

Sales Taxes on the Internet: When and How to Tax?

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Abstract

As a first attempt to tax electronic commerce, many countries applied the existing tax laws to Internet. However, applying these laws to border-spanning electronic commerce proved very inefficient and inappropriate. While some authorities claim not taxing the Internet is the best solution for encouraging the growth of electronic commerce, we believe that use and sales taxes in general are an important part of a government's revenues and that their ban over the Internet is not feasible. Given the magnitude of potential revenues to be obtained from sales over the Internet, we need to consider when and how governments should tax electronic commerce. We focus on some proposals which try to answer this question and argue that a taxation scheme based on the location of the consumer is the best starting point for a global solution.

1. Introduction

The application of taxes to electronic commerce and the Internet has been heatedly debated for some time. There are really two questions being asked, and given different answers by a variety of interested organizations and individuals:

1. Should there be special taxes for Internet services including electronic commerce services?
2. Should the Internet be treated the same as non-electronic means of providing the same services and subjected to the same tax laws?

The final answer to these questions, which will result from policy debates and legislative actions worldwide are not clear as yet. There is a great deal of disagreement on what the correct answers are. In spite of various moratoria on Internet taxation, taxing services and electronic commerce activities on the Internet has been

the preferred long-term policy approach for most countries due to its promise of potentially huge tax revenues.

As the debate over a global solution to Internet taxation continues, the border-spanning nature of the Internet suggests that countries should collectively, and not just individually, agree to common ground rules for taxation of electronic services and goods. Uncoordinated, inconsistent and unpredictable taxation schemes by different countries threaten the growth of electronic commerce and could potentially cause larger losses in tax receipts in some nations than revenues. While no one enjoys paying taxes, and in general everyone would rather pay less than more, taxes are nonetheless essential for the provision of public goods such as education and security. The development of policies and mechanisms for a fair, equitable, and enforceable tax treatment of Internet commerce can therefore not be dismissed a priori as an unnecessary endeavor. Whether it is futile is a separate issue which can not be answered until the policy debate is examined more closely, and the costs and benefits of alternative approaches to taxing, or not taxing, the Internet are considered.

This paper discusses sales and use taxes for electronic services and goods in the United States. For the sake of simplicity, the arguments here are directed at and will mostly be limited to finding a solution for sales tax issues of electronic commerce in the United States but most of the arguments in this paper apply to a potential international/global solution as well. Section 1 provides background information on the issue of Internet taxation. Section 2 presents arguments for Internet taxation while section 3 presents arguments against. Section 4 describes the current state of Internet taxation. Section 5 considers applying current tax laws to electronic commerce. Section 6 analyzes alternative ways of charging sale and use taxes on services and goods provided through electronic commerce, and presents a modest proposal for the taxation of electronic commerce. Section 7 talks about extension of proposals to the international level and

the role of international organizations in the enforcement of any global tax law, while section 8 presents the general problems that need to be addressed for a fair and efficient taxing scheme for the Internet. Section 9 concludes the paper by summarizing our proposal and its consequences.

2. Arguments for Internet Taxation

The Internet has emerged as an electronic market place where consumers can purchase almost any good as if they are shopping from a catalogue. In some cases, the goods are delivered to the consumers electronically. In other cases, the goods are delivered through regular mail, as in the case of catalogue orders.

When we consider the magnitude of the Internet as a market place, the potential revenues from sales taxes on purchases made on the Internet are hard to ignore and can be a good source of revenues for many military and civilian services. Therefore, many countries tax purchases on the net the same way they would tax regular commerce. However, the nature of electronic commerce is different from conventional commerce and this has created two groups of people that believe in opposing solutions for taxation of electronic commerce.

