

Internet Taxes: What California Legislators Should Know

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[Key Findings](#)

[Introduction](#)

[A Brief History of the Internet Tax Freedom Acts](#)

[Nexus: Substantial Physical Presence and Sales Taxes](#)

[The Net Tax Debate Continues to Center on Sales Taxes](#)

[A Closer Look at California's Sales Taxes](#)

[What Will Happen if California Expands Internet Taxation?](#)

[Internet Sales Tax Leads To Job Losses: Static and Dynamic Tax Effects](#)

[The Trade-Offs](#)

[Fewer Tax Dollars Will Not Mean the End of Community Services](#)

[The Fairness Argument](#)

[The National Governors' Association and Its National Tax Plan](#)

[Conclusion and Recommendations](#)

[Notes](#)

[About the Authors](#)

[Key Findings](#)

- Contrary to some inaccurate media reports, states are currently collecting sales taxes on the Internet, but only on purchases made from vendors that have "nexus" or substantial physical presence in the state.
- Using data from the federal General Accounting Office (GAO) and a solid California econometric model called Cal-STAMP, we estimate that taxing Internet sales will immediately and permanently destroy thousands to tens of thousands of California jobs. Specifically, if California applied sales taxes to most Internet purchases this year, the state would gain \$184 million in additional state sales tax revenue, but lose 45,207 jobs in 2001.
- If Internet sales are taxed more broadly, more than 100,000 California jobs could be permanently destroyed by 2002. And even under the highest Internet sales projections, taxing the Internet will generate less than one-half percent (0.47 percent) of the state's total tax revenue.
- The growth of a "tax-free" Internet does not translate into less revenue for local governments. Over the last five years, as Internet shopping has grown, so have traditional retail sales taxes collected by local governments.
- California lawmakers should respond by:
 1. Making permanent the California Internet Tax Freedom Act to avoid widening the digital divide and to allow Net commerce to continue to flourish.
 2. Recognizing the prospect of massive job losses.
 3. Legislating against California's involvement in the National Governors' Association's national tax scheme.
 4. Supporting efforts to write current nexus standards into law.

[Introduction](#)

The Internet economy has grown by leaps and bounds, and nowhere is this more apparent than in California. Last year, information technology companies accounted for an estimated one-third of U.S. economic growth, driving up salaries and employment.¹ A continuation of this robust new economy depends a great deal on maintaining responsible public policies at both state and federal levels.

Recently, debate has focused on whether or not to expand Internet taxation. Astronomical predictions for future e-commerce revenues abound, providing irresistible bait for state politicians and tax collectors. Determined to increase Net taxation, many pro-tax advocates are putting the new economy at great risk. Taxing the proverbial goose that lays the golden eggs is a mistake that California lawmakers should avoid.

[A Brief History of the Internet Tax Freedom Acts](#)

In August 1998, California passed the Internet Tax Freedom Act (ITFA).² The ITFA imposed a three-year moratorium on new or discriminatory Internet taxes, including taxes on Internet access, bit or bandwidth taxes, and discriminatory taxes on Internet access.

The California ITFA does not preclude new or existing taxes that are imposed in a uniform and nondiscriminatory manner. For instance, sales and use taxes, telecommunications taxes, franchise fees, and business license fees continue to be collected under the Act.

So often the phrase "as goes California so goes the nation" rings true. Just two months after California passed its ITFA, Congress passed the federal Internet Tax Freedom Act (October 1998). The Act, which was introduced by Representative Christopher Cox (R-CA) and Senator Ron Wyden (D-OR), had two important effects. Like the California ITFA, it instituted a moratorium on new and discriminatory Internet taxes that lasts for three years (until October 2001) and it created the congressional Advisory Commission on Electronic Commerce.

Otherwise known as ACEC, the Advisory Commission on Electronic Commerce consisted of a 19-member panel and was appointed to study whether or not the Internet should be taxed, and if so, how.³ The Commission had 18 months to complete its mission, and delivered its report to Congress on April 12, 2000.⁴

While few formal findings actually came out of the Commission, one of the majority proposals was to extend the current moratorium for another five years. This recommendation led to the passage of the Internet Non-Discrimination Act (INDA) by the House of Representatives in May 2000. At the time of this writing, the INDA was still pending in the Senate.

