

Internet taxation 278

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The Internet (or "Information Superhighway") has grown quite beyond the novelty that it was once thought to have been. The Internet is no longer the playground of computer techies or pocket-protector wearing nerds. The Internet has become a community forum, a place of business, a vast source of information, as well as a constantly changing source of entertainment. From its beginnings, the highway has avoided any semblance of order (Kahin and Keller 23). No one owns the Internet, and no one controls its function or its content (Gay 48). With the highway came a new, uncontrolled, forum for expression as well as a new medium for business practices and exploration. The net filled a gap in society that was created with the loss of the great intellectual frontiers as different entities sought control over them. The very definition of the Internet defies control, and for that reason it has grown at an inconceivable rate and has become increasingly popular to a wide range of people (Leimer 16). Government attempts at control of the Internet have come in several forms, however the most recent and probably most alarming, is the threat of taxation. Putting the logistical difficulties aside, taxation of the Internet would hinder its growth and therefore its effectiveness, reducing what is going to be the most significant instrument for human interaction in history into a mere novelty for nerds once again (Positive and Negative Aspects 3).

The Internet began as a global network of research institutions (Edwin and Bates 34). These institutions shared information with each other and often published their findings for the rest of the scientific community through this medium (Edwin and Bates 34). As time passed the significance of the net (At that time called ARPANET) grew substantially until nearly every research

group both private and governmental were connected to it (Edwin and Bates 35). Eventually it became necessary for corporations to begin connecting their own computer networks into the Net to keep pace with what everyone else was doing. This pattern repeated for a time until literally hundreds of thousands of computers were connected, all sharing information openly. At this point, it is important to note that the Internet is made up of both computer hardware and software. The source of these resources was those who were connected to it, ranging from different institutions to different governments, the Net essentially belonged to everyone who used it (Leimer 5). Eventually colleges and other academic institutions began connecting and from there on out both the technological base of the Internet as well as the user base grew exponentially (Leimer 4). Finally, when the World Wide Web technology was brought to bear, this vast information resource was opened to the public.

Soon business began to realize that millions of people were signing up to use this multimedia communications device that was running 24 hours a day, 7 days a week, 365 days a year and it was global audience (Gay 49). Just imagine the advertising potential alone. Soon dollar signs began to flow just as fast as the 1's and 0's of data. While the commerce end of the Internet did begin to grow, its growth was not rapid, at least not in comparison to the rest of the Internet (Brian and Keller 29). One reason for this was the lack of practical computer knowledge within the business community (Brian and Keller 29). Everyone knew that there was money to be made and what was happening was very important, but no one knew quite how to use it effectively. Another reason was resistance from those who were quite

familiar to the net and had a philosophy much like that of the Internet itself (Brian and Keller 32). As stated above, the Internet resists any attempts at control or specialization. This may sound like an odd statement in reference to a network of computers but the Internet is not simply a network of computers. The Internet is a global information device composed of computer hardware, software and its users. This essentially means that the Internet can not become anything that its users do not want it to be.

Therefore, when big business tried to force its way into the Internet counter-culture it met with some resistance (Brian and Keller 33). In order to move into the world of the net, business had to play the same game as everyone else, and that was to contribute to the Internet.

All of this growing and building has led to where we are today. The Internet is becoming known as the method of communication. It is also becoming a virtual marketplace for business to sell both goods and services and it is that function of the Internet that we are here to add. Electronic commerce, or e-commerce, is basically a sequence of events carried out by both the buyer and seller to make a transaction (Leimer 4). The only difference between normal commerce and e-commerce is that all of the steps in the transaction occur electronically via computers and many times faster than standard transactions (Leimer 4). For example, Joe Smith connects to the Internet and visits a website called CDNow, an online music store. At this site Joe can browse an online catalog of CDNow's inventory and even hear pieces of different songs on the CD's. Eventually Joe makes a selection and goes to a "check-out" area of the site. Here his computer will connect to what is called a secure server, basically protecting any information such as credit card

number, shipping add and address, etc; when he makes his purchase. His purchase is then recorded and the CD shipped to him, all automatically. This example relates to the purchase of tangible goods. Another form of commerce on the net is the distribution or sale of information. Recently organizations like Reuters, The Wall Street Journal, and Lexis-Nexis have begun to sell subscriptions to large databases of information (Issues Alert 1). In addition, hundreds of stock brokerages have gone online to not only offer stock news, tips, and updates, but also online trading and portfolio management (Issues Alert 1). Everyday the area of e-commerce grows larger and larger, and there is only one thing that threatens its future expansion. That one blockade is the threat of taxation.