The first group, the pro-taxation group, believes that electronic commerce should be taxed just like regular commerce because:

1. States and countries are at a risk of losing their existing tax base due to more customers' purchasing goods from out-of-state over the Internet.
2. If electronic commerce is given a no-tax status, then businesses can locate themselves in states where there is no sales tax (and still serve almost all of their audience online) for electronic purchases, thus making the loss of tax revenues a bigger problem.
3. Allowing tax exemption for electronic goods and services that are identical to goods and services purchased in traditional stores is not fair, e.g., not taxing an electronic book that is downloaded directly online while taxing the hardcopy of the same book sold in a store.
4. It is also unfair to consumers when their tax liability depends on how they buy a good rather than how much they buy. Especially since mostly the richer consumers have access to electronic commerce services, banning taxes on electronic transactions allows the richer community to pay less sales taxes while the poorer part of the community still has to pay the traditional taxes.
5. Electronic commerce already has huge cost advantages due to its ability to cut out the middlemen like wholesalers and distributors by getting the product directly from producer to consumer. So, even without tax incentives, electronic commerce has

competitive advantage over traditional merchants and will continue to grow. Therefore, not taxing the Internet can result not only in loss of revenues by traditional merchants but also in loss of jobs¹.

3. Arguments Against Internet Taxation

On the other hand, believers of anti-taxation argue that Internet has in fact created many jobs by moving retailing to the net. Among these jobs, they count trucking and package-delivery sectors. They also argue that by lowering the cost of products for the consumer, Internet allows the consumer to buy more things, thus benefiting a wider number of manufacturers. In addition, taxing the Internet the same way as conventional businesses brings about other concerns and complications, because:

6. Thanks to Internet, many small businesses are now able to serve consumers outside of their area. Imposing taxes on electronic commerce will keep these businesses from going on the net resulting in huge losses for these businesses as well as the economies they support.
7. Internet has been the driving force of the economy in many countries and imposing taxes on electronic commerce will result in slowing down its growth, costing the governments huge revenues in the long run. Given the future higher revenues expected from electronic commerce, a sales tax ban on electronic commerce can be viewed as a reasonable government subsidy for a developing industry.
8. The existing tax laws are inappropriate for the Internet due to the electronic and border-spanning nature of the Internet. Serious modifications and different enforcement mechanisms are necessary in order for these laws to work for electronic marketplace.

Although arguments for both for and against taxation exist, the important thing is for authorities to understand the Internet and its unique nature as well as its potentials and weak points before a decision is made. Especially, understanding the border-spanning and global nature of the Internet is very important before a global tax agreement is reached.

4. The state of regulation in general

The taxation of Internet started with many states' and countries' applying the existing tax laws to Internet. This application of physical geography based tax laws to Internet resulted in different tax laws for each part of the

¹ <http://www.intellectualcapital.com/issues/Issue181/item1772.asp>

Internet based on its physical geographic location. For example:

“About one-quarter of the states [in the U.S.] currently impose a sales/use tax on on-line "content" transferred by means of electronic commerce. States vary as to whether they tax on-line sales as an extension of sales tax imposed on tangible personal property, or as a separate category of taxable services. The states also differ as to whether they tax all or just some subcategories of on-line "content"”. [10]

In addition:

“With electronic commerce, the siting issues are particularly problematic because the transactions are frequently instantaneous and multi-state. Many transactions involve service providers in one jurisdiction, consumers in one or more other jurisdictions... Generally, sales are sited to where the consumer is located. However, a few states site sales to where the provider is located, not necessarily where the consumer is located”. [10]

The first attempt to tax electronic commerce started with the application of physical geography based tax laws to electronic commerce. By applying its local tax laws to electronic commerce, each country was basically free to tax any sale that took place within its jurisdiction (according to its own definition of its jurisdiction) at a rate that was determined by its tax laws. However, the Internet is a global unit. The presence of different tax rates in different parts of the Internet, the uncertainty of jurisdiction boundaries (sometimes overlap of jurisdictions as defined by different countries) and the vagueness of the amount of taxes at the time of purchase, e.g., double taxation (more than one jurisdiction charges taxes on the same purchase) or charging of taxes on taxes (one jurisdiction includes the taxes in the price of the item and the second state uses the price to determine sales tax owed to its jurisdiction), discourage consumer participation in electronic commerce and directly affect its growth. There are two conflicting issues at stake:

- a) The first concern is the loss for the governments of potentially huge revenues that they can make from sales and use taxes on purchases made over the Internet. Governments need these revenues in order to be able to provide their citizens with better roads, schools, transportation systems, etc.
- b) The second concern is the negative effect of application of existing geography based uncontrolled and varying taxing schemes (that are formatted to the needs and goals of different states [or countries]) on the growth of electronic commerce.

