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Congress Considers Web Tax Moratorium

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By W. David Gardner, TechWeb News

The campaign by national legislators to stop a permanent ban on Internet-access taxes has picked up some important support since the issue was last debated in Congress in December.

Senator Lamar Alexander, R-Tenn.--a former governor who says states need the tax revenue--has been joined by Senator Dianne Feinstein, D-Calif., Tom Carper, D-Del., and Kay Bailey Hutchinson, R-Texas.

They are supporting a two-year extension of the ban. The idea behind this is to give Congress the time to sort out the complex issues concerning taxation and the Web before fixing on permanent legislation.

At the same time, members of Congress and their staffs this week got an education in tax technology from Vertex Inc., a provider of tax-technology solutions. The fact that several hundred from Capitol Hill signed up for the demonstration indicated the lack of knowledge on the complicated tax issues. In a statement, Vertex said: "Vertex representatives (guided) attendees through the use of tax information databases from the perspective of retail merchants who must calculate and remit sales tax in compliance with state and local tax laws, as well as tax agencies that receive the data and process the returns."

A two-year moratorium on the tax ban would give Congress and the Federal Communications Commission (FCC) time to sort out the issues. The earlier moratorium expired in November; some members of Congress are seeking to make it permanent, while others want it taken off the books entirely.

The FCC has been getting involved in the issue because of the move towards VoIP. If VoIP is finally ruled to be an Internet service--preliminary federal court decisions support this stance--then it is unlikely to be taxed, taking away substantial tax revenues from the states and local governments, which currently tax POTS (plain old telephone service).

Lobbyists for state and local agencies opposing a permanent ban on taxation have signaled their support for a two-year extension on the ban, but they are adamantly opposed to a permanent ban. In supporting the two-year extension, the National League of Cities in a statement said the extension would provide "Congress, the FCC, state and local governments, and participants in the marketplace, time to identify and define new technologies and address how they should be treated with regard to current taxation laws."

On the other side of the argument is a group of Senators and Congressmen committed to keeping the Internet permanently tax-free. "The Internet has flourished," said Senator John Ensign, R-Nevada, in a statement, "largely because government has stayed out of the way and allowed private enterprise to drive it economically. It should not be looked upon as a new crop to be harvested by governments looking for additional tax revenue."

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