House votes to extend ban on Internet taxes

It approves a four-year moratorium. The Senate still must act on the issue.

By Jim Puzzanghera, Los Angeles Times Staff Writer
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WASHINGTON -- Fear about future tax revenue shortfalls at the state and local levels helped derail a congressional push Tuesday for a permanent federal ban on Internet access taxes. Instead, a nearly unanimous House voted for a more modest four-year moratorium.

With the current moratorium set to expire at the end of the month, the House voted 405 to 2 to extend the politically popular exemption until 2011. Although there is a strong bipartisan consensus that Internet access should be tax-free, the length of the extension remains controversial as the types of services available online continue to evolve. That threatens to stall the legislation in the Senate.

"We should have a permanent ban on taxation of the Internet," Senate Minority Leader Mitch McConnell (R-Ky.) said shortly before the House voted.

The House bill would prevent state and local governments from taxing the various ways people get Internet service, including high-speed phone and cable lines. It allows nine states that had Internet access taxes in place before the moratorium was enacted in 1998 to continue to collect them. California is not among the states.

The legislation also clarifies the definition of Internet access so that services delivered online, such as TV, aren't exempt from taxes.

State and local officials lobbied hard for the clarifications, arguing that they risked losing millions of dollars in revenue as services that traditionally have been taxed migrate to the Internet. Those officials also pushed for a short-term extension rather than a permanent one, arguing that similar revisions may be needed in the future.

"I think it would be a serious mistake to make this a permanent moratorium . . . because we don't have a clue standing here today what the capacity of the Internet is," Rep. Melvin Watt (D-N.C.) said. "By four years from now, everything in life may be being done on the Internet. We might have a virtual world out there, and we may not be able to tax anything under the moratorium."

But many senators and House members, both Republicans and Democrats, contend that a permanent tax ban is needed to spur telecommunications companies to invest the billions of dollars necessary to extend high-speed Internet access throughout the United States.

"We want to broaden broadband in our country, and I think a permanent ban really speaks to that," said Rep. Anna G. Eshoo (D-Menlo Park), whose Silicon Valley district includes several leading Internet companies. She voted against the four-year extension as a way to register her opposition to a temporary measure.
Major Internet and telecommunications companies, including AT&T Inc., Google Inc. and Time Warner Inc., have pushed for a permanent ban as part of a coalition called Don't Tax Our Web. But they supported the temporary proposal as a stopgap measure and expressed hope the vote would prompt the Senate to act to approve the four-year extension at the least.

Republican supporters of a permanent extension complained that House Democratic leaders denied them the chance to offer their plan. More than 240 of the 435 House members -- a clear majority -- have co-sponsored legislation to make the moratorium permanent.

House Democratic leaders, however, brought the four-year tax moratorium legislation up for a vote under special rules that prohibited any amendments. Those rules require a two-thirds vote to pass the bill. The gambit paid off as only Eshoo and Michael R. Turner (R-Ohio) voted against the four-year extension. (Turner accidentally voted "no" and will change his vote, spokesman Andy Bloom said.)

Watt argued that there was no time to try to get a permanent moratorium through Congress before Nov. 1. The Bush administration supports a permanent ban but has not threatened to veto a temporary extension.

"The Senate has not done anything yet, and in many ways has made it clear that a permanent moratorium would be dead on arrival in the Senate," Watt said.

But a temporary extension also faces hurdles in the Senate, where supporters of a permanent extension say they have clear majority support. McConnell said he would press for a vote on a permanent extension. Senate Majority Leader Harry Reid (D-Nev.) intends to pass some sort of extension by Nov. 1 but has not committed to the length, spokesman Jim Manley said.

jim.puzzanghera@latimes.com