# Internet taxation not in Georgia's best interest

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The Georgia Senate and House have just passed resolutions asking Congress to allow the states to tax Internet and catalog sales. In 1998, Congress imposed a prohibition until October 21, 2001, on any taxes that would subject Internet retailers, to taxation in multiple states. Georgia was already prohibited by U.S. Supreme Court decisions from forcing a mail order retailer located in another state to collect taxes on sales to Georgia residents, although Congress could lift this prohibition.

The legislators believe that retail sales on the Internet are a substitute for "bricks and mortar" retail sales and state sales tax receipts will be reduced as e-commerce increases. They claim that exempting e-commerce from sales taxes is "unfair" to other retail merchants.

Georgia residents are supposed to pay a four percent tax on out-of-state purchases, but the Department of Revenue has never enforced the tax. Michigan and North Carolina have changed their state income tax forms to require residents to total their out-of-state purchases, including items bought online, and pay a six percent tax. Such taxes are very unpopular: 70 percent of online users are opposed to sales taxes on Internet purchases.

If Congress decides to allow states to tax e-commerce sales, should Georgia impose a sales tax? The benefits to Georgia of being in the forefront of taxing Internet sales are clearly outweighed by the costs. There is no evidence that e-commerce is reducing either traditional commerce in Georgia or its sales tax revenues. Georgia collected $4,479 million in general sales and use taxes in 1999, up 11.81 percent over 1998, plus another $646 million in sales taxes on fuels, alcohol and tobacco. Total tax revenues were up 8.81 percent over the prior year. With the exception of 1998 when food sales became exempt, Georgia's revenues since 1988 from general sales and use taxes have increased steadily and have remained remarkably stable as a percentage of the total revenue collected by the State. Moreover, most of the states, including Georgia, are awash in budget surpluses: $11.3 billion in 1998, with $36 billion in "rainy day funds." Georgia's rainy day fund is now $548 million. Georgia has a $1 billion surplus that the General Assembly has voted to spend entirely plus borrow an additional $530 million. Georgia is not experiencing a loss of sales tax revenue but rather a lack of fiscal restraint.

Legislators also mistakenly believe that all Internet retail sales are taxable. A recent study by Ernst & Young estimated that nationwide there was $20 billion of Internet consumer sales in 1998, less than 3/10 of one percent of total consumer spending. More than 60 percent of those sales were for travel and financial services or products such as food and prescription drugs that are exempt from sales taxes already, while 60 percent of potentially taxable Internet purchases were of goods that would otherwise be purchased through mail order catalogs, sales that have always been exempt. Only 13 percent of e-commerce retail sales were subject to possible taxes, equaling less than $170 million in lost tax receipts, 1/10th of one percent of the tax revenues collected by all state and local governments in the U.S.

If e-commerce sales grow to $184 billion by 2004 as predicted, only $1.57 billion in total sales tax revenue will be lost by the states, which collected over $150 billion in 1999. Other studies estimate different amounts of sales tax revenue losses, illustrating the unpredictability of the future of the e-commerce marketplace and what the actual effect on sales tax revenues will be. Since tax revenues have been steadily increasing, there is no need for Congress or the states to rush to tax Internet sales without long consideration of the economic effects of imposing new taxes on the information revolution that has been fueling our economy.

Further, none of these studies take into account other tax revenue generated by e-commerce growth. More than 2.3 million Americans are now employed in the Internet economy. Total Internet economy revenues were expected to reach $507 billion in 1999, bypassing the airline industry ($355 billion). E-commerce retailers and their employees pay property, income and other state and local taxes. They support local budgets for roads, police, fire and all of the infrastructure that governments provide wherever those businesses and their employees are actually located. Georgia has no equitable basis for asserting that an e-company not located in Georgia should have to pay sales taxes to support infrastructure it does not use.

The argument that not taxing e-commerce is unfair to "bricks and mortar" merchants ignores the fact that 70 percent of the nation's retailers have established online operations. At a time of tax revenue surpluses, it would be more equitable to reduce sales taxes on all retailers. When federal, state and local taxes are combined, Americans are paying near record levels of taxes.

There are also 7,500 jurisdictions in the United States with local sales taxes. Until the states simplify their tax structures, applying such taxes to e-commerce sales will pose significant administrative difficulties and substantial compliance costs for e-commerce retailers at a time that the e-commerce retail market is still in its infancy.

Finally, taxing Internet sales will hurt efforts to attract high-tech industry to Georgia, like the $100 million Yamacraw Mission. If Georgia wants to establish itself as an attractive location for new e-commerce companies, it should not impose a tax policy that discourages the development of e-commerce, is opposed by a majority of online users and creates the image on the Internet of a state with a hostile regulatory climate. Georgia should oppose state sales taxes on e-commerce and encourage its Congressional representatives to support a continued national moratorium on such taxes.

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