

Testimony of the Computing Technology Industry Association  
Submitted to the  
Senate Committee on Commerce  
April 12, 2000

The Computing Technology Industry Association is pleased to submit our suggestions regarding the taxation of electronic commerce. We endorse the majority recommendations of the commissioners of The Advisory Commission on Electronic Commerce. The majority of Commissioners voted to:

1. Reduce consumers' tax burden by repealing the Federal three-percent excise tax on communications services;
2. Forge a meaningful pathway to simplification of states' sales and use tax systems;
3. Permanently prohibit states or localities from taxing Internet access subscription charges;
4. Extend the current Internet tax moratorium legislated by the Congress on multiple and discriminatory taxation; and
5. Clarify nexus standards that impact the obligation of businesses to collect and remit state and local taxes on remote transactions.

The Commission's Final Report recommends to Congress the need to bridge the "Digital Divide" to permit all Americans to participate in the Internet economy. It addresses the issue of privacy concerns, noting that any tax administering system for e-commerce should be developed in a manner that minimizes disclosure of consumers' personal information, and should contain sufficient security to protect that information. The Commission recommended that the appropriate committees of Congress should explore privacy issues associated with the collection and administration taxes on e-commerce.

We believe that the first priority should be to extend the current Internet tax moratorium legislated by the Congress on multiple and discriminatory taxation and address growing public concerns regarding privacy of personal data.. We believe the appropriate approach to the latter is to appoint an independent commission with ample representation of the IT sector and public interest groups to simultaneously assess options to address public concerns as well as progress and the outlook for adoption of voluntary standards by Internet vendors.

CompTIA disagrees with the assessment of the issue as well as solutions proposed by representatives of state and local government. At the same time

we are heartened by positive steps of state and local government leaders which we believe will greatly enhance the effectiveness in collecting from their constituents the sales and use taxes owed to state and local governments.

Several states have initiated programs to educate their citizens of the obligation to pay any state and local taxes that were not collected by Internet vendors. Surveys have shown that a substantial portion of taxpayers are unaware of their obligation to pay appropriate state and local taxes not collected by vendors in other states. Taxpayer education is a responsibility of every state and local government, especially in areas where research indicates confusion among their constituents. Other states need to follow their example. This effort will undoubtedly reduce noncompliance.

The recognition by state and local government associations of the need to simplify and rationalize the many thousands of inconsistent state and local tax laws is a laudable goal in its own right. It will also pave the way for increased voluntary support of state and local governments by Internet vendors located outside their jurisdiction. We are optimistic that this approach will ultimately result in the support of the majority of Internet vendors for state and local tax collection efforts.

CompTIA disagrees with a few state and local government leaders who argue that a major change in nexus is good policy, fair, or necessary. CompTIA believes the state representatives who were Constitution's authors were correct in precluding other state governments from imposing any of their state laws, whether they relate to taxes or regulations, on businesses or individuals in other states. Rather the issue of nexus should be approached more narrowly, from the perspective of whether Internet vendors with an actual physical presence in the state benefit from the programs and services funded by state and local sales and use taxes. Requiring Internet vendors to provide free state and local tax collection services for other jurisdictions is not fair to companies that receive no direct benefits from those states and have chosen not to physically locate in those states. It would undermine the healthy competition between states to balance a business friendly environment with revenue needs in order to attract business investment.

The actual scope of the problem of noncompliance by taxpayers with their state and local tax laws is not presently known. It will not be known until state and local governments have implemented their taxpayer Internet tax compliance education programs and the Streamlined Sales Tax System for the 21st Century. The latter will provide a framework that can be used to provide the incentives necessary to enlist the assistance of Internet

vendors in the collection of state and local taxes for governments outside of their home state. Most businesses use outside debt collection services themselves and recognize that this is a necessary process and entirely appropriate for use by state and local governments. The Streamlined Sales Tax System for the 21st Century contemplates a technology oriented business model utilizing trusted third parties to protect the privacy of purchasers and vendors. We believe that over time a compensation package for participating vendors that will evolve that will lead to participation by the majority of Internet vendors. This will result in the collection of the majority of state and local taxes, with the bulk of the collected revenues returned to the state and local governments.

CompTIA, the Computing Technology Industry Association, is a not-for-profit trade association, founded in 1982. Today it represents over 8,000 computer hardware and software manufacturers, distributors, retailers, e-tailers, resellers, VARs, system integrators and training, service, telecommunications and Internet companies in over 50 countries worldwide. Over 1,000 industry professionals are represented in the association's new individual membership category.

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