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Here's the Republican vision for a national Internet sales tax system

By [Andrea Peterson](#), Published: September 18 at 1:00 pm [E-mail the writer](#)

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The saddest cash register. (REUTERS/Adam Hunger)

If you're a frugal consumer, you've probably noticed that the benefits of online shopping aren't just limited to easily being able to compare prices: More often than not, online retailers don't charge sales tax. So even if something is the same price in a brick and mortar store, ordering it online can sometimes work out to be a better deal.

Under a 1992 Supreme Court decision, states can't force out-of-state retailers to collect sales taxes unless the retailer has physical presence within the state -- like a store or a warehouse. In most states with sales taxes, consumers are supposed to keep track of online purchases and pay out sales tax in the form of a "Use Tax" when they do their annual filing. But consumers frequently ignore that requirement.

The Senate passed a measure known as the [Marketplace Fairness Act](#) in May that would let states collect out-of-state online sales tax provided they created free software and a state entity to do so. The measure also exempted online out of state retailers with receipts under \$1 million per year. But it passed primarily with Democratic support, and hasn't gained much traction in the Republican-controlled House.

Today, the House Judiciary Committee released principles that will guide its creation of a proposal for U.S. Internet sales tax. They are:

1. Tax Relief – Using the Internet should not create new or discriminatory taxes not faced in the offline world. Nor should any fresh precedent be created for other areas of interstate taxation by States.
2. Tech Neutrality – Brick & Mortar, Exclusively Online, and Brick & Click businesses should all be on

equal footing. The sales tax compliance burden on online Internet sellers should not be less, but neither should it be greater than that on similarly situated offline businesses.

3. No Regulation Without Representation – Those who would bear state taxation, regulation and compliance burdens should have direct recourse to protest unfair, unwise or discriminatory rates and enforcement.
4. Simplicity – Governments should not stifle businesses by shifting onerous compliance requirements onto them; laws should be so simple and compliance so inexpensive and reliable as to render a small business exemption unnecessary.
5. Tax Competition – Governments should be encouraged to compete with one another to keep tax rates low and American businesses should not be disadvantaged vis-a-vis their foreign competitors.
6. States' Rights – States should be sovereign within their physical boundaries. In addition, the federal government should not mandate that States impose any sales tax compliance burdens.
7. Privacy Rights – Sensitive customer data must be protected.

Chairman Bob Goodlatte (R-Va.) released a statement along with the principles saying, "Americans across the country are affected by the issue of Internet sales tax whether they are consumers or business owners" and adding he looked forward to "continuing the discussion" about the issue.

Many brick-and-mortar stores are behind the implementation of an online sales tax system for obvious reasons, as are big box retailers like Target who already have to pay sales tax on most online transactions because they have physical locations in many states. States are also keen on a fix because they're losing out on an estimated \$23 billion in sales tax revenue per year.

E-commerce giant [Amazon](#) went from opposing to supporting online sales tax proposals recently, most likely because it will help the company stay competitive with other online retailers as it expands its physical operations into more states to support same-day delivery.

Online marketplace eBay, on the other hand, was a major opponent of the Senate bill, arguing it would be a burden on [small online businesses](#).

House Republicans Release Principles for Online Sales Tax Legislation

WASHINGTON, D.C. (SEPTEMBER 18, 2013)

BY MICHAEL COHN

Republican leaders of the House Judiciary Committee released a set of principles Wednesday for taxing Internet sales, offering the first tentative move toward compromising on legislation passed by the Senate earlier this year that has not yet advanced in the House.



Bob Goodlatte

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The Senate passed the Marketplace Fairness Act in May, requiring Web sites with more than \$1 million in remote sales to collect sales taxes from customers in states that have joined the Streamlined Sales and Use Tax Agreement (see [Senate Passes Internet Sales Tax Legislation](#)). However, the bill provoked opposition among many House Republican lawmakers and has stalled until now.

