

Oct. 31, 2003

Dear Senator Cantwell,

I am writing today to urge you to support Senate Bill 150, commonly known as the "Internet Tax Non-discrimination Act of 2003." In brief, this bill will make permanent the moratorium on taxes on Internet access and multiple and discriminatory taxes on electronic commerce imposed by the Internet Tax Freedom Act which expires today.

As a partner in an Olympia-based Internet Service Provider, I feel that taxing business simply for the reason of providing Internet access is unfair and will reduce the demand for broadband services in existing markets as well as slow the growth into new markets.

Though broadband services such as DSL and cable are growing rapidly, still only 20% of households are connecting with the high-speed data linksⁱ offered by small businesses like mine, as well as national ISPs servicing hundreds of thousands of subscribers. Price and availability are the major factors affecting consumer adoption of this new technology.

If Internet taxes, such as a gross receipts tax levied to ISPs nationwide who provide access to Washington State users, were levied, the end users (and the businesses who provide access to the end users) would be most affected. I feel the increase in the end-users bill will produce a subsequent drop off in customers for the ISP.

Also worth noting is the additional burden of increased tax paperwork for entrepreneurial business owners who prepare their own taxes (myself included).

Another result of the non-passage of SB 150 is that many areas will continue to be underserved. If communities are able to levy taxes on Internet service providers, businesses will be significantly less inclined to enter the new markets which are often on the low-tech side of the "digital divide."

For example, the local ILEC (Incumbent Local Exchange Carrier (ILEC) recently "turned-up" high-speed DSL in many smaller communities on the Olympic peninsula. As my

company moves to serve these communities, we seek the cost-security, not surprising tax burdens.

Without competitive communications infrastructure, these areas will be less able to adapt to new technologies and foster new industries needed to sustain economic growth. The only incentive needed for these communities to catch-up is affordable broadband access - not more taxation and regulations which increase prices and complicate transactions.

Another concern addressed by SB 150, and the companion House bill 49 passed on Sept. 17th, is the prevention of "dual-sale- taxation" on transactions processed online between buyer/seller in different states. I agree with the Senate Commerce, Science, and Transportation committee's comments in the Sept. 24th Congressional Record, "the unprecedented benefits of the Internet to our society and economy should be encouraged by policymakers."

I feel that confusing and redundant taxation will hinder the adoption innovation of new technologies on the Internet - especially in revenue-starved rural areas who are starting late in the digital age.

I think interstate sales taxes on Internet-based transactions might also cause de facto trade embargos with states or municipalities with unfavorable Internet taxation schedules, as well as an increase in black market Internet-based sales, and sales "booked" in a different location.

I am concerned about the vague wording of the bill, specifically the general term "telecommunications service." I would have expected the drafters to be more specific in their use of lexicon especially now that the murkiness has jeopardized this bill's future.

Some local and state governments, including our own Gov. Locke, have expressed concern about the bill. Opponents contend that the bill will abolish established Business and Occupancy taxes, plus franchise fees on public right of ways paid by private companies, and other phone-related taxes.

While this is a legitimate concern, I don't think this bill seeks to render municipal franchise fees obsolete. I concur with the Executive Director for the Washington Association of ISPs (of which my firm is a member), "We support paying this tax as it is a uniform tax on *all* entities with a business license in the state. We would *not* support, and have opposed a separate B&O tax for ISPs that is beyond what other businesses pay, nor would we support a separate "access" or line tax (and) it would be totally inappropriate to add an additional tax on those elements simply because they are used to access the Internet.ⁱⁱ"

Again Senator Cantwell, I urge you to support the passage of SB 150 to promote prosperity for ISPs and increase access options for all Internet users.

Cordially,

Dave Olson

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ⁱ Hu, Jim - CNET News.com – Broadband numbers show heightened demand, Oct. 30, 2003

ⁱⁱ Gardner, Gary – Letter to WAISP members, Oct. 31, 2003