



Insight

Lifting The Ban On Internet Taxes Can Cost Consumers \$16.4 Billion

WILL RINEHART | SEPTEMBER 30, 2015

A ban on Internet access taxes is set to expire on October 1. If an extension is not signed into law then states might squeeze an additional \$16.4 billion from consumers by taxing the Internet.

Earlier this year, the House has passed the Permanent Internet Tax Freedom Act (PITFA) to permanently extend the ban on taxing Internet access. The bill now awaits Senate action. The American Action Forum previously found that state and local governments could place consumers on the hook for billions in new taxes.^[1] The table below details the potential costs if states choose to tax Internet access at their current wireless rate.

Appendix

Estimating the costs of PITFA expiring begins with the Federal Communications Commission's (FCC's) state-by-state estimates of broadband connections, which the agency breaks down into business and residential customers.^[1] Total business connections includes both government entities and nonprofits organizations, and because they would not be subject to sales tax, each of the state's business connections were adjusted. This was achieved by first obtaining the total number of private and government jobs as provided by the Bureau of Labor Statistics.^[2] This number was further scaled down using estimates of nonprofit employment as a percentage of private employment in each state as estimated by scholars at the Center for Civil Society Studies at the Johns Hopkins University.^[3] Taken together, state by state percentages of the private workforce without non-profits are estimated. As expected, the District of Columbia workforce was the lowest at about 50 percent private (excluding non-profits and government workers) and Nevada was the highest at about 85 percent. The FCC business connection numbers were thus adjusted by each of the state's figures.

From here, total taxable receipts for each of the states could be estimated by multiplying the residential broadband connections by the estimated cost per month of \$43.32, which is an inflation adjusted number from Pew survey data.^[4] This number falls towards the low end of estimates of the average cost of broadband.^[5] The same was done with business connections by multiplying the adjusted broadband connections by the estimated cost.^[6] After tallying the 12 months of taxable receipts, they were then multiplied by a widely accepted estimate of total taxes on wireless phones to yield \$16.4 billion. It should be noted that each of the state tax rates exclude both federal and state Universal Service Fund (USF) and 911 charges, which would not be applied to Internet services because of the regulatory title under which Internet is placed.

^[1] Federal Communications Commission, *Internet Access Services: Status as of June 30, 2013*, https://apps.fcc.gov/edocs_public/attachmatch/DOC-327829A1.pdf