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**Finally, A Chance for Bipartisan Agreement:  
The Permanent Internet Tax Freedom Act**

by

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As the government shutdown continues into another week, many are growing anxious for Congress to reach an agreement. Although there are some issues that have the political parties starkly at odds, there is at least one important idea on which both parties – and the public – should agree: Internet access should remain free from taxes.

Thankfully, a bipartisan bill to impose a permanent ban on Internet access taxes has been proposed. House Judiciary Committee Chairman Bob Goodlatte and Representative Anna Eshoo have introduced the [Permanent Internet Tax Freedom Act](#) in the House of Representatives, following the introduction of its [counterpart](#) in the Senate by Senators Ron Wyden and John Thune. In this sharply divided Congress, especially with regard to fiscal policies, government officials and others across party lines should at least agree that making the ban on Internet access taxes [permanent](#) is good for everyone. This is especially so given the vast economic investment, the thriving technological innovation, and the widespread broadband adoption occurring under the current tax-free regime.

Internet access has remained essentially free from tax burdens due to the [Internet Tax Freedom Act of 1998](#). Since its enactment, the Act has contributed to nearly 15 years of economic growth. Today, the telecommunications industry leads investment in the U.S. economy. According to a [recent study by the Progressive Policy Institute](#), AT&T, Verizon Communications, Comcast, Sprint Nextel, and Time Warner, all ranked in the top twenty of non-financial companies making capital investments in the U.S over the past year. The investments of these companies, among others, have allowed 99.5% of Americans to have [access](#) to broadband – via landline, wireless, or both – as of the end of 2012.

Technological innovation and the unprecedented development of the Internet since passage of the 1998 Act also demonstrate the success of the current "no access tax" regime. In 2011, [a McKinsey study](#) ranked the United States as the most prominent country in the "global Internet supply ecosystem," attaining more than 30% of global Internet revenues and more than 40% of net income. Today, [some reports](#) estimate that the "Internet of Everything" could raise the level of the U.S. GDP by 2%–5% by 2025. A recent Cisco [report](#) went so far as projecting that over the next ten years there will be \$14.4 trillion in "value at stake" in economic benefits for companies and countries that can successfully initiate and execute the "IoE."

Finally, tax-free Internet access has fueled broadband adoption and deployment. Today, the U.S. [ranks](#) 8<sup>th</sup> in the world in high broadband adoption. However, the Government Accountability Office [found](#) that in 90 out of 100 cases, a tax on Internet access would affect broadband adoption. Of course, one of the most important factors for companies considering whether to deploy broadband to an area is the expected demand for broadband service. Because adoption rates drive demand, and Internet access taxes affect the ability of citizens to afford Internet access, such taxes could also discourage some companies from deploying broadband.

By enacting the [Internet Tax Freedom Act of 1998](#), Congress recognized the importance of facilitating Internet access, and made it more affordable for consumers to go online. This wise choice has encouraged broadband adoption, deployment, investment, and innovation. Failure to ban the imposition of taxes on Internet access will deter investment, slow innovation, and impose unnecessary costs on consumers.

The [Permanent Internet Tax Freedom Act](#) offers an opportunity for Congress to act in a bipartisan way on an important matter for the benefit of all Americans. The enactment of a permanent ban on Internet access taxes provides one way to help ensure continued affordable access to this important resource, as well as to promote leadership in the global economy and the economic success of the digital marketplace.

## **The Internet Tax Freedom Act Has Promoted Economic Growth and Technological Innovation Since 1998**

Internet access has remained essentially free from tax burdens due to the [Internet Tax Freedom Act of 1998](#). The Act was sponsored by Representative Christopher Cox and Senator Ron Wyden, and it was signed into law on October 21, 1998, by President Bill Clinton. The Act prohibited any state or political subdivision from “imposing, assessing, collecting, or attempting to collect taxes on Internet access; bit taxes; or multiple or discriminatory taxes on electronic commerce” for three years after the date of enactment. The Act also provided exceptions for Internet access taxes currently imposed at the state level and for taxes on the provision of Internet access offered for sale as part of a package of services that includes services other than Internet access.