On Wednesday, House Judiciary Committee chairman Bob Goodlatte, R. Va., released a set of basic principles on the issue of Internet sales tax, supported by a key subcommittee chairman:

- 1. Tax Relief:** Using the Internet should not create new or discriminatory taxes not faced in the offline world. Nor should any fresh precedent be created for other areas of interstate taxation by states.
- 2. Tech Neutrality:** Brick and mortar, exclusively online, and “brick and click” businesses should all be on equal footing. The sales tax compliance burden on online Internet sellers should not be less, but neither should it be greater than that on similarly situated offline businesses.
- 3. No Regulation Without Representation:** Those who would bear state taxation, regulation and compliance burdens should have direct recourse to protest unfair, unwise or discriminatory rates and enforcement.
- 4. Simplicity:** Governments should not stifle businesses by shifting onerous compliance requirements onto them; laws should be so simple and compliance so inexpensive and reliable as to render a small business exemption unnecessary.
- 5. Tax Competition:** Governments should be encouraged to compete with one another to keep tax rates low and American businesses should not be disadvantaged vis-a-vis their foreign competitors.
- 6. States’ Rights:** States should be sovereign within their physical boundaries. In addition, the federal government should not mandate that states impose any sales tax compliance burdens.
- 7. Privacy Rights:** Sensitive customer data must be protected.

To develop the principles, the House Judiciary Committee received input from taxpayers, industry and trade groups, and representatives of state and local governments. The committee indicated that the principles are intended to guide discussion on the issue and spark creative solutions.

“Americans across the country are affected by the issue of Internet sales tax whether they are consumers or business owners,” Goodlatte said in a statement. “The aim of the principles is to provide a starting point for discussion in the House of Representatives. I greatly look forward to hearing fresh approaches to this issue and continuing the discussion.”

Goodlatte received support from Rep. Spencer Bachus, R-Ala., who chairs the Subcommittee on Regulatory Reform, Commercial and Antitrust Law and formerly chaired the House Financial Services Committee. “The principles issued by Chairman Goodlatte provide a thoughtful framework for discussion on the Internet sales tax issue,” said Bachus. “As chair of the subcommittee with jurisdiction over Internet tax issues, I appreciate that the chairman is giving it serious consideration.”

The National Governors Association, which has been pushing for legislation requiring Internet retailers to collect and remit sales and use taxes from their customers to help support their revenue-starved state governments, commended the set of principles released by Goodlatte.

“The National Governors Association applauds Chairman Goodlatte for his focus on this critical state-federal issue and for making it a priority of the committee,” the group said in a statement. “Marketplace Fairness is common-sense legislation that upholds the principles of federalism and levels the playing field between Main Street and e-street. It helps states, encourages competition and preserves Main Street jobs. We are pleased by the release of the principles and praise the chairman’s efforts to move this legislation. We look forward to working with the committee to ensure this legislation moves through Congress this year.”

The National Retail Federation, whose brick-and-mortar retailers have long complained about the tax benefits afforded to their online competitors, also hailed the release of Goodlatte’s principles.

“The National Retail Federation welcomes the release of these principles and appreciates the House Judiciary Committee’s continuing dedication to, and leadership on this retail industry priority,” said NRF senior vice president for government relations David French. “These principles will serve as a legislative roadmap for advancing sales tax fairness legislation in the House of Representatives, and demonstrate that Congress is listening to the pleas of local, community retailers and merchants, who continue to face an unfair competitive disadvantage with their online competitors. NRF looks forward to analyzing and discussing these principles with our

members, and remains confident that Congress will address the unlevel playing this legislative session. We look forward to providing critical feedback to the committee and welcome any opportunity to participate in forthcoming legislative hearings."

Many online retailers have traditionally failed to collect sales and use taxes from customers, leaving it to the customer to report the taxes on their tax returns and remit it to their state government. Few taxpayers do so. A 1992 decision by the Supreme Court in the case of *Quill Corp. v. North Dakota* ruled that remote sellers such as catalog merchants were only required to collect use taxes from customers in the states where the retailer has a physical presence, or nexus. Many states have passed their own laws requiring online merchants to collect sales and use taxes, noting that large online businesses like Amazon.com frequently have affiliates in their states who pass along Web site visitors to the e-tailer in exchange for a percentage of any sales that are made.

Amazon has traditionally waged legal battles against online sales tax laws in various states, but has thrown its support behind the Marketplace Fairness Act as it opens physical distribution centers across the country. Its rival eBay has continued to oppose the legislation, but it signaled Wednesday that it approves of the principles released by Goodlatte.

"eBay is very encouraged that the remote sales tax principles released today by Chairman Goodlatte address concerns that we have raised on behalf of our small business community," said Brian Bieron, executive director of global public policy at eBay Inc. "The principles create a sensible starting place to develop legislation that considers the interests of many stakeholders. We appreciate all the effort Chairman Goodlatte and his staff have put into developing these principles, and we look forward to continued partnership on this important issue."

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