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Lawmakers weigh taxes on Internet sales, access

COX NEWS SERVICE

WASHINGTON — Congress is debating new taxes on Internet shopping and access amid concern about keeping state finances healthy in the long run.

In May, Sen. Michael Enzi, R-Wyo., introduced a bill that would require retailers in every state to collect sales tax on Internet purchases.

"Simply put, if Congress continues to allow remote sales taxes to go uncollected and electronic commerce continues to grow as predicted, other taxes, such as income or property taxes, will have to be increased to offset the lost revenue to state and local governments," said Enzi.

The only customers required to pay under Enzi's bill, however, would be those whose home states comply with the Streamlined Sales and Use Tax Agreement.

So far 15 states comply with that agreement to simplify and coordinate their sales-tax rules and collection methods. Another six are expected to be in compliance by Jan. 1.

The drive to get all 45 states with sales taxes to join the agreement began after the Supreme Court, citing the nationwide tangle of tax rules, said in 1992 that online retailers were not required to collect sales taxes on behalf of the states or cities where their customers live unless the retailer operated in that state.

Law not enforced

Consumers are still legally bound to pay sales taxes on Internet purchases when they file their state taxes, but few do. The law is rarely enforced.

Only if Congress mandates retailers to collect taxes from remote sales will states recover significant revenue losses, said David Quam, director of federal relations of the National Governors Association.

"The Internet is the next generation of catalog sales," Quam said. He said Enzi's bill makes "the local mom and pop bookstore subject to the same sales taxes as the bookstore on the Net. It creates a level playing ground for businesses."

E-commerce sales reached \$31.5 billion in the first quarter of 2007, according to the Department of Commerce, up about 18 percent from a year earlier. Internet sales accounted for about 3 percent of total sales.

Big losses forecast

A 2004 University of Tennessee study estimated that by 2008, state and local governments would lose \$21.5 billion in sales tax revenue because of e-commerce.

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Tax opponents call that number wildly inflated. "If none of the Internet sales were taxed, the most (revenue loss) could be is \$5 billion," said Steve DelBianco, executive director of NetChoice Coalition.

States have to finish the job of simplifying taxes before they can ask Congress to force sellers to collect them, said DelBianco.

Other foes say that Enzi's bill could backfire by legitimizing remote tax collections.

"If such a system of extraterritorial collection is allowed, Congress will have opened the door to any number of potential tax cartels that will eventually harm rather than hurt taxpayers," Jeff Dircksen, director of congressional analysis at the National Taxpayers Union, said in a statement.

A second Internet tax issue under debate in Congress is the scheduled Nov. 1 expiration of a ban on taxing Internet access. Bills have been introduced to extend the ban temporarily or permanently.

At a recent hearing, officials from the National Taxpayers Union encouraged the Senate to renew the ban. Otherwise, they said, economic growth and innovation would be in danger and low-income families would see the "digital divide" widen.

Already, state fees on mobile phones, cable TV, and telephone land lines cost the average household \$264 a year and total \$41 billion annually, according to a study published by the Chicago-based Heartland Institute.

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