



The Federal Government Must Not Compromise States' Autonomy in Order to Promote the Internet

Opponents of Internet sales tax have been active and effective in framing the issue as "taxing the Internet." On the contrary, the e-Fairness Coalition and those it represents are firmly opposed to any direct taxation of the Internet in the form of access taxes or infrastructure taxes. We only seek a change in the collection responsibility for an existing tax that is already owed.

"The most important reason for us to oppose [the Advisory Commission on Electronic Commerce's] proposal is that it would substantially interfere with state sovereignty. The U.S. Constitution was very clear in both ensuring state sovereignty and creating a critical balance between federal and state authority. For well over 200 years, the federal government has respected state sovereignty and has been extremely careful not to interfere with the states' ability to independently raise revenues. This proposal would dramatically undercut this precedent."

—Letter from the National Governors' Association to House and Senate leadership in Congress, April 12, 2000

Currently, the responsibility for sales and use taxes on remote purchases lies with the consumer, who is supposed to pay the tax directly to the state. However, compliance with this requirement is less than one percent, which means most Internet sales are basically tax-free. With the exponential expansion of Internet commerce that is anticipated over the next several years, it is imperative that the burden of collecting the

tax be shifted away from consumers. A February 2000 study by the University of Tennessee estimates that, **by the year 2003, state and local governments stand to lose more than \$20 billion in revenue each year if businesses are not required to collect sales and use taxes that are owed on electronic purchases.**

"I do not believe the Internet should be taxed. No bit taxes, no bandwidth taxes, no access taxes....But that is not the issue here. The issue is whether the states will determine their own tax policy and whether business will have a level playing field. This is about whether local government will be allowed to function independently of national government."

—Utah Governor Michael O. Leavitt, "Governors Criticize Internet Tax Panel," *The New York Times*, April 12, 2000

Establishing the Internet as a place where some businesses and consumers can avoid existing taxes will disrupt the economy. Moreover, it will shift power away from the individual states to Washington, impeding the states' ability to establish revenue generation mechanisms that will best enable them to respond to the needs and circumstances of all their residents. Democratic, Independent, and Republican governors alike have joined forces to prevent any permanent tax exemption for Internet retailers because they recognize this issue as the most significant challenge to the states' authority that they have faced in this century.

Extending the existing moratorium without including language that specifically enables the states to require collection of sales and use taxes by all retailers, whether online or brick-and-mortar, will mean at least five more years of tax-free sales for Internet retailers. It will also mean a strong likelihood that Internet sales will be given permanent preferential treatment.

“Democrats and Republicans, liberals and conservatives can carry on an honorable fight over how much tax Americans should pay. But there is not principled reason that Congress, under the guise of promoting electronic commerce, should undermine the ability of state and local governments to collect taxes. If people want to shop online, they will do so without any artificial boost from Congress.”

—“Taxing Electronic Commerce,”
The New York Times, December 19, 1999

Some opponents of Internet sales tax claim that the current tax system would place too heavy a burden on e-tailers because they would have to navigate the varying requirements of thousands of different tax jurisdictions. However, technological solutions exist that will enable them to do so smoothly and efficiently. Moreover, many states already support a simplification of the state sales tax system for remote transactions in order to meet Internet businesses and other remote retailers halfway. **There is no justifiable reason for Congress to usurp the states’ authority in this instance.**

The Bottom Line: What the States Really Stand to Lose

Projected Annual Revenue Losses for States

The following are projections of how much money states will lose per year by 2003 if businesses are not required to collect the sales and use taxes that are owed by purchasers on electronic commerce.

Alabama	.....	\$269,700,000
Arkansas	.....	\$188,600,000
Arizona	.....	\$341,400,000
California	.....	\$2,290,800,000
Colorado	.....	\$290,800,000
Connecticut	.....	\$288,000,000
Florida	.....	\$1,403,000,000
Georgia	.....	\$620,700,000
Hawaii	.....	\$158,600,000
Iowa	.....	\$162,700,000
Idaho	.....	\$67,100,000
Illinois	.....	\$844,800,000
Indiana	.....	\$324,600,000
Kansas	.....	\$189,500,000
Kentucky	.....	\$238,600,000
Louisiana	.....	\$453,900,000
Massachusetts	.....	\$303,600,000
Maryland	.....	\$294,100,000
Maine	.....	\$78,500,000
Michigan	.....	\$757,500,000
Minnesota	.....	\$408,600,000
Missouri	.....	\$395,000,000
Mississippi	.....	\$206,100,000
North Carolina	.....	\$444,900,000
North Dakota	.....	\$38,600,000
Nebraska	.....	\$105,600,000
New Jersey	.....	\$510,700,000
New Mexico	.....	\$191,100,000
Nevada	.....	\$191,100,000
New York	.....	\$1,581,300,000
Ohio	.....	\$671,400,000
Oklahoma	.....	\$298,300,000
Pennsylvania	.....	\$666,800,000
Rhode Island	.....	\$55,500,000
South Carolina	.....	\$231,400,000
South Dakota	.....	\$57,700,000
Tennessee	.....	\$545,600,000
Texas	.....	\$1,735,900,000
Utah	.....	\$158,200,000
Virginia	.....	\$363,800,000
Vermont	.....	\$31,800,000
Washington	.....	\$646,200,000
Wisconsin	.....	\$320,100,000
West Virginia	.....	\$104,700,000
Wyoming	.....	\$38,500,000

Total **\$20,109,900,000**

Source: The above chart is taken from the study, “E-Commerce in the Context of Declining State Sales Tax Bases” by Donald Bruce, Assistant Professor, and William F. Fox, Director, Center for Business and Economic Research, the University of Tennessee, Knoxville, Tennessee, February 2000