PRESS RELEASE

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Congress Considering Extending Harmful Ban on State Taxation of Internet Access Charges

The House is expected to vote next week on a bill that would cost states as much as $7 billion in potential annual revenue by permanently extending a moratorium on new state and local sales taxes on monthly Internet access fees and banning existing taxes, a new Center on Budget and Policy Priorities report explains. The seven states that have these taxes (Hawaii, New Mexico, North Dakota, Ohio, South Dakota, Texas, and Wisconsin) would lose roughly $500 million in annual revenue, and the remaining states would lose $6.5 billion in potential revenue.

"For the first time ever, Congress is seriously considering a permanent ban on taxing Internet service, including for those states already using these taxes to invest in vital services that people rely on each day," said Michael Mazerov, Senior Fellow at the Center and author of the report. "This would mean less money for schools, health care, roads, and other investments that boost the economy and help improve the quality of life for millions of people. It also would mean potential tax increases to offset the lost revenue in the states now collecting this tax."

"Rather than banning this tax, Congress should do just the opposite," Mazerov said. "It's time to let states decide whether they and their local governments want to tax Internet access service, just as they tax other communication and entertainment services like telephone service and cable TV. This would help boost revenue for critical investments in people and communities."

The 1998 Internet Tax Freedom Act (ITFA) imposed a moratorium on new state and local taxes on monthly Internet access fees while allowing the seven states collecting this tax to continue doing so. Congress renewed ITFA temporarily, and it's now due to expire on November 1.

The House Judiciary Committee has approved an ITFA renewal bill that would extend the moratorium permanently and revoke the seven states' right to continue taxing Internet access charges.

Permanent Ban Would Prove Increasingly Costly for States

If they lose some $500 million in annual tax revenue under the bill, the seven states that allow Internet service taxes and their local governments would have to reduce services or raise other taxes to keep their budgets balanced.

The remaining states would continue to lose as much as $6.5 billion in potential revenue each year from their inability to tax Internet access charges. The forgone revenue would likely grow substantially over time as more people sign up for home and/or mobile Internet access and current subscribers trade up to faster, more expensive, monthly service.

Ban Wouldn't Do Much to Get More People Online

A permanent ban wouldn't encourage many more households to get online, an argument that ITFA proponents often use. Studies find no evidence that existing taxes on Internet access services in the seven states have significantly discouraged people from subscribing to Internet service at home.

In fact, a permanent ITFA would likely *impede* the goal of getting more people online — especially low-income people who don't have Internet at home. That's because many people get their first direct exposure to the Internet in public schools, libraries, and community centers, all of which rely on state and local tax revenue.

The CBPP report, "Congress Should End — Not Extend — the Ban on State and Local Taxation of Internet Access Subscriptions," is available at http://www.cbpp.org/cms/index.cfm?fa=view&id=4161.

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