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Statement of Robert W. Pittman

The Commission's report, supported by a majority of Commissioners, provides clear and specific guidance to Congress on the taxation of electronic commerce and related issues. I believe the report can help shape the congressional debate and lead to the development of tax policies that enable, not dampen, the Internet's growth while delivering significant tax savings for consumers.

The crux of the report being submitted to Congress focuses on Internet tax reform. In initially crafting the majority's proposals contained in the report, the business members consulted with every Member of the Commission and drew from the testimony and analysis offered by academics, tax experts, state and local officials, business leaders, consumer advocates and others. Since businesses are only collectors of—and not stakeholders in—the taxes imposed on our consumers, we wore two hats: as advocates for our consumers to ensure that any solutions are fair and affordable, and also, as representatives of business, to ensure that any tax collection solutions—particularly those inaccurately claimed to be costless and readily available—do not impose cost or service burdens on our customers or require a diversion of valuable resources away from the development of technology critical to the growth of electronic commerce. This proposal is a realistic and balanced plan that would reduce taxes on consumers, simplify state sales and use tax systems, protect privacy and help close the Digital Divide.

Specifically, our plan includes: a pathway to meaningful simplification of the sales and use tax system via the drafting of a uniform sales and use tax act; a permanent ban on all taxes on Internet access; a 5-year extension of the moratorium on multiple and discriminatory taxes on e-commerce, including a moratorium on taxing digitized goods; clarification of nexus until simplification is achieved; repeal of the 3% federal excise tax on communications services; elimination of excess and discriminatory taxes on telecommunications; and proposals to foster international consensus regarding taxation of electronic commerce.

Some of the issues that the Commission analyzed, in particular the issue of taxation of remote sales, have been studied for years. That body of work informed our discussions and helped to fine-tune our recommendations. We also focused on issues that have only recently emerged—the evolution of e-commerce and its impact on the economy and on state and local revenues. On these issues, we confronted a scarcity of data. We still don't know a lot about the likely impact of e-commerce on consumer buying habits or state and local revenues.

There was broad agreement among Commissioners that the telecommunications tax regime is badly in need of reform to bring it into this new competitive age, where voice, video and data enter the home over cable, copper, satellite and wireless. Designed for a

monopoly era, telecommunications taxes simply have not kept up with fundamental changes in the telecommunications landscape.

While there was some Commission disagreement, particularly on the nexus issue and the timing of taxation of remote sales, that lack of consensus on those details should not obscure the broad agreement among virtually all Commissioners on issues ranging from barring Internet access taxes to protecting consumers' privacy. For example, there was a consensus on the need to:

- * Extend the current moratorium on multiple and discriminatory taxation of electronic commerce—to learn more about e-commerce and the impact of remote sales on state and local tax revenues and give the states time to simplify existing sales and use tax rules.

- * Keep the costs of Internet access as low as possible for low and middle-income families by eliminating taxes on Internet access and repealing the 3% federal excise tax on communications services.

- * Extend permanently the current moratorium on tariffs and duties on electronic transmissions.

- * Simplify our sales and use tax system first, with states leading this reform process, before tax collection of remote sales is permitted.

- * Reduce the tax burden on consumers.

Once states achieve meaningful simplification—which equalizes the tax collection burdens on local and remote sellers—states should then be permitted to collect sales and use taxes on remote sales. As a result, there would be no distinction based on whether the purchase is made online, through a catalogue or telephone operation, or in a store—purchases and businesses would all be treated the same. But, and this was a point of contention among some Commissioners, the majority's proposal insists that independent verification of the achievement of clear simplification objectives occur before revisiting the U.S. Supreme Court's Quill decision.

Another issue that separated Commissioners was treatment of digitized goods. Because of the difficulty associated with taxing digitized products without jeopardizing the privacy of consumers, digitized products and their offline equivalents are exempted from taxation for five years in the report. In proposing a temporary ban on digitized products, the Business Caucus was paying particular attention to privacy concerns expressed by Commission members. The residence or location of the buyer of digitized goods is typically not known. As a result, collection of a state's taxes on such goods would require gathering personal information solely for tax collection purposes. A moratorium provides time to identify whether a simple and neutral system, protective of taxpayer and consumer privacy concerns, can be identified.

Once digitized products are exempted to protect privacy, to then ensure that Main Street buyers—particularly lower and middle income consumers—are treated equitably, our proposal temporarily bars taxation on the offline counterparts to these digitized products. State and local leaders have raised legitimate concerns about the revenue loss resulting

from not taxing counterparts to digitized products, and I would encourage Congress to listen closely to those concerns.

The Internet is creating unprecedented gains in productivity, strengthening the economy and delivering significant benefits to consumers. We are at a unique and exciting moment in history. Before e-commerce starts to have a significant impact on revenues, there is an opportunity to deliver real tax reform and dramatic simplification that addresses the challenges and embraces the opportunities of the Digital era.