In the last couple of years, there have been several initiatives that are aimed at regulating the sales and use taxes on purchases made on the Internet and at addressing the two issues listed above. The most significant developments about Internet taxation have been initiated in the United States. In 1998,

congressional legislators and state governors in the U.S. passed the Internet Tax Freedom Act which included a moratorium on local and state taxes imposed on Internet. The Internet Tax Freedom Act was made to prevent states from imposing new and discriminatory taxes on electronic commerce and asked the U.S. government to make arrangements for the tax-ban to be globalized.

The U.S. government has also succeeded in obtaining a limited time global ban on new Internet tariffs and it has taken the initiative to try to make this ban permanent.

Also in 1998, U.S. and Japan expressed their desire to avoid any kind of ‘bit tax’, that is based on the amount of bits transferred over the net and collected by the service providers, and expressed the need for a common international framework. The U.S. and the E.U. have also been working closely on the issue of Internet taxation with the hope of creating a coherent and coordinated solution which can be implemented internationally.

The European Union’s efforts to resolve the Internet taxation problem have focused on creating a “common European position to achieve global consensus through international negotiations”. To this end, the E.U. has rejected the proposal of ‘bit tax’. [2]

Their publications on this topic state that:

“In order to allow electronic commerce operators to reap the full benefits of the Single Market (i.e. the European Market), it is essential to avoid regulatory inconsistencies and to ensure a coherent legal and regulatory framework for electronic commerce at EU level... In parallel, a number of key horizontal issues affecting the entire electronic commerce activity need to be addressed. These include data security, protection of intellectual property rights and conditional access services, privacy, as well as a clear and neutral tax environment”. [2]

The OECD has also been actively trying to solve the Internet taxation problem. OECD has established five principles of taxation that are necessary for fair and just taxation of Internet sales without slowing down the growth of electronic commerce. According to OECD, taxes over the Internet should be:

- Flexible
- Effective and fair
- Neutral
- Efficient
- Certain and simplistic. [19]

Last but not least, in September 1999, the Global Business Dialogue on Electronic Commerce (GBDe) a worldwide collaborative network of companies and trade associations involved in electronic commerce, released a set of recommendations, all arrived at by consensus. These recommendations suggest that no new taxes should be imposed on electronic commerce and Internet transactions should not be discriminated against by comparison with non-electronic forms of commerce. The

GBDe suggests that tax laws that work well in well-defined geographic jurisdictions should be refocused towards globally acceptable and applicable laws. [18]

5. Application of Existing Tax Laws to Internet

Before we evaluate different alternatives to Internet taxation, one point needs to be cleared. The existing tax laws cannot be blindly applied to the Internet because of unique properties of the Internet that challenge the assumptions underlying existing laws:

- Tax laws are based on physical geography, like the place of supply or residence of taxpayer. The border-spanning nature of the Internet makes it hard to identify the origin of the customers (email addresses are vague and can be easily manipulated) and makes it hard for the businesses to charge the correct tax on the goods purchased. This is especially a problem when the good purchased is delivered electronically, e.g. software, books or music which can be downloaded.
- “While most states will site sales of services to where the consumer uses the service, this location may not be readily identifiable by the vendor. With respect to sourcing sales of e-mail and similar services, siting the sale for purposes of sales and use tax jurisdiction is complicated by the fact that a consumer's computer may not be located in one jurisdiction but may instead be moving (especially with the increased utilization of laptop computers). Vendors may know where the billing address of their customer is, but may not know where the "use" of the service occurs” [10].

