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The Big Lie(s) On Internet Taxes

Do you want the Internet taxed? Many government officials, including senior US Treasury Department official Joe Guttentag, are arguing that taxing the Internet is inevitable.

It is inevitable only if our elected representatives buy in to the big lie, or in this case, three big lies.

The first lie is that government must tax the Internet because the government needs the money. The second lie is that not taxing the Internet is unfair to retailers who pay retail sales taxes. The third big lie is that we can tax the Internet without destroying our financial privacy.

Is it true that the government "needs" the money? Politicians can always come up with an infinite array of reasons why they should spend your money rather than you. However, we need to be more critical in assessing what is truly a need.

Fact 1: Most governmental units in the U.S. are running surpluses. Hence government does not need more money to balance its budgets or fund existing programs at present levels.

Fact 2: Every tax has a revenue maximizing rate. For instance, a very high tax rate on labor will discourage people from working (at least in the reported economy).

By lowering the tax, people will take jobs, and the tax revenue collected by government will increase up to a certain point. There is overwhelming empirical evidence that many tax rates in the U.S. are still well above the revenue maximizing rate. These include the high marginal income tax rate, the capital gains tax rate, and the death tax, among others.

Fact 3: Government spending is well above the optimum level to maximize social welfare. Many activities that have been done by government can be handled more efficiently and effectively by the private sector.

Government programs, by their very nature, tend to engage in the abuses and inefficiencies that are associated with monopolies, and hence big government adds to the misery of society.

Thus, we can safely conclude that those who advocate the taxation of the Internet because government "needs the revenue" are either ignorant of the facts or hostile to the idea of individual liberty.

Another reason given for taxing the Internet is that those retailers in states and localities that have a retail sales tax are put at a competitive disadvantage to those who sell over the Internet.

The fact is that any retailer subject to a high sales tax is always at a competitive disadvantage to those who sell the same product in lower tax-rate jurisdictions. For example, very few mail-order retailers collect sales tax for sales they make in other states. International sellers almost never collect retail sales tax for foreign jurisdictions.

The basic reason for not taxing out-of-state sales or out-of-country sales (other than tariffs) is that the business transaction does not take place in the purchaser's place of residence.

The purchaser is not the beneficiary of most of the government services provided locally—police and fire protection, schools, etc. Hence, there is no good reason to argue that out-of-state or out-of-country purchasers ought to be taxed for services they do not receive.

Another fact is the local retail sales tax base is not going to disappear because of the Internet. The Internet is a great place to sell services and intangibles that can be delivered over the Internet. It is not a great place to sell bread and milk, and gasoline, and many of the other things that we purchase on a daily basis or need special handling (e.g., refrigeration).

Finally, a tax on Internet transactions would be unenforceable without the elimination of almost all financial privacy.

Assume that a resident of Florida, who is vacationing in Maine, decides to purchase (over the Internet) a book by a French author, published by a British publisher, who had it printed in Canada using a Tennessee distributor, who sends it by Federal Express to Maine, and the Florida purchaser used a Visa card from his New York bank.

Who should have the right to tax the above transactions, and how could the government enforce it without knowing every detail of every citizen's income and expenditures?

That level of intrusion is totally incompatible with the rights of a free person.

Those who say taxing the Internet is inevitable are in effect saying that having a bigger, more intrusive government is more important than economic prosperity or personal liberty.

Taxing the Internet is not only *not* inevitable, but it is also most undesirable, and technically almost impossible. Members of Congress need to hear this.

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