Congress recognized in the [1998 Act](#) that allowing Internet access to be taxable would “interfere with the free flow of commerce via the Internet.” The [House Report](#) explained why prohibiting the imposition of taxes on Internet access was essential:

This is necessary to avoid stifling the potential for an innovative form of technology to provide information, goods, and services quickly and cheaply throughout the world. In addition, recognizing the concern that the current sub-federal tax system was developed in a time and for a form of commerce that could make it inappropriate for its application to the technology employed by the Internet, the bill establishes an Advisory Commission on Electronic Commerce to examine numerous relevant issues and make recommendations to Congress.

In 1998, the Internet was still being developed, yet it was clear that this was a technology that would constantly outrun the ability of legislation to keep up with its progress, and that user habits would change over time. Accordingly, since the adoption of the ban on Internet access taxes Congress has recognized the need to analyze market conditions and technological developments before removing the moratorium.

After periodically reviewing the state of the Internet marketplace, Congress has extended the Act several times on a bipartisan basis since its original enactment. The most recent extension, the [Internet Tax Freedom Act Amendment Act of 2007](#), was signed into law on November 1, 2007, by George W. Bush. This Act extended the moratorium on Internet access taxes until November 1, 2011, but was [amended](#) to extend the ban until November 1, 2014, before its enactment. At the time of the latest extension in 2007, Senator McConnell stated: “This is a positive step in protecting American consumers from taxes on Internet access, taxes that strike at the heart of innovation and economic growth in America.”

Each time the Act has been extended, the Congressional Budget Office (CBO) has analyzed the financial impact of the moratorium on both federal and state levels. The CBO has consistently [found](#) that the amendment has no impact on the federal budget. Although the ban does have an effect on state and local government tax revenues, those

yearly costs amount to only a tiny fraction of the amount telecommunications companies invest in the U.S. economy annually, to the benefit of the states and the American economy.

In 2006, in anticipation of the Act’s 2007 extension, the Government Accountability Office reviewed the effects of the tax ban on state and local governments. The [GAO report](#) analyzed the CBO’s 2003 report of how much states and localities would lose annually by 2007 if grandfathered taxes were eliminated. CBO estimated that states with grandfathered taxes in 1998 would lose about 0.1 percent of those states’ 2004 tax revenues. The few states collecting taxes gave the GAO rough estimates of how much access service-related tax revenues they collected in 2004 for themselves and their localities. All except two states collected \$10 million or less annually. GAO found that even the largest state tax amount reportedly collected for Internet access revenues in 2004, excluding collections for localities – \$50 million in Texas – was only about one-sixth of 1 percent of the state’s tax revenues for that year; the largest percentage for any of the case study states was about 0.2 percent.

Table: Case Study State Officials' Rough Estimates of Taxes Collected for 2004 Related to Internet Access	
State	Estimated taxes collected (\$ millions)
California	n/a
Kansas	\$9-10
Mississippi	At most, \$1
North Dakota	\$2.40
Ohio	\$52.10
Rhode Island	Less than \$4.5
Texas	\$50
Virginia	n/a

\* Source: State Officials, GAO

The [GAO report](#) indicates that the consequences of the moratorium on state and local governments are minor. Any future impact related to the tax moratorium will differ from state to state. But the costs of continuing the moratorium do not outweigh the benefits of imposing a tax on Internet access. Additionally, the tax threatens to stifle the impressive investment and growth in the telecommunications sector today.

While other factors play a role as well, the Internet Tax Freedom Act has contributed to nearly 15 years of economic growth. Today, the telecommunications industry leads investment in the U.S. economy, as the tables below show. According to a [recent study by the Progressive Policy Institute](#), AT&T, Verizon Communications, Comcast, Sprint Nextel, and Time Warner all ranked in the top twenty of non-financial companies making capital investments in the U.S over the past year.