So, application of existing tax laws to Internet is a very problematic proposal. Taxation of Internet should be according to Internet-unique laws which cannot be developed on a state by state basis. Instead, for a satisfactory solution, a global effort is necessary.

6. Alternatives Ways of Taxing the Internet

There have already been several proposals regarding Internet taxation. In this section, we do NOT review these proposals. Instead, we go over some of the ideas that lie at the heart of these proposals, discuss possible ways of taxing the Internet keeping the interests of the stakeholders in mind, and try to explain what makes each alternative possible/impossible. While we do not directly discuss all of the proposals discussed by other researchers so far, the ideas we propose and discuss are representative of these and the issues we raise apply to these proposals as well.

6. 1. Sales Taxes Based on the Location of the Seller

One of the most straightforward taxing proposals is based on the location of the retailer. In the most developed form of this kind of taxation, each state will have a pre-set tax rate for each kind of industry, i.e., a different tax rate for each industry in each state. The desirable side effect of this kind of taxation is the competition it will create among states, lowering the tax rates. I.e., consumers will identify the businesses that have lowest overall prices for each kind of industry and try to shop from those merchants. Of course, businesses located in jurisdictions with lower sales taxes will be able to charge lower overall prices or enjoy higher revenues per sale. This will result in loss of market share for other jurisdictions which will be forced to bring down their prices to marginal cost, eventually bringing tax rate to zero.

However, in practice the above prediction will not hold. In reality, businesses pick location not only based on the lowest overall price they can achieve but also on the other externalities offered to them by the specific state/jurisdiction. Jurisdictions with more developed infrastructure, for example, are likely to attract more businesses than jurisdictions with lower sales taxes. Similarly, jurisdictions with lower income tax rates, or real estate valuations are probably more attractive to many businesses. If all else were equal, then the competition mentioned above would be true. However, this is not the case and the competition that would ideally drive the tax rates to zero is only true in theory.

In addition, at least in the United States, taxes on articles that are exported from a state are unconstitutional. So, charging taxes based on the location of retailers is not as simple as it sounds. The companies need to keep track of the location of their customers and charge taxes only on the purchases that are actually used within the same state as the retailers. As a result of this, consumers will try to purchase items only from companies that are not located in their home-states. (On a global level, not charging taxes on exports is not in the best interest of any country, and therefore this article would probably not apply on an international level.)

Let's assume now that taxes on exports are no longer banned. As an outcome of this, consumers will only buy goods from states with the lowest tax rates. All else offered to businesses by jurisdictions being equal, this will force businesses to relocate themselves to states that have lower tax rates in order to maintain competitive advantage. The states with lower tax rates will be able to attract more electronic businesses and consumers as well as encouraging their own residents to shop within their own state.

6. 2. Sales and Use Taxes Based on the Location of the Consumer

The second possible way of taxing electronic commerce would be to set taxes depending on the location of the consumer. In this taxing scheme, each state will have its own tax rate which can be different for each industry. During online purchases, the companies will identify the location of the customer and add the applicable taxes to the bill.

This option requires the international community to form an international organization which will force businesses to collect sales taxes and transfer it to the state where the purchaser lives.

This proposal offers several good ideas. First of all, forming an international organization that will audit and oversee the taxation process is a very good idea. We explain the merits of this idea in section 7.

The second good idea is the proposal for taxes to be based on the location of the consumer. Paying taxes on the local residence basis is a passive self-regulatory approach to taxation since people are more willing to comply with tax laws when they know that the tax will benefit their own neighborhood, city and state.

This alternative basically agrees with the Information Technology Association of America (ITAA) recommendation that says that electronic commerce should be treated the same way as mail order purchases. According to ITAA, this simplifies the Internet taxation problem to a certain extent since many legal and tax implications have already been solved by laws governing mail order purchases (only applied to tangible goods). [13]

Yet, this is also a pretty complex solution. For simplicity purposes, one could argue that one tax rate per jurisdiction should be set regardless of the kind of good sold, and regardless of the industry. As unjust as this intermediate solution might be, it is a good transition from the no-tax moratorium to the more complex, state-based, industry-based taxing scheme.