Recently everyone in the government business is hopping on the bandwagon to cheer on taxation of commerce over the Internet. With the Internet's popularity continually rising with no indication that it's ever going to stop, many have become alarmed that revenue is being lost as traditional forms of trade are replaced by businesses in communications media (Positive and Negative Aspects, 1). Some even propose to tax everything that happens on the internet. Many states look upon the Internet as a mere tool being used to erode their tax base. Government looks upon the Internet as something that is dangerously out of control and needs to be brought into the fold of government. Unfortunately this reasoning stems from a "Thar be dragons here" attitude toward the Internet by those who do not understand or comprehend its workings. There are many problems associated with taxing the Internet and Internet related commerce.

Before anyone makes any drastic decisions, our laws for taxation need to be considered and the Internet needs to be classified. The Goods and Service Act of 1995 states that only tangible products (goods) may be taxed. The Internet would certainly fall under the heading of service here (Russ 1). The Internet provides people with the ability to send and receive information and it is definitely not something tangible. Therefore, without repealing this law, our law prohibits it.

Government has, however, historically adjusted the tax base to reflect changes in the economy at large - so why not now? If the argument above is not enough to persuade for a tax-free Internet, we come to the predicament of how to tax the Internet. The most recent suggestion has been the " Bit tax," (Newsroom 1). This would basically be a tax on electronic transmission. This proposal would focus in on taxing the amount of information that flows through the Internet and not on taxing any goods. If implemented, this would involve the introduction of bit measuring equipment on all communications equipment to monitor the volume (Ganguly 2). This idea becomes quite ridiculous when examined even further. Bits become difficult to count within statistically stored networks (Ganguly 2). Internet providers are statistically stored networks and are who would become the bit counters. Encryption and compression can easily reduce or completely hide the number of bits making this an even more difficult and impractical way of taxing the Internet (Ganguly 3). This may also cause distortion in competitiveness and lead users to defer transactions out of the country.

The bit tax would not only be hard to regulate, but it's basis for taxing is an invasions of our natural rights. This tax is in no way related to the economic value of the good. Everything on the Internet would be taxed, including e-mail, which becomes a tax on freedom of speech. It would penalize the private user as much as the commercial user with no differentiation, tax-wise, between them.

When the government looks at the potential volume of revenue that can be raised by taxing the Internet, money can impair rational thinking as in the case of Texas. Texas has come up with its own idea on how to establish this tax. It has decided to claim jurisdiction over any online purchase if any part of the transaction flows through telecommunications lines or servers in Texas (Lassman and O'Donnell 2). For one who understands how information travels though the Internet, this instantly becomes a completely absurd idea. There are no direct routes on the Internet. Information is said to be split apart and travel in " packets" through the Internet taking the least congested route rather than the shortest route (Gay 40). A message could easily travel through every state twice, make a run though Europe, and stop off in Africa before it ever reached it destination only 50 feet away. You could literally end up owing thousands of dollars in taxes on the purchase of a stick of gum.

There is also the argument that the United States government, since not wholly in control, nor financing the Internet, has no right to impose restrictions upon it. In 1996, President Clinton tried to regulate the Internet with the Communications Decency Act. The Communications Decency Act

bans the communication of " obscene or indecent" material via the Internet to anyone under 18 years of age (Dordick 12). The Act has become nothing more than words on a page. This Act has only made people find loopholes and continue allowing anyone who wants to access " obscene or indecent" material a means to do so. Trying to regulate the Internet is essentially similar to one country dictating to another what its tax policies should be. The United States does not own the Internet; it is owned by the world and what the world sees fit to do, it will do.

The only reassuring action that has been made by the government is the realization that they do not have the knowledge to begin to tax the Internet presently. To hinder those who have come down with " Internet Taxation Fever," laws restricting any present Internet taxing action have been established. On March 3, 1997, Rep. Chris Cox of California and Sen. Ron Wyden of Oregon proposed the Internet Tax Freedom Act to impose an indefinite moratorium on future state and local taxes based on Internet sales or use (Lassman and O'Donnell 1). President Clinton has also issued a plan that would minimize any government role in electronic commerce development (Issues Alert 2). Locally in Florida, Governor Lawton Chiles moved to keep alive a tax break for the Internet users until a study commission can review the issue (Morgan 4B). He also wants a bill that would keep Internet services tax exempt until a study commission has a chance to take a broader look (Morgan 4B). In 1996, when the Department of Revenue announced its plans to begin imposing the tax, a scare occurred and this premature notion was stopped with a bill passed to at least temporarily block this tax (Morgan 4B).

Attempting to put a tax on any part of the Internet is impractical, nearly impossible and is an invasion of our rights as Americans. The government does not own or have any significant control over the Internet. Taxing is merely an act out of fear and, in turn, all ideas have been hasty and unrealistic. The Internet, itself, by the way it has been created and is meant to function, defies all attempts of control.

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