



Internet Tax Moratorium Matters

Tom Schatz September, 30 2014

On September 16, 2014, Urban Institute Fellow Howard Gleckman wrote how Congress “cried wolf” over the expiration of the Internet Tax Freedom Act (ITFA). He couldn’t be more wrong.

Gleckman starts by quixotically arguing that states—even if they had the authority—would not want to tax Internet access. With record budget deficits in many states, it’s naïve to think they would eschew a potential new revenue source. According to the Center on Budget and Policy Priorities, taxing Internet access could net states up to \$7 billion annually. With budgets to balance, that is a lot of funding to leave on the table.

Further, despite what Gleckman claims about Washington, the state has issued guidance calling for Internet service providers (ISPs) to collect taxes on purchases of Internet access in the event ITFA expires. Companies have requested guidance from other states with similar statutes on the books asking whether taxes should be collected if Congress fails to extend the Internet tax moratorium. If given the opportunity, it is unlikely Washington will be the only state to advise ISPs to collect taxes when consumers purchase Internet access.

Gleckman then argues the Internet is no longer the “budding flower” that needs respite from state and local taxes to grow. This is short-sighted. As Hector Barreto, Chairman of the Latino Coalition, wrote in an August 18, 2014 op-ed on Fox News: “it is not the Internet that needs support but the communities that have the most to gain from its adoption.”

The Pew Charitable Trust estimates that African American families are ten percent less likely and Hispanic families twenty percent less likely to have broadband at home than non-Hispanic white families. To help improve Internet access for those families, 15 minority organizations—including the Latino Coalition—wrote to Senate leadership on September 17, 2014, urging action on ITFA before it’s too late. The letter reads in part: “new taxes on Internet access would be a step backwards for millions of Americans who have not yet connected or can ill-afford new taxes across all their Internet enabled devices.”

Ironically, given the Urban Institute’s support of pro-urban policies, Gleckman ignores the impact of these taxes on such families by saying, “it is hard to imagine very many people being forced off-line if their monthly access bill is increased by, say 5 percent.” First, taxes on Internet access would likely be assessed in most states at a much higher rate – the wireless tax rate averages between 12-17 percent. But, even at a 5 percent tax rate, the Phoenix Center estimates this would undo the last four years of Internet adoption gains. A 10 percent tax rate would lose six years’ worth of adoption gains and millions of taxpayers’ dollars spent getting Americans online.

While Gleckman may be able to pay an additional 5 percent every month for his Internet access, not all American families will. Data released September 18th from the U.S. Census Bureau put the poverty rate at 14.5 percent, down only marginally from 15 percent last year. Many more American families live on the brink, with just one paycheck, sick child, or accident away from poverty. For them, an additional 5 percent may mean the difference between having essential Internet access and cutting the cord.

Finally, Gleckman questions why conservative organizations such as the Council for Citizens Against Government Waste (CCAGW) would want to preempt state law with a federal solution. As the organization has written before, CCAGW believes the Internet should not become a cash cow for government officials. The Internet has become a vital part of the global economy and keeping its use tax-free is essential for economic growth. As the world becomes more digitally-focused, enacting a permanent ban on Internet access taxes will provide much-needed consumer and business confidence.

Instead of the “digital straw man” Gleckman makes the Internet Tax Freedom Act out to be, it is a crucial piece of legislation with bipartisan support in both chambers of Congress. With the chance to help all Americans continue to get online and grow the economy, CCAGW, among many pro-taxpayer groups, believes it is just the sort of thing on which Congress should be spending its time.