported by the cradle of the World Wide Web, why would any sane person want to change a regulatory status quo that has, at the very least, harmed no one?

Indeed, it would be difficult to deny that the Internet economy has not been a boon to Americans from all walks of life. But that should not be the basis for the argument against taxing the primary engine of economic growth and wealth creation as we further immerse ourselves in the Information Age.

The fairness issue

Brick and mortar retailers collect taxes from customers at a single rate, prepare and file a single tax return and file tax returns at one place. Taxation of e-tailers and other Internet businesses would require that the vendor stay on top of all relevant taxing jurisdictions, calculate how much to charge, file forms and remit payments to hundreds or even thousands of different taxing authorities.

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It would be difficult to figure out a fair way to apply existing sales tax laws and regulations to an industry that has its virtual doors open literally everywhere, and whose physical location has little or no bearing on its revenue stream. The prospect of requiring collection and payment of taxes for multiple jurisdictions

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introduces a level of operational complexity that completely changes the dynamics of the Internet marketplace. It would raise barriers to entry that could mark the end of the now revered rags-to-riches Internet entrepreneur.

Still, the issue is far from clear-cut, and so is the fate of its ultimate disposition.

Developing debate


Even within a vehemently anti-tax Republican party, disagreement over this issue runs rampant. A fairly interesting debate is shaping up between two camps within the party that pits Mike Leavitt, governor of Utah and current chairman of the National Governors' Association, against Virginia's governor, Jim Gilmore, who chairs the Advisory Commission on Electronic Commerce impaneled by Congress.

In a speech at the National Press Club in November, Leavitt presented a tax agenda that would phase in a

voluntary and simplified eCommerce tax system in which vendors would use a "trusted third party" software program to calculate and distribute sales tax dollars based on the location of the purchaser.

But that is much easier said than done, retorts Gilmore, who presented an even more simple solution: permanently abolish Internet sales taxes. The reason, says a Gilmore spokesman: Doing so will reduce the digital divide by cutting taxes on American customers' access to the Internet in the amount of more than \$3.3 billion a year.

Stay tuned...

With the lines of battle thus drawn, the matter goes before Congress, which has set a deadline of April 2000 to draft a tax policy for the Internet. 

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