Top 25 Nonfinancial Companies by Estimated U.S. Capital Expenditure		2012
Rank	Company	U.S. Capital Expenditures (\$bns)
1	AT&T	19.5
2	Verizon Communications	15
3	Exxon Mobil	12.2
4	Chevron	10.7
5	Intel	8.8
6	Walmart Stores	8.3
7	Occidental Petroleum	7.6
8	ConocoPhillips	6.1
9	Exelon	5.8
10	Comcast	5.7
11	Duke Energy	5.4
12	Hess	4.7
13	Sprint Nextel	4.3
14	Union Pacific Railroad	3.7
15	General Motors	3.7
16	Enterprise Products Partners	3.6
17	Time Warner Cable	3.1
18	Microsoft	3
19	Amazon	2.9
20	CenturyLink	2.9
21	Ford Motor	2.7
22	Walt Disney	2.7
23	FedEx	2.6
24	Apple	2.6
25	Target	2.3
<b>Total</b>		<b>149.8</b>

\* Source: Progressive Policy Institute

The [Progressive Policy Institute](#) found the same was true for each of those companies in 2011, despite the fact that non-residential investment for that year remained more than 7% below pre-recession 2007 levels.

**Investment Heroes: Top 25 Nonfinancial Companies  
by U.S. Capital Expenditure\***

Rank	Company	U.S. Capital Expenditures (\$bns)
1	AT&T**	20.1
2	Verizon Communications**	16.2
3	Exxon Mobil	11.7
4	Wal-Mart	8.2
5	Intel	7.4
6	Occidental Petroleum	6.2
7	ConocoPhillips	5.6
8	Comcast**	5.3
9	Chevron	4.8
10	Southern Company**	4.5
11	Hess	4.4
12	Exelon**	4.0
13	Ford Motor	3.9
14	General Electric	3.7
15	Enterprise Product Partners**	3.6
16	Sprint Nextel**	3.1
17	Walt Disney	3.0
18	FedEx	2.9
19	Time Warner Cable**	2.9
20	General Motors	2.8
21	Target	2.5
22	IBM	2.5
23	Chrysler Group	2.5
24	Google	2.2
25	Apple	2.0
<b>Total</b>		<b>136.2</b>

\*Universe includes nonfinancial Fortune 150 companies from 2011; financial reporting from FY11  
\*\*Reported to have U.S. operations only; may include a small amount of non-U.S. investment

Investment in the data-driven economy is a path to sustained growth for the U.S., despite underwhelming performance in other sectors of the economy. As the PPI reports show, policies that encourage continued investment in cable and telecommunications, technology, and energy particularly have helped spur growth in other sectors. For example, Amazon’s rapid expansion and the growth of all [eCommerce](#) are attributable at least in part to continued investment in faster and more widely available broadband networks. The [Permanent Internet Tax Freedom Act](#) is one policy choice that will help ensure sustained economic growth in the telecommunications sector and beyond. Such a deregulatory approach to the Internet marketplace will encourage private investment and promote innovation in business models and technologies.

Technological innovation and the unprecedented development of the Internet since the 1998 Act also demonstrate the success of the current no access tax regime. In 2011, the Internet contributed 3.4% to GDP in the 13 countries covered by [a McKinsey study](#). Then, the United States was the most prominent country in the “global Internet supply ecosystem,” attaining more than 30% of global Internet revenues and more than 40% of net income. McKinsey found that the U.S. also had the “most balanced structure within the global ecosystem among the 13 countries studied, garnering relatively equal contributions from hardware, software and services, and telecommunications.”

Today the Internet is developing into what [analysts](#) and [scholars](#) are terming “The Internet of Everything” (IoE). This term refers to a new wave of technological innovations, which extend Internet-type connectivity to physical objects, so that things such as factory equipment, cars, and buildings are linked with data, people, and processes. New studies, from organizations including McKinsey Global Institute, GE, Cisco, and AT&T, project the economic potential of the Internet of Everything. [Some](#) estimate that the IoE could raise the level of the U.S. GDP by 2%–5% by 2025. Cisco’s [report](#) goes so far as projecting that over the next ten years there will be \$14.4 trillion in “value at stake” in economic benefits for companies and countries that can successfully initiate and execute the IoE.

