Politicians: Keep Your Hands Off Our Net

By John Berthoud

As the leading component of the Information Age, the Internet has aroused the curiosity and participation of great numbers of Americans—from schoolchildren to seniors. Unfortunately, it has also aroused the unwelcome attention of politicians who have special interests to feed.

While the Internet has arrived as an information source, its impact on the American economy is only just beginning to be felt. Great numbers of businesses are starting to flock to the Net. Within five years, the U.S. Commerce Department projects that the Internet and related purchases could generate $70 billion in economic activity. Other estimates place it even higher.

As a result, some state and local legislators have begun to eye the Internet and are considering a variety of new taxes. More than a dozen states have enacted some type of tax on commerce transacted over the Internet. Some of these taxes are particularly appealing because they can be relatively hidden from consumers always a bonus for politicians. All kinds of adverse prospects present themselves, including the possibility that consumers could get taxed twice or more for a single transaction. Any new taxes on the Internet would damage this vital young industry and harm the national interest.

But a few Members of Congress have stood up to fight against these taxes. They want to stop poor government tax policy towards the Internet which would, in the words of Senator John McCain (R-AZ), "choke this baby in its cradle."

Representative Chris Cox (R-CA) and Senator Ron Wyden (D-OR) have proposed *The Internet Tax Freedom Act*, which creates a moratorium until 2004 on any new state and local taxes that specifically target the Internet or electronic commerce. It would also eliminate some existing state and local taxes. In the interim, the Administration and Congress would study the complex issues involved and figure out the best way to structure taxes. The legislation has been approved by the Senate Commerce Committee by a 14-5 vote and awaits action by the full Senate and House in 1998.

A basic principle of sound tax policy is neutrality—treat everybody equally and fairly. This bill seeks to uphold that principle. State and local governments could levy sales taxes on Internet transactions if the taxes apply equally to mail or phone orders. And this is a critical point that opponents miss—they charge that the law will disadvantage traditional business on Main Street. Not at all. Rather, the law provides a fair shake for all businesses, whether they're located on Main Street or Cyber Street.

The bill will allow for the crafting of tax legislation that provides for consistent rules across borders so companies won't be subject to hundreds or even thousands of different tax filing requirements. In essence, the legislation fulfills the objectives set by President Clinton's Internet task force, which concluded that the goal of government policy should be "a predictable, consistent, legal environment for trade and commerce to flourish on fair and understandable terms."

The bill also pushes the Administration to make sure other nations keep the Internet free from targeted taxes. In a further step towards free trade, it prohibits federal or state price regulation of Internet and computer services.

Although the authority has been abused in past cases, the federal government's Constitutional prerogative to regulate interstate commerce is completely appropriate in this case. The Internet is too valuable to the future of our nation to allow it to be damaged by predatory politicians.

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