



MADISON OP-ED SERIES

The James Madison Institute

A Foundation For Florida's Future

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FOR IMMEDIATE RELEASE

January 11, 2000

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The Internet Sales Tax

by Peter Schorsch

Have you met Jeeves? I can understand if you haven't. He's a web site, not a person, and AskJeeves.com is his full name. A modern-day Delphi, Jeeves is billed as a one-stop spot where any question can be met with a web-based answer.

In its barometer measuring Internet activity, *Yahoo!* magazine tracks the most oft-asked questions posed to Jeeves. Almost inevitably, these include the phrase, "Where can I buy . . . ?"

Make no mistake about it, the Internet is about making money. Yes, it is an educator and an entertainer, but the World Wide Web is about economic revolution.

This is not exactly an original thought. John Chambers, president of Cisco Systems (the company whose products are the digital ties binding the electronic world together) was quoted by *New York Times* columnist Thomas Friedman as saying, "Yeah, yeah, yeah, the Internet is going to change everything. That's what they always say."

But the Internet *is* changing everything, most importantly the way Americans shop and consume.

That's why if we were to ask Jeeves what will be the most important issue to face Florida's government at the beginning of the 21st century, he would be smart enough to answer, "The problem of Internet taxation."

Today's politicians, many of whom think in yesterday's economic terms, might give another answer, like "How will we build enough roads, prisons, schools, and (fill in the blank)?"

But those questions cannot be answered until our elected officials realize that Florida's sales tax-based economy may be turned upside down by the tectonic shift away from old-fashioned person-to-person sales (retail) to point-and-click transactions (e-commerce) on which no taxes are collected. Keep in mind that 72 percent of Florida's general revenue comes from sales taxes.

Florida's taxman, Larry Fuchs, delicately broached this issue in an August 1999 *Florida Trend* magazine article that still has the state bureaucracy talking. In that same issue, Gov. Jeb Bush stated that his administration had begun to explore this issue informally.

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A national commission began to investigate this issue but, not surprisingly, failed to come up with a magic solution. Congress decided to impose a three-year moratorium, which ends in 2001, on any new Internet taxation.

But the taxman still cometh.

With consumer trends changing so dramatically—more than 20 percent of Americans purchased the majority of their 1999 holiday gifts via the Internet—is it fair or practical not to tax electronic commerce?

To say that taxes are anathema to the general citizenry would be an understatement, unless the new revenue is for the construction of a sports stadium. Remember, this country was created in part because the British tried to impose taxes on playing cards and stamps. What will happen to the pol who proposes an extra 7 percent on Amazon.com purchases?

The latest polling indicates that 73 percent of Web users in the U.S. oppose a sales tax on Internet purchases. More importantly, especially to elected officials, 36 percent of Web users who are registered voters say they would be less likely to vote for a candidate who supports net taxes.

As for the practicality of e-taxation, there is one conundrum: who will collect? Will the more than 30,000 state and local taxing jurisdictions in this country be responsible or will the burden fall to the business sector? Or do we entrust John Q. Public to send in his taxes after purchase, keeping in mind that some estimates show two-thirds of Americans fudge on their income tax returns?

What to do about Internet taxation?

I don't think even Jeeves has an answer.

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