



Taxpayers Fund Lobbying for Internet Access Tax

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A bill to permanently bar some taxes on Internet access is stalled in the U.S. Senate, despite swift passage two months ago by the House. Predictably, states and localities, ever eager for more revenue, are vigorously fighting the measure. But unbeknownst to millions of taxpayers who benefit from an online oasis is the fact that taxpayers themselves are actually funding the lobbying effort for higher taxes.

Congress first issued a three-year tax moratorium on Internet access in 1998. A two-year extension was approved in 2001, which expired last week. The bill now before the Senate would establish a permanent ban against levying sales taxes on access services such as cable broadband and Digital Subscriber Lines.

Among the most vocal opponents of this tax relief is the Multistate Tax Commission (MTC), a Washington, D.C.-based group representing 45 states, which promotes uniformity in tax laws as well as more rigorous tax collections. Member states finance the Commission based, in part, on the amount of revenue each collects from income, sales and other taxes.

This type of funding formula means that the Commission stands to gain financially—intentionally or otherwise—by advocating policies that increase state taxes. Citizens would do well to question whether their interests are best served by this use of their tax dollars.

Florida taxpayers, for example, are paying \$137,128 to the MTC for the current fiscal year. While this may seem a paltry sum in a \$52 billion state budget, Commission activities influence public policies that can significantly raise tax bills for families and the businesses that employ them.

In essence, the MTC is a perpetual tax machine, spending taxpayer dollars in pursuit of higher taxes. (And for all its emphasis on taxpayer accountability, the Commission itself falls somewhat short. The states' compact requires the Commission to submit an annual report to governors and legislatures, but only one report has been issued in the past five years.)

In the case of Internet access, the Commission's staff has lobbied hard against lower taxes as ruinous to state budgets. A recent study issued by the MTC, for example, claims a revenue loss to states of *\$22 billion*. The Commission employed a prominent Washington, D.C., public relations firm to publicize the findings.

Such a substantial loss of revenue could indeed deliver a blow to the budgets of states unwilling to control spending. But experts dispute the Commission's findings as deeply flawed. Scott Mackey, former chief economist for the National Conference of State Legislators, told the Wall Street Journal "those numbers are not very believable."

In contrast to the MTC's grossly inflated projections, the Congressional Budget Office estimates a loss of \$80 million to \$120 million—principally among the few states that began collecting access taxes before the moratorium was enacted.

Proponents of the legislation argue that lower taxes will stimulate high-speed Internet access that, in turn, will increase productivity and economic growth. But as Oregon Democratic Sen. Ron Wyden quipped, if states get their way, the slogan of America Online will change from “You’ve got mail” to “You owe taxes.”

This is not the first instance in which the MTC has indulged in economic scare tactics. A study released by the group in July claimed that corporate tax shelters were costing states more than \$12 billion annually—a third of total collections in 2001—thereby imperiling state services. The findings generated headlines nationwide, prompting calls for tighter tax laws that would force corporations to pay their “fair share.”

In fact, the MTC study's methodology has since been challenged as substandard by economists, including Robert Cline, former director of tax research for the state of Michigan.

Moreover, the study focused on corporate income taxes, which comprise only 9 percent of all business taxes. The actual share of state and local taxes paid by businesses totaled 43 percent of all state and local taxes in 2003, or \$400 billion, according to the Council on State Taxation. This represents an increase of more than \$20 billion over 2002. Indeed, businesses have shouldered 80 percent of the total increase in state and local taxes in the past three years.

In more general terms, the fundamental goal of the MTC — uniform tax laws across states — is antithetical to the core principles of state sovereignty and American federalism. Competition among states is a vital form of discipline that punishes misguided policies and rewards sound governance. Without it, citizens are precluded from voting with their feet.

The Commission and its allies tout uniformity as necessary to achieve tax simplification, an appealing objective given the current tax code. But uniformity sustains higher tax rates by foreclosing opportunities for citizens to escape from adverse tax policies. That may gratify the taxman, but it undermines living standards and the economy. Competition between states, on the other hand, tends to drive down tax rates. And lower taxes actually create simplicity by reducing the myriad loopholes that generally result from impossibly complex tax laws.

Ironically, the Commission was established in 1967 to prevent Congress from imposing tax simplification on the states. The Commission's allegiance to state sovereignty was eloquently expressed by former Commission Chair Elizabeth Harchenko, in testimony before the Senate Commerce, Science and Transportation Committee: “The genius of our system of federalism is that our nation relies on states and local governments to tailor vital services of national benefit to fit local circumstances.”

Unfortunately, the Commission now appears to regard higher taxes as the ultimate goal, but this is hardly a vital service of national benefit. So, why are taxpayers being forced to finance it?

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