No matter exactly how much the Internet will contribute to the economy, or what the Internet of Everything will even mean, it is clear that great innovation is already underway. The government should refrain from imposing regulatory barriers and additional tax burdens that could deter broadband investment and adoption, and, in turn, slow the currently thriving development and rapid deployment of the Internet.

### **The Internet Tax Freedom Act Has Encouraged High Speed Broadband Deployment and Adoption to the Benefit of Consumers**

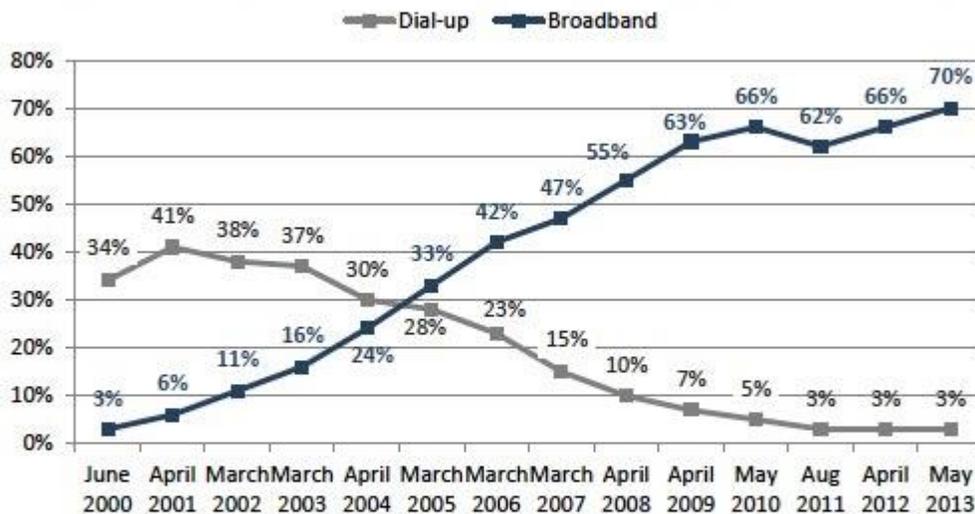
The Permanent Internet Tax Freedom Act would promote broadband adoption and affordable access to the Internet, enabling more consumers to share in the benefits of the digital age. Since 1996, the cable industry alone has [invested](#) more than \$200 billion into broadband infrastructure, and since 2002 annual capital [investment by wireless companies](#) has equaled or exceeded \$20 billion each year. Wireless infrastructure investment is [projected](#) to generate \$1.2 trillion in economic activity and create 1.2 million jobs over the next five years. In a 2006 broadband [study](#), the GAO stated that “both Congress and the President have indicated that access to broadband for all Americans is critically important. Broadband is seen as a critical economic engine, a vehicle for enhanced learning and medicine, and a central component of 21st century news and entertainment.”

These investments among others have allowed 99.5% of Americans to have [access](#) to broadband – via landline, wireless, or both – as of the end of 2012. As of May 2013, as the chart below illustrates, 70% of American adults ages 18 and older have a high-speed broadband connection at home, according to a [survey](#) by the Pew Research Center’s Internet & American Life Project. Today, the U.S. [ranks](#) 8<sup>th</sup> in the world in high broadband adoption. It is important that the U.S. Internet access tax regime not slow the speed of broadband adoption domestically.

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## Home broadband vs. dial-up, 2000-2013

Among all American adults ages 18 and older, the % who access the internet at home via dial-up or high-speed broadband connection, over time. As of May 2013, 70% of adults have home broadband.



Source: Pew Internet & American Life Project Surveys, March 2000-May 2013. Question wording has changed slightly over time. Our method for measuring home internet use changed in 2011, which would contribute to the seeming decline in adoption. See Methods section for more information.

