Logging on to Americans' Wallets: The Potential Costs of New Internet Access Taxes

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The federal moratorium on new Internet access taxes is scheduled to expire on November 1, 2007, and Congress is considering whether to extend or make permanent the popular tax ban. Should the moratorium lapse due to Congress's inaction, many state and local governments are likely to impose new taxes and fees on Internet service. Indeed, government and union officials testified in May 2007 about their ongoing quest for future revenues at a House subcommittee hearing on the Internet tax moratorium.[1]

What could these new Internet access taxes cost America's consumers? While it is impossible to predict the exact future behavior of state and local governments, it is feasible to arrive at a reasonable estimate based on three factors:

- **The number of Internet subscribers in the United States**. An Organization for Economic Co-operation and Development (OECD) report put the total number of broadband Internet subscribers in December 2006 at 58,136,577 people.[2] Other reports have quoted significantly higher numbers of Internet subscribers by including dial-up connections,[3] but NTU's estimate will reflect the more conservative broadband subscriber number.
- **The average tax rate levied on other communication services.** A study published by The Heartland Institute in June 2007 surveyed the taxes levied on cable television, wireline telephone, and wireless telephone in 59 major cities and found that the average tax rate was 13.4 percent.[4] For the purposes of this estimate, we assume that a similar rate would be applied to Internet access services.
- **The average consumer bill for Internet service.** The Heartland Institute study relied on an average monthly Internet service bill of $36.50. This number falls neatly between the $32 (DSL) and $41 (cable modem) average monthly Internet service bills reported in a December 2005 Pew Internet & American Life Project survey.[5]

Taken together, 58,136,577 subscribers paying a 13.4 percent tax on their monthly Internet bill of $36.50 would equal a cumulative new tax bill of over $3.41 billion a year, or $58.69 per subscriber. Clearly, opening the door to Internet access taxes by allowing the moratorium to expire could foist an unwelcome and expensive new burden on America's taxpayers.

As if this projection weren't sufficiently alarming, other factors could push the figure higher. Consumer decisions to add or upgrade service, along with the introduction of mobile Internet options, are just two reasons why the tax spiral could accelerate. While some legislatures have exempted Internet service from taxation, it is unclear if the lifting of the federal moratorium would embolden pro-tax legislators to repeal these laws.

The National Taxpayers Union supports the Permanent Internet Tax Freedom Act (H.R. 743 and S. 156) because it would make the soon-to-expire moratorium on Internet access taxes permanent. It's common sense that any nation seeking to remain technologically and economically competitive shouldn't punish those citizens reaching out into the digital realm with higher tax bills. Unfortunately, state and local governments have often favored tax hikes over tax cuts, and the creep of high cell phone taxes over the past decade shows that new technology is often a favored target. It would be Pollyanna-ish to think that Internet consumers would remain untouched by predatory new taxes if the moratorium expired.

State and local governments are already benefiting from increased collections of other taxes (e.g., property and business income) extracted from the amazing amount of Internet-based economic growth. A July 2007 Brookings Institution study found that for every one percentage-point increase in broadband penetration, 300,000 jobs are added to the economy.[6] Furthermore, state spending is "strong" according to the National Governors Association and the National Association of State Budget Officers, and outlays increased by 8.6 percent over the last fiscal year (two percentage points above the 29-year historical average).[7] New taxes are not needed to further fuel that briskly burning fire.

Taxpayers need long-term protection from state and local authorities seeking to impose taxes on the various routes used to access the Internet. The Permanent Internet Tax Freedom Act would provide a much-needed safeguard against a potential $3.4 billion annual tax bill on American consumers.

About the Author

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Notes

[1] Testimony of Jerry Johnson (Oklahoma Tax Commission) and Mark Murphy (American Federation of State, County and Municipal Employees), before the House Subcommittee on Commercial and Administrative Law, in an Oversight Hearing on the "Internet Tax Freedom Act: Internet Tax Moratorium," May 22, 2007, http://judiciary.house.gov/oversight.aspx?ID=325.

[2] Organization for Economic Co-operation and Development, "OECD Broadband Statistics to December 2006," http://www.oecd.org/document/7/0,3343,en_2649_34223_38446855_1_1_1_1,00.html.

[3] Organization for Economic Co-operation and Development, "OECD Communications Outlook 2007," July 13, 2007, http://213.253.134.43/oecd/pdfs/browseit/9307021E.PDF.

[4] David Tuerck, Ph.D., Paul Bachman, Steven Titch, and John Rutledge, Ph.D., "Taxes and Fees on Communication Services," The Heartland Institute, June 14, 2007, http://downloads.heartland.org/211041.pdf.

[5] John B. Horrigan, "Home Broadband Adoption 2006," Pew Internet & American Life Project, May 28, 2006, http://www.pewinternet.org/pdfs/PIP_Broadband_trends2006.pdf.

[6] Robert Crandall, William Lehr, and Robert Litan, "The Effects of Broadband Deployment on Output and Employment: A Cross-sectional Analysis of U.S. Data," The Brookings Institution, July 2007, http://www3.brookings.edu/views/papers/crandall/200706litan.pdf.

[7] National Governors Association and National Association of State Budget Officers, "The Fiscal Survey of the States," June 2007, http://www.nasbo.org/Publications/PDFs/Fiscal%20Survey%20of%20the%20States%20June%202007.pdf.