It is very important that California lawmakers consider making the moratorium on new Internet taxes permanent. Prohibiting new Net taxes will help to ensure that this new medium is not taxed out of existence, killing the proverbial "goose that laid the golden egg." Further, prohibiting new taxes will help to stem a widening of the "digital divide." By leaving more dollars in taxpayer pockets, government may be providing the basis for some individuals to log on for the first time.

[Nexus: Substantial Physical Presence and Sales Taxes](#)

What does a "moratorium on new Internet taxes mean?" It means that no new taxes, such as Internet access taxes or data transmission taxes, will be applied to the Net. What it does not mean is "no taxes" on the Internet. This is an important point because it has been the source of much confusion.

Contrary to some media reports, states are currently collecting sales taxes on the Internet, but only on purchases made from vendors that have a substantial physical presence in the state. For example, since Amazon.com has no physical stores in California, hence no physical presence, it does not have to collect sales taxes. Alternatively, The Gap, a clothing chain, has stores in all states and, as a result, must collect the sales tax on all its Internet sales. This standard, called "nexus", goes back to a 1967 U.S. Supreme Court ruling called National Bellas Hess.⁵

The National Bellas Hess case was a dispute over collecting sales taxes on mail order purchases. This is similar to the Internet tax issue because like mail order sales, Internet sales can be out of state. The Court ruled that since the Commerce Clause of the U.S. Constitution gives authority over interstate commerce to the federal government, "states lack the authority to compel out of state firms to collect sales and use taxes unless those firms have 'nexus' in the state."⁶ The Bellas Hess decision was reaffirmed in the 1992 Quill case.⁷

There are many reasons why the Supreme Court's nexus decision is a good one. First, history tells us that when states are allowed to tax interstate commerce, problems arise. As Adam Thierer accurately notes, "America's experiment under the Articles of Confederation proved to be disastrous precisely because the states attempted to create miniature kingdoms and violate the rights of their neighbors."⁸ Second, when states tax companies in other states, that amounts to taxation without representation. But perhaps most important for American consumers is the fact that if taxation moved across borders, competition between taxing jurisdictions would cease to exist. The beauty of federalism is precisely that it allows the different states to implement different policies, allowing Americans to see for themselves which policy works best. For this reason alone, California legislators should support efforts to write current nexus standards into law.

[The Net Tax Debate Continues To Center on Sales Taxes](#)

Despite the fact that the Internet Tax Freedom Act does not prohibit California and other states from collecting sales taxes over the Internet, much of the Internet tax debate has focused on the sales tax.

This is, in large part, a reflection of the fact that some states would like to overturn the National Bellas Hess and Quill Supreme Court decisions, and cash in on what many see to be the coming "e-commerce boom". These states feel they have lost out on sales tax revenue because of the mail-order industry, and are determined to avoid that situation with Internet sales.

In 1998, the Internet economy generated an estimated \$301 billion in total revenue and 1.2 million jobs.⁹ By 2003, it is estimated that business-to-consumer sales will reach \$108 billion or six percent of retail sales (currently at two percent) and business-to-business sales will reach 1.3 trillion.¹⁰

These numbers make tax collectors salivate. As one commentator noted, "tossing these numbers around is like throwing a bucket of catnip at a bunch of hungry tigers."¹¹

[A Closer Look at California's Sales Taxes](#)

Too often lawmakers raise taxes without fully considering how these decisions can affect the economy of their state and impact the lives of its citizens. The debate over whether to tax Internet sales is no exception.

It is important that lawmakers and the public understand and publicly debate how changes in tax policy will affect their communities and families. For example, when taxes are increased, California becomes a less attractive place to live, restricting the labor supply. With every additional dollar that is poured into the state coffers, opportunities for California citizens, their families, and communities are diminished.

