MONEY

Why You Could Soon Pay a Tax to Use the Internet

A critical protection against taxing Internet access lapses on Oct. 1. Here's how that might affect you.

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1 COMMENTS

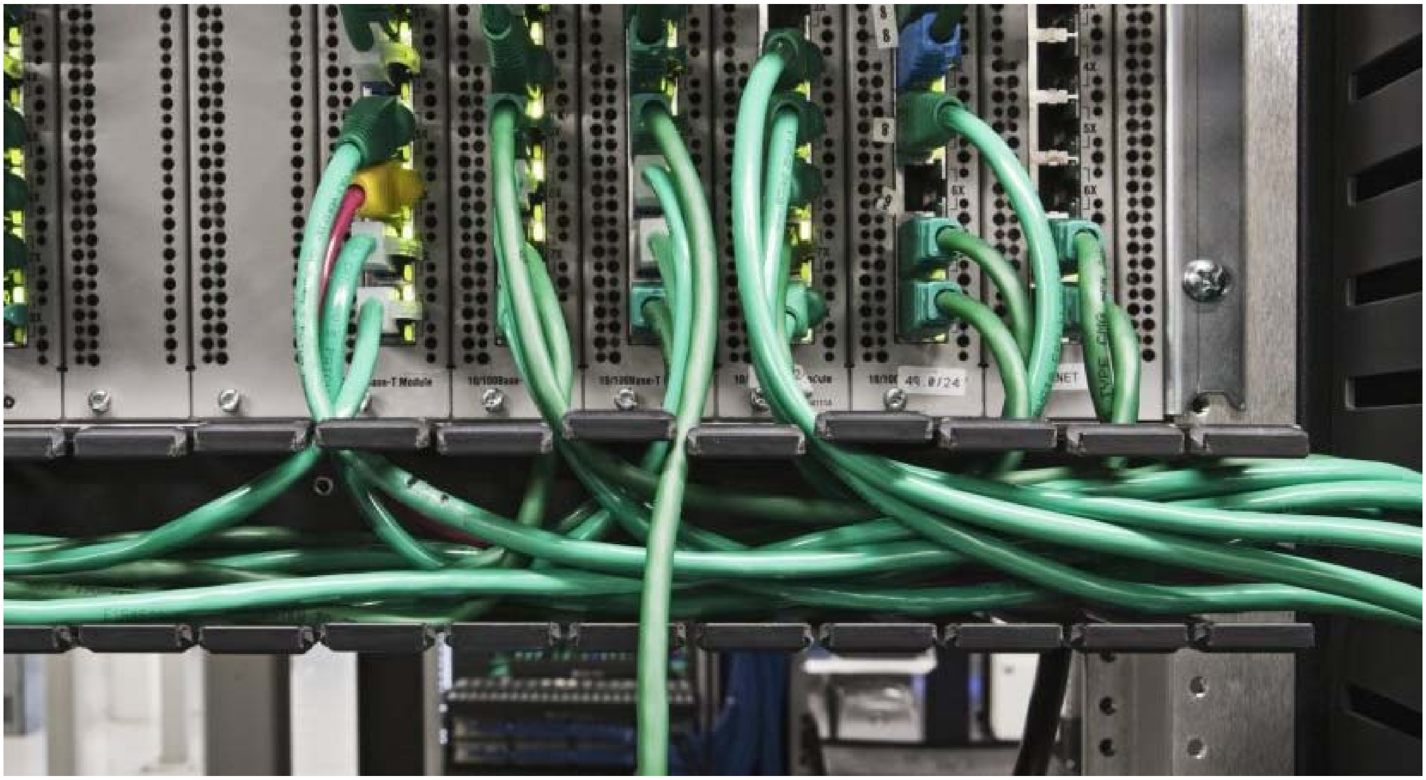

IMAGE: Getty Images

Imagine if you had to pay a toll every time you used the Internet. If that sounds like something out of science fiction like the Hunger Games, I have news for you: It's far from make believe.

If Congress fails to extend a piece of legislation dubbed the Internet Tax Freedom Act by October 1, not only might your costs rise, your Internet bill could start to look a lot like your phone bill, with a welter of additional state and local access taxes. What's more, businesses that depend on the Internet to operate would face even bigger increases. Depending on how much your employees download and how much of their day is spent online, your connection costs could go up significantly, says Diane Yetter, president of Yetter Consulting Services, a sales tax advisory in Chicago.

The legislation, which has been around since 1998, forbids federal, state and local taxes on Internet access.(Some states already had access taxes in place prior to the law's passage.) It also disallows discriminatory, "Internet-only" taxes, for example on bandwidth or email. The law was essentially meant as a prop to the emerging Internet industry, as it prohibited most states from imposing a tax on access, which encouraged consumer use.

The law has been reapproved four times with expiration dates since it was first enacted, but this time reauthorization is far from certain, as its gotten lost in a Congressional impasse.

Although the House has created a bill, called the Permanent Internet Tax Freedom Act (PITA), which, as its name implies, would make the access tax holiday permanent, it's being held up by politicians who want to tie it to two new, but related tax bills for online retailers. The two bills, which have been introduced in both the House and the Senate, would permit states to collect sales taxes from online retailers more broadly than they've been allowed to in the past.

There's significant bipartisan desire to generate more revenue by authorizing states to enforce the tax on retailers. However, enacting such legislation is controversial, because consumers would need to pay more, as businesses would add the new taxes to their product charges. Yet without new sales tax legislation, some politicians don't want to pass PITA either. And without that, or some other stopgap measure extending the original bill, your state could start taxing for your Internet access soon.

Here's what you need to know about the tax access law and the various bills Congress wants to attach it to:

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1. Your costs could go up. If the law lapses, states could then impose such taxes on your usage, which could range anywhere from 0 percent to 18 percent of your current charges, says Yetter. At least eight states have said they may consider adding an access ta Yetter says. Those states include Kentucky, Massachusetts, Minnesota, Rhode Island, South Carolina, and Washington.

2. Some states already make you pay. Prior to the 1998 law, seven states imposed an access tax for the Internet. Those are Alabama, Illinois, North Dakota, Ohio, South Dakota, Texas and Wisconsin. They were grandfathered in, and continue to collect taxes to this day. They are, and will remain, unaffected by the pending legislation.

3. Lawmakers want to put strings on a new deal. To pass a permanent extension of the Tax Freedom Act, some in Congress are pushing to attach it to two bills, one in the House and one in the Senate, that would authorize the collection of sales taxes by online retailers that don't have a physical presence in a particular state. That would change things significantly for you. (Today, only online merchants that have a significant physical presence in a state or states must collect sales tax in those states only. Amazon, for example, collects sales tax in about two dozen states where it has warehouses or offices.) They are called, respectively, the Remote Transaction Parity Act (RTPA), and the Marketplace Fairness Act (MFA) of 2015.

- The RTPA has a four-year schedule of exemptions for smaller merchants. In the first year, sellers with less than $10 million in revenue from online sales are exempt. By the second year, that drops to $5 million. In year three, the exemption becomes $1 million. And the exemption disappears by the fourth year.
- The current MFA revisits an earlier bill from 2013, and like the RTPA, it would authorize states to collect sales taxes from online sellers. It has an exemption for online sellers of $1 million in sales.

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