6. 3. Industry-Uniform Taxation Among States

The previous two proposals are overly complicated and their enforcement is very difficult. A simpler solution would be easier to audit and enforce, however it may not be as fair.

As an example, let's consider industry-uniform taxation among states. By this, we mean for each industry sector, there will be a set tax rate and the same tax rate will be enforced everywhere.

The reason for infeasibility of this option, especially on an international level, is obvious. Different countries

have different economic strengths, different economic needs and different standards. Each country and even the states within one country would like to set their own tax rates. Therefore, forcing these stakeholders to agree to the same standards is impossible.

6. 4. State-Uniform Taxation Among States

This method of taxation is a variation on the industry-uniform taxation. In this case, each state agrees to charge the same percentage of taxes for each of the other states based on the home-state of the consumer, i.e. the sales tax for MA residents will be 5.9% anywhere in the US.

Although a thorough solution to Internet taxation may not be possible through uniform taxation, the idea behind this proposal can be put into practice to a certain extent. I.e., the uniformity can be established as much as possible. For example, states can agree on a single definition of nexus (jurisdiction rules for tax purposes) which could by itself simplify the taxation problem to a certain extent.

“With regard to sales and use tax rules on electronic commerce, regardless of how broad an individual state chooses to make its sales tax base, it would be helpful for the state to clearly spell out the different types of services that it considers taxable under its statutes. In addition, a certain degree of uniformity can be established among states about how to tax multi-state and international transactions.”[7]

6. 5. No Taxes

Applying no taxes on electronic transactions is another scheme to be considered. This option can work in two different ways.

The first option would be not to charge taxes on electronic sales and to collect taxes on these transactions along with the tax returns. In the U.S., some jurisdictions, e.g. New Jersey, already ask for untaxed out-of-state purchases to be declared on individual tax returns. Although this method is much simpler than previous proposals, it is invasive of the consumers' privacy.

The second option would be simply not to tax electronic sales at all. This is the direction the Internet taxation has been heading over the past years. Clearly, this is a solution preferred by both businesses and consumers, it does not present the enforcement and privacy issues posed by the earlier proposals but it does not provide the states with the income they very much need to fund most of their services.

This kind of taxation policy has in fact been proposed by the ITAA which claims that not taxing electronic commerce will result in no net revenue losses because of

the new revenues generated by hardware and telecommunications sectors stimulated by the Internet and electronic commerce. In addition, ITAA emphasizes the prospect of additional income revenues due to decreased unemployment rate due to new jobs created by fast development of electronic commerce. Therefore, they conclude that imposing taxes on electronic commerce is not necessary. [13]

Before we go ahead and claim that not taxing the Internet is the solution to Internet taxation problem, we need to make sure that this 'solution' does address the concerns, which pushed local jurisdictions to tax the Internet in the first place. These concerns were mainly the erosion of tax revenues due to migration of businesses to online media, the potential huge revenues that could be obtained from Internet, and the fairness to traditional stores which provide exactly the same services as their online counterparts.

First of all, it is claimed that the erosion of revenues is really not a concern any more because electronic commerce is creating many more jobs than it is destroying, and has been responsible for higher levels of employment, productivity and economic growth.²[5]

However, the potential *additional* tax revenues, if taxes can be imposed in a way that will not hinder the growth of electronic commerce, are important revenue streams which can be used to further improve the overall infrastructure, military defense, and research facilities of all states. These lost revenues can mostly be compensated by increasing the state or income taxes, in a way replacing sales taxes (sales taxes on both electronic and conventional commerce) with income taxes and real estate taxes. However, sales tax is supposed to be a kind of consumption tax, not a labor tax. Taxing harder working and higher income individuals as opposed to individuals who consume more does not seem right.

