



# COMMONWEALTH of VIRGINIA

*Office of the Governor*

James S. Gilmore, III  
Governor

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To The Congress of the United States:

On behalf of the Advisory Commission on Electronic Commerce, I am pleased to transmit to Congress the Commission's final Report reflecting the results of nearly one year of thorough study of federal, state, local and international tax and tariff treatment of electronic commerce. This Report fulfills the Commission's statutory mandate to report the results of its study no later than April 21, 2000.

Let me take this opportunity to recognize the extraordinary efforts of eighteen Commissioners who devoted their time and creative ideas to the most important public policy debate of the 21<sup>st</sup> Century. I am proud to have served with such a distinguished panel of leaders from the public and private sectors and I commend their dedication to public service and the best interests of the American people. The Congress and the people were well served by these leaders.

These Commissioners have produced a Report that will guide public policy debate on Internet taxation for at least the next decade. I believe the ideas regarding tax cuts and tax reform reflected in this Report will permit the people of the United States to realize all of the social and economic benefits the Internet has to offer.

The Congress can rely upon the ideas these Commissioners have produced to benefit individual citizens, entrepreneurs and businesses across America and to propel the national economy for many years to come. Among the ideas submitted in this Report, you will find the following tax cuts and tax reforms:

- Eliminate the three-percent Federal Excise Tax on telecommunications services, an antiquated relic from the 19<sup>th</sup> century, effecting an immediate tax cut of \$5 billion for the American people. Elimination of this regressive tax is an important first step in reducing the expense of Internet access, one of the contributing factors to the digital divide. While this tax once was justified as a luxury tax on the few Americans who owned a telephone, it has no rationale in the Information Economy.
- Extend the current moratorium on multiple and discriminatory taxation of electronic commerce for an additional five years through 2006.

- Prohibit taxation of digitized goods sold over the Internet. This proposal would protect consumer privacy on the Internet and prevent the slippery slope of taxing all services, entertainment and information in the U.S. economy (both on the Internet and on Main Streets across America). Moreover, this tax prohibition is essential to maintaining U.S. global competitiveness since the United States currently dominates the world market in digitized goods.
- Make permanent the current moratorium on Internet access taxes, including those access taxes grandfathered under the Internet Tax Freedom Act. This proposal is another crucial initiative, targeted to reduce the price of Internet access and to close the digital divide. By expanding the moratorium to eliminate the current grandfather provision, consumers across the country would participate in electronic commerce without onerous tax burdens.
- Establish “bright line” nexus standards for American businesses engaged in interstate commerce. The cyber economy has blurred the application of many nexus rules. American businesses need clear and uniform tax rules and definitions before being exposed to business activity and sales and use tax collection obligations. Failure to adapt “bright line” rules to the New Economy will expose many small and medium sized American businesses to expensive and crippling regulation and/or regulation.
- Place the burden on states to simplify their own labyrinthine telecommunications tax systems as well as sales and use tax systems to ease burdens on interstate commerce. This effort will be particularly important for small and medium-sized retailers with nexus in two or more states. It also will be important for telecommunications companies as they build out the Internet infrastructure and offer new technologies and services. Radical simplification will be necessary in the New Economy if small and medium-sized businesses are to succeed.
- Clarify state authority to spend TANF funds to provide needy families access to computers and the Internet, as well as the training they need to participate in the Internet economy. This is one strategy the Commission formally recommends to close the digital divide and make the personal computer and access to the Internet as ubiquitous as the telephone and television.
- Provide tax incentives and federal matching funds to states to encourage public-private partnerships to provide needy citizens access to computers and the Internet. This is yet another strategy the Commission formally recommends to close the digital divide.

- Respect and protect consumer privacy in crafting any laws pertaining to online commerce generally and in imposing any tax collection and administration burdens on the Internet specifically.
- Continue to press for a moratorium on any international tariffs on electronic transmissions over the Internet.

These are just some of the many ideas generated in a year of open debate and thorough study. Not all of the ideas reported in this Report obtained the two-thirds majority necessary to rise to the dignity of formal "findings" or "recommendations." Those that did are designated accordingly. All other policy proposals that received at least a majority endorsement are included for consideration by Congress. Consistent with direction from Congressional leadership, the Commission has provided Congress a bold and constructive foundation for legislative action that will have a tangible and positive impact on the lives of working men and women and their families.

It has been my high honor to serve the people of the United States as Chairman of the Advisory Commission on Electronic Commerce. I thank the Congress for entrusting me with this critical role in shaping ideas for the 21<sup>st</sup> Century. I thank my fellow Commissioners for their keen insights and creativity and, most of all, for their great sacrifices of time and effort in the service of our Country. Few chairmen can claim to have presided over a more distinguished assembly of public and private leaders. The Commissioners can be satisfied their labors have advanced the best interests of the people of the United States.

Very truly yours,



James S. Gilmore, III  
Governor of Virginia and Chairman,  
Advisory Commission on Electronic Commerce