

5-2000

Taxing e-Commerce

Anthony J. Cataldo II

West Chester University of Pennsylvania, acataldo@wcupa.edu

Arline Savage

Oakland University

Anthony P. Curatola

Drexel University

Follow this and additional works at: http://digitalcommons.wcupa.edu/acc_facpub



Part of the [Taxation Commons](#)

Recommended Citation

Cataldo, A. J., Savage, A., & Curatola, A. P. (2000). Taxing e-Commerce. *Strategic Finance*, 18-20. Retrieved from http://digitalcommons.wcupa.edu/acc_facpub/5

This Article is brought to you for free and open access by the Accounting at Digital Commons @ West Chester University. It has been accepted for inclusion in Accounting Faculty Publications by an authorized administrator of Digital Commons @ West Chester University. For more information, please contact wccressler@wcupa.edu.

Taxing e-Commerce

THE ADVISORY COMMISSION ON ELECTRONIC Commerce (ACEC) has been wrestling with issues relating to the Internet and sales and use taxation. ACEC was created following the 1998 Internet Tax Freedom Act (ITFA).

The ITFA bars state and local governments from imposing (new) taxes on e-commerce, but this three-year moratorium on Internet taxation is scheduled to expire on September 30, 2000. The ACEC was charged with the responsibility of making its recommendations on April 21, 2000.

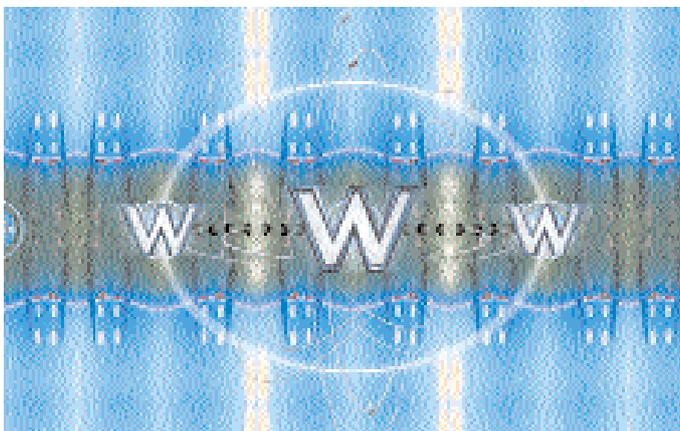
Though failing to reach the desired supermajority of 13, the 19 members of the ACEC have reached consensus on three issues. First, there should be no taxes on Internet access or usage. Second, the 3% excise tax on telecommu-

and Wisconsin had already taken steps toward taxation of the Internet. The ITFA did *not* prevent these states from proceeding if they were able to demonstrate that their taxes had already been “generally imposed and actually enforced” prior to October 1, 1998. Despite this grandfather clause, some of these states agreed to abide by the national moratorium.

- The Supreme Court decision in *Quill v. North Dakota*, 504 U.S. 298 (1992) prohibited any jurisdiction from forcing vendors without a substantial nexus in that jurisdiction to collect that jurisdiction’s use tax. This decision protected mail-order and other “remote sellers” from taxation by states and localities. Any new sales and use taxes imposed on Internet sales are likely to include mail-order sales. By some estimates, state and local taxing authorities are losing \$3-\$4 billion in sales tax revenues from mail-order sales.

- Forty-five states and the District of Columbia impose a sales tax. Alaska, Delaware, Montana, New Hampshire, and Oregon don’t impose general sales taxes on goods and services. Therefore, any federal legislation requiring that the vendor have a “substantial nexus,” or physical presence at the point of sale (POS) or origin, as a prerequisite for the collection of sales and use taxes would provide economic incentives for the establishment of Internet sales facilities originating from these states.

- Estimates suggest that state and local sales taxes within the U.S. could involve 7,500 to 30,000 separate jurisdictions. Approximately 650 of these change or add new sales tax rates annually. Although sales tax compliance software is already available (such as those products provided by the Big 5 accounting firms) that maps sales and use tax rates and forms to ZIP code, the administra-



nications (dating back to the Spanish-American War) should be eliminated. Third, the existing system of sales taxation is far too complex.

Consider the evolution and the complexity of this issue as it relates to Internet growth and taxation:

- Connecticut, Iowa, New Mexico, North Dakota, Ohio, South Carolina, South Dakota, Tennessee, Texas,

tive and clerical costs of compliance will be excessive.

Consider the monthly remittance of sales taxes. The costs of administrative and clerical salaries, postage or electronic transfers, and the simple act of signing sales and use tax reports would prove onerous. Generally, computer databases could be updated monthly via the Internet, but this would provide for the recurring additional expense of periodic

software updates. These costs would represent "barriers to entry" into e-commerce, particularly for the small business.

- The American Institute of Certified Public Accountants (AICPA) has proposed many changes leading to sales and use tax uniformity. These include the consolidation of multiple sales and use tax rates and returns within a state, definitions of the same product or service, report-

ing requirements, and audit procedures and administrative requirements. Also in the proposal is a standardization of nexus rules. The AICPA proposal, however, may further contribute to the evolution of a national sales tax.

For insights into the desirability of such a trend, you need only look toward our northern neighbor, Canada, where regressive, consumption-based provincial sales tax (PST); national/general sales tax (GST); and harmonized (combined provincial and national) sales taxes (HSTs) have evolved to represent significant sources of state and local revenues.

Senator John McCain (R.-Ariz.), in his campaign for the Republican nomination for President, proposed making permanent the ITFA's three-year moratorium on Internet taxation. State and local taxing authorities are fearful that a permanent extension of the ITFA will erode their tax base and their ability to raise revenues for necessary services. They fear that nontaxable Internet-based sales may replace a substantial portion of traditional taxable brick-and-mortar sales. ■

A.J. Cataldo is an assistant professor of accounting in the Haworth College of Business at Western Michigan University, Kalamazoo, Mich. He can be reached at aj.cataldo@wmich.edu.

Arline Savage is an assistant professor of accounting in the School of Business Administration at Oakland University, Rochester, Mich. She can be reached at savage@oakland.edu.

Anthony P. Curatola is Joseph P. Ford Professor of Accounting at Drexel University, Philadelphia, Pa. He can be reached at curatola@worldnet.att.net.

You'll Feel Almost As Comfortable Taking
The CMA/CFM Exam As You Did Studying For It.



Let's think – You can study for your CMA/CFM Exam in a generic seminar, or simply by 'hitting the books,' with no personalized help and no promise you'll pass all or any part of the exam.

Or, You can sit down at your discretion for a one-on-one, interactive power study session with the test review that guarantees you'll pass.*

MicroMash brings you never-available-before features like built-in on-disk

personal instructor and tutor, customized study session analysis, TextTutor® on-screen help, exam overview and prep tips, immediate full-text answers to every question and a completely individualized study method.

In fact, only The MicroMash Way® lets you study for your CMA/CFM Exam the same way you take it...on the computer.

Old way vs. new way.
It's way easy to call this one.



MicroMash®

At Your Own Risk. In Your Own Space.

1-800-272-PASS
Ref #2232

*Certain restrictions apply. Call for complete details.

Downloaded from
www.MicroMash.com

© 1999 20Mash, Inc. MicroMash, The MicroMash Way, and Do Your Own Risk are registered trademarks of 20Mash, Inc.