Clash over Internet access tax heats up

Local governments face off with telecom and tech firms as ban on levies nears expiration.

By Jim Puzzanghera, Los Angeles Times Staff Writer
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WASHINGTON -- A monthly phone bill of $50 now includes as much as $10 in taxes. And some in Congress warn that consumers soon could be hit with similar assessments for high-speed Internet access.

For nearly a decade, the lines carrying the Internet into homes and businesses have been a virtual tax-free zone. But that could change Nov. 1 when a federal ban on Internet access taxes expires.

Almost everybody agrees that the politically popular moratorium should be extended to encourage continued investment in the high-speed lines crucial to making new online activities possible, particularly video. But changing Internet usage has complicated the issue, threatening to derail an extension and raising the specter of local officials engaging in a land-rush-like race to enact new taxes for surfing the Web.

"If Americans want to know what their Internet access bill will look like if this moratorium expires, all they need to do is look at their phone bill," said Sen. John McCain (R-Ariz.), who wants to permanently extend the moratorium. "Taxes and government fees add as much as 20% to Americans' telephone and cellphone bills. We can't let that happen to the Internet, which is likely the most popular invention since the light bulb."

But as phone and TV services increasingly are delivered over the Internet, state and local governments worry that more of their tax revenue will disappear because of the federal moratorium. They oppose the permanent extension championed by McCain and a slew of lawmakers, along with Don't Tax Our Web, a coalition of major telecommunications, computer and Internet companies, including AT&T Inc., Google Inc. and Time Warner Inc.

Instead, the U.S. Conference of Mayors, the National Governors Assn. and other local government groups want to narrow the definition of Internet access put in place in 1998, which could be interpreted to cover anything delivered online, and to make the extension temporary in case technology again overtakes the law.

"A permanent ban seems frankly completely irresponsible," said Jean Kinney Hurst, who handles tax and revenue policy for the California Assn. of Counties. "We don't know what's going to happen with technology."

The groups also want Congress to continue to allow nine states -- Hawaii,
New Hampshire, New Mexico, North Dakota, Ohio, South Dakota, Texas, Washington and Wisconsin -- to collect Internet access taxes in place before 1998.

Most of those states apply sales taxes to access charges, tacking on an average of about $2 to a monthly $40 broadband bill. The issue is different from the problem of applying the patchwork of local sales taxes to online purchases, which none of the moratorium proposals address.

There is strong bipartisan support in Congress for a permanent extension of the existing access tax ban, which the White House also backs. But two former governors, Sens. Thomas R. Carper (D-Del.) and Lamar Alexander (R-Tenn.), are pushing a compromise backed by state and local governments that a Senate committee will consider today.

The bill calls for a four-year extension, continuing the grandfather provision for the nine states and a limited definition of Internet access that was crafted with representatives from Don't Tax Our Web. The legislation tries to ensure that Internet access remains tax-free while removing the potential loophole for companies that bundle online phone and TV service with Internet access, Carper said.

"State and local governments are coming to us and saying, 'It's one thing to say you can't charge for Internet access. It's another thing to say to us that even though you traditionally have raised fees from telephone and cable TV taxes, we're not going to let you do that anymore because it's bundled,' " he said. "We're trying to be respective of the rights of state and local governments to do that."

But the bill may stall over the length of the moratorium.

"Lack of permanence will inhibit broadband deployment, so businesses won't be able to plan and know what the costs are going to be long term," said Broderick Johnson, a spokesman for Don't Tax Our Web, who added that a permanent extension still could be revised later to address problems. "If the dangers and threats to state coffers really come to pass, then there will be a great drive to get Congress to reopen the law to close the loopholes."

Carper is open to a six-year extension but not a permanent one. Businesses will have to decide whether allowing the moratorium to expire is worse than a temporary extension, he said.

"Their first choice would be a permanent moratorium, but I think they realize it might be a bridge too far," he said.

The Internet tax moratorium was enacted in 1998 for three years and was extended until late 2003. It was expired for more than a year before Congress extended it for another three years. During that expiration period no states added taxes, so fears that local officials are eyeing new Internet access fees are unfounded, said David Quam, director of federal relations for the National Governors Assn.

"If the moratorium were not extended before Nov. 1, the sky is not going to fall, the Internet is not going to fail," he said.

But supporters of a permanent extension are trying to use the impending expiration to rally support. Don't Tax Our Web has been running TV and print ads in Washington showing a laptop computer attached to a parking meter, requiring the user to continually insert coins to keep the information flowing.

"There would be a revolution in the country if every time you went online you had to pay a tax," said Rep. Anna G. Eshoo (D-Atherton), who represents part of Silicon Valley. "The dome of the Capitol would cave in."

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