In addition, although this can be one of the solutions that can work in the United States, it cannot be applied on an international level. This is because, European Union countries are, to the contrary, emphasizing the republican approach to taxes: They are reducing income taxes and increasing sales taxes.

As a conclusion, we can say that not taxing the Internet (without increasing other forms of tax to make up for the lost revenues) does not resolve the concerns/issues that resulted in Internet taxation or even the concerns that require a sales tax on conventional

commerce. By not taxing sales over the Internet, the governments are losing not only new potential income sources but they are also losing some of their current revenues that come from businesses that migrate to Internet. Since there is no real fair way of replacing sales taxes with other forms of taxation, not taxing the Internet cannot possibly be a permanent and satisfactory solution.

6. 6. Recommendations for A Solution

While finding a taxation scheme that can actually work and be enforced will be very difficult due to the border-spanning and global nature of electronic commerce, we recommend starting with extending the moratoria to ban Internet taxes while a taxation scheme is devised. Premature and temporary taxation schemes while a more permanent scheme is developed could be detrimental to development of electronic commerce.

However, this moratorium is not the "real" solution since it does not address the issues which led the countries to charge sales taxes on traditional commerce to begin with. Sales taxes on electronic commerce are not just a greedy strategy by governments, neither are they part of a conspiracy directed to slowing down the growth of Internet. There is a reason behind the sales taxes, and all conventional industries have been paying sales taxes in order to satisfy some needs of their governments. While a short-term moratorium on Internet sales taxes can be regarded as a government subsidy for a new and growing industry, in the long term, Internet businesses will need to charge sales taxes just like their "brick and mortar" counterparts.

Given that states need the additional revenues from electronic commerce transactions in addition to the revenues they are losing from conventional businesses that are migrating to Internet, ban on Internet sales taxes is only a temporary solution.

So, the final solution to Internet taxation problem is most likely to be one based on the location of the consumer. Such a scheme would, for example, enforce industry-uniform, state-uniform taxes on electronic sales. Of course, the transition from the moratorium to a uniform global tax scheme can be done in stages. In addition, the recommendations below summarize the points that need to be incorporated into any taxing scheme:

- A taxation scheme has to include a clear definition of nexus, i.e., sufficient physical presence, and a global concept of nexus has to be agreed upon. This agreement will make taxation much easier, since each company will be able to tell whose taxes it is bound by.
- Global sourcing rules, which are based on where the consumer is "consuming" the goods, make the most

² "Even as e-commerce explodes, state governments continue to enjoy annual sales tax revenue growth and total revenue growth of close to 6 percent each. California, the nation's most Internet-friendly state, enjoyed record sales tax revenue growth of 9 percent last year. Further calculations suggest that state and local budget surpluses as a percentage of state and local revenue will continue to outpace federal surpluses as a percentage of federal revenue" [5].

sense. A global agreement on such a rule would simplify the chaotic taxation issue to a certain extent and ensure a certain level of consistency on the definition of “purchase location” and “consumption location”.

“The growth of new communications technologies and electronic commerce will likely require that principles of residence-based taxation assume even greater importance...”

United States tax policy has already recognized that as traditional source principles lose their significance, residence-based taxation can step in and take their place. This trend will be accelerated by developments in electronic commerce where principles of residence-based taxation will also play a major role.” [12]

- There is need to achieve global consensus to simplify sales and use taxes as much as possible. Each state and country should first simplify its own rules, and then in turn, groups of countries, continents and then on the global level, there should be as much simplification as possible. Establishment of a single tax rate for each state would be the starting point of such simplification.
- Protect privacy. Encourage tax alternatives that protect the privacy of consumers as much as possible. [11].

7. Role of International Organizations

The proposals discussed in this paper focused on identifying a state-level solution to Internet sales tax problem particularly in the United States. However, as stated earlier, most of the alternatives discussed in this paper – unless stated otherwise – are also valid when looking for an international solution to this problem. Namely, the no tax moratorium can be and has been generalized to an international level. Consumer-location-based, state-uniform, industry-uniform taxation can also be generalized to an international level, however such a taxation scheme is too complicated to work on a global level without enforcement. Enforcement of such a scheme requires participation of international organizations which will enforce the tax-rules and safeguard the interests of all stake-holders.

