



**ONLINE SALES TAX**

**APRIL 2014**

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**Background:** The Internet empowers entrepreneurs to find consumers across the country and throughout the world, particularly empowering small and medium-sized businesses. However, as state and local governments look for ways to close budget gaps and raise revenue, some are seizing the opportunity to target online sales. Congress is now debating legislation that would require out-of-state retailers to collect sales and use taxes on purchases made to residents of their states -- regardless of physical presence.

**CCIA's Position:** CCIA has long opposed such legislation as burdening online vendors with the task of sorting through the policies of thousands of taxing authorities around the country, and serving as revenue collection agencies for each of them. As innovation and entrepreneurship have always been the drivers of our economic growth, it is counterproductive to add to the administrative burdens of small businesses at the very moment we need them to grow and lead our economic recovery.

There will be negative implications on the Internet if the relationship between taxes and physical presence is broken. E-commerce has enabled businesses to broaden their scope beyond traditional geographical limitations. Allowing states to impose geographically-based taxation collection requirements on e-commerce businesses would re-impose the very limitations that innovation has enabled them to overcome. More, with the broader customer base, e-commerce businesses would be required to collect taxes for more jurisdictions, so businesses would in fact be penalized for their success. Good tax policy should promote and support new innovative business models rather than simply protect the old.

**Current Issues:** The past several years have seen the introduction of various pieces of legislation that would force online retailers to collect sales taxes even if they had no physical presence in that customer's state. These bills invariably contained some combination of such words as "marketplace", "Main Street", "fairness" and "equity" as supporters sought to portray their

efforts as an attempt to “level the playing field” between online retailers and physical stores. CCIA has consistently opposed these bills as having very little to do with fairness.

In the 113<sup>th</sup> Congress, supporters of these bills coalesced around the Marketplace Fairness Act (S. 743) and succeeded in rushing it through the Senate last May, bypassing the committee of jurisdiction (Senate Finance) over the opposition of then-Chairman Max Baucus (D-MT). Fortunately, the House appears willing to expend the time and care that such a fundamental rethinking of taxation deserves.

Last September, the House Judiciary Committee released seven principles on Internet sales taxation. These included tech neutrality (that the sales tax compliance burden for online sellers should be neither less nor greater than offline businesses), and simplicity (that laws should be so simple and compliance so inexpensive as to render a small business exemption unnecessary). CCIA strongly supported these principles as echoing past arguments we have made in opposing this legislation. They were a good first step in moving beyond the false fairness argument and towards a more substantive and realistic debate over how to adapt a 20<sup>th</sup> century taxation model to a 21<sup>st</sup> century business model.

Last month, the House Judiciary Committee held a hearing to explore alternative solutions to this issue. While a broad range of alternatives were proposed at this hearing, the most important result was that the shortcomings and adverse consequences of the Marketplace Fairness Act were highlighted in a way they had not been before. As the committee continues to debate the issue, CCIA will continue our efforts to ensure that state and local governments do not get away with blaming and penalizing the new for not fitting into the old, while avoiding the hard work of true tax simplification.