The Web Grows Up

Internet services shouldn't be a tax-free zone.

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A DECADE ago, when the Internet was in its toddler years, if not still its infancy, Congress passed a supposedly temporary moratorium preventing states and localities from slapping sales taxes onto the fledging industry. The moratorium, which allowed jurisdictions that had already imposed taxes to leave them in effect, was extended in 2001 and again in 2004. The latest extension is set to expire Nov. 1, and Internet service providers, buoyed by a coalition of anti-tax Republicans and Democrats from high-tech areas, have been angling to make the ban permanent and eliminate the grandfather provision leaving existing taxes in place.

The House today plans to take up what is, under the circumstances, a better way: extending the moratorium for another four years. The measure has been placed on the suspension calendar, which means it would require a two-thirds vote -- far from a certainty given the strange-bedfellows alliance on the issue. Lawmakers should back it, and the Senate should follow suit, because a permanent ban is unnecessary, unwise and an unjustified intrusion on states' rights.

A four-year extension is a more than fair deal for an industry whose claim to special tax treatment is tenuous at best. The Internet is not in danger of being stifled by a few extra dollars tacked on to subscribers' monthly bills. The latest justifications for treating Internet services differently from clothing, food or numerous other goods and services that states and localities choose to tax is to spur the build-out of broadband access and reduce the "digital divide," the gap between the rich and poor when it comes to Internet access.

These arguments are bogus. The rates of broadband availability and household subscription to Internet services are no lower in the nine states that have Internet taxes than in those that don't. Service providers' decisions about where to extend high-speed access are influenced far more by other factors, such as the cost of extending service to rural areas or the affluence of a particular region. It is quite a stretch for providers that have fought the development of broadband networks by municipalities now to claim to be agitating on behalf of the underserved poor.
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