Electronic commerce taxation requires special attention from international organizations especially because international electronic commerce makes fraud easy and prosecution difficult. Due to the nature of Internet, one can never know what laws apply when on the Internet. Therefore, there may be need for more strict enforcement and auditing agencies which will make sure the consumers will be charged the correct amount of taxes and that these taxes will reach their rightful owner (the state or country of the consumer). Such agencies can

be formed by international co-operation among industry and governments.

OECD, WTO and WIPO have been some of the international organizations that are involved in global electronic commerce regulation working towards a global solution to issues raised by electronic commerce:

“On 12 and 13 October 1999 the OECD brought together representatives of consumer, civil liberties, human rights, Internet providers, labor organizations, business and governments to discuss the critical regulatory issues posed by electronic commerce. The issues analyzed included access to the Internet for all, consumer rights, and governance in cyberspace and privacy protection. Rather than embrace the call for industry-led self-regulation, the Public Voice participants opted for co-regulation and urged governments to take a stronger regulatory stance. According to OECD officials, the "Guidelines for Consumer Protection in the Context of Electronic Commerce," drafted over the past two years by business leaders, government officials and representatives of consumer groups, are likely to be approved before the end of the year. However, difficult issues of applicable law or dispute resolution remain still pending.”[19]

International Organizations will play a key role in Internet taxation. As a means to guaranteeing proper functioning of electronic commerce taxation, global international treaties or regulations should be defined and enforced by international organizations in place of “national” laws which may not be consistent with each other across nations. Only then can we guarantee a certain level of simplicity, consistency and security with respect to collection of taxes.

8. Problems

The consumer-location based taxation scheme has three major problems. The first one involves privacy issues. Computation of the correct amount of taxes for each consumer requires that information about the address of consumers be available to sellers even for purchases that are not tangible. This can potentially discourage consumers from electronic shopping, however most cases of electronic commerce already require consumers to input their addresses and goods are only delivered to the address associated with the credit card that is charged for the purchase. So, the effect of this privacy issue should not be too big.

The second problem is the complexity of description of jurisdictions and the overhead for businesses of identifying where each consumer lives for sales tax purposes. The complexity of this solution makes it open to mistakes and abuses alike.

The last problem that is mentioned earlier is the difficulty of auditing and enforcing the tax laws and the burden this puts both on international organizations and

local governments. Forming larger enforcement and auditing agencies is unavoidable for any sort of international taxation scheme to function properly. Yet, the software tools developed for Internet will alleviate this problem.

9. Conclusion

Many academicians and politicians alike have argued that imposing sales or use taxes on the Internet is difficult, unfair and detrimental to the development of electronic commerce[8][18]. Given the importance of electronic commerce as a revenue stream and as a resource that has created many new jobs, businesses and professions, slowing down the growth of electronic commerce means hindering growth of national and global economy as well.

Therefore, until a well reasoned-out taxation scheme for Internet has been developed, the international community should refrain from taxing Internet sales. The best taxation scheme for Internet sales in the long run is the consumer location based sales tax, where each state charges a different sales tax for each state (state-uniform, industry-uniform).

Not taxing the Internet is for many the preferred solution to Internet taxation problem. But is it plausible to expect the countries around the world to accept and agree a global sale and use tax ban for electronic commerce? It is claimed by many that the long term returns of this approach would be much larger than an immediate profit the governments would make from the Internet. Prudent Internet businesses should nonetheless be prepared for the day when they are taxed the same as their off-line competitors. The technical mechanisms of large databases on tax authorities and rates are relatively trivial to assemble; the challenge is for governments to agree on the algorithms to be applied for merchants to determine who should pay what tax where. While this is being agreed to, extending the Internet tax moratorium is the only solution.

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