See also: <http://pewinternet.org/Trend-Data/Home-Broadband-Adoption.aspx>

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Additionally, imposing a tax on Internet access may make connection costs prohibitively expensive to consumers, discouraging broadband adoption. In determining whether the tax moratorium would impede broadband development and adoption, GAO [reported](#) that “the imposition of the tax was not a statistically significant factor influencing the adoption of broadband service at the 5 percent level. However, the tax was statistically significant at the 10 percent level.” In other words, this means that in 90 out of 100 cases, the tax on Internet access is expected to affect broadband adoption. GAO also found that the “price of broadband service remains a barrier to adoption of broadband service for some consumers” and noted that “households with high incomes were 39 percentage points more likely to adopt broadband than lower-income households.”

Today, one of the demographic factors most correlated with home broadband adoption continues to be household income. The [Pew Internet & American Life Project found](#) that consumers living in households earning at least \$50,000 per year are much more likely to have home broadband than those at lower income levels. Particularly for low-income consumers, an Internet access tax may contribute to rendering broadband prohibitively expensive and deter adoption.

## Home broadband demographics 2013

Among all American adults ages 18 and older, the % in each group who have a high-speed broadband connection at home

		% with home broadband
<b>Household income</b>		
a	Less than \$30,000/yr (n=417)	54
b	\$30,000-\$49,999 (n=320)	70 <sup>a</sup>
c	\$50,000-\$74,999 (n=279)	84 <sup>ab</sup>
d	\$75,000+ (n=559)	88 <sup>ab</sup>

Source: Pew Research Center's Internet & American Life Project Spring Tracking Survey, April 17 – May 19, 2013. N=2,252 adults ages 18+. Interviews were conducted in English and Spanish and on landline and cell phones. The margin of error for results based on all adults is +/- 2.3 percentage points.

Finally, the GAO reported that one of the most important factors for companies considering whether to deploy broadband to an area was the expected demand for broadband service. Other [studies](#) have found that because adoption rates drive demand, and Internet access taxes affect the ability of citizens to afford Internet access, such taxes could also discourage some companies from deploying broadband. Given these facts, [past](#) and current marketplace conditions and consumer needs have clearly justified the continued moratorium on Internet access taxes.

### The Ban on Internet Access Taxes Should Be Made Permanent

Today, Internet access is indisputably crucial to American consumers and the well-being of the American economy. While introducing the new bill to extend the moratorium, Congressman Goodlatte [stated](#), "in this increasingly digital age, Americans rely on access to the Internet to apply for employment, to seek and share innovative ideas, to keep governments accountable, to run small businesses, and to communicate with their families and friends." Congresswoman Eshoo echoed his sentiments stating, "no one should pay a tax just to access the Internet."

By enacting the Internet Tax Freedom Act, Congress recognized the importance of facilitating Internet access. By banning Internet access taxes since 1998, Congress has made it more affordable for consumers to go online, which has encouraged broadband adoption. The [Permanent Internet Tax Freedom Act](#) provides one way to help ensure continued affordable access to this important resource, as well as to promote leadership in the global economy. It is crucial to prevent the imposition of unnecessary and unjustified barriers to Internet access.

Allowing taxes to be imposed on Internet access is unnecessary and harmful. Clearly, removing the ban on Internet access taxes will harm consumers by imposing additional costs to access the Internet. Doing so may even place Internet access out of reach of low-income consumers, which would frustrate efforts to bridge the digital divide.

Additionally, imposing a tax to fund government run programs for Internet build-out is unnecessary. As the data above show, the private sector of the telecommunications economy has led the U.S. in domestic investment and has driven the rapid deployment of broadband Internet and technological innovation. The success of private investment, particularly in the data-driven economy, demonstrates that additional government programs for broadband deployment are not justifiable, given the current market conditions.

Failure to ban the imposition of taxes on Internet access will deter investment, slow innovation, and impose unnecessary costs on consumers. The [Permanent Internet Tax Freedom Act](#) offers an opportunity for Congress to act in a bipartisan way on an important matter for the benefit of all Americans. The enactment of a permanent ban on Internet access taxes will promote the availability of information, continued technological innovation, and the economic success of the digital marketplace.

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### **Further Readings**

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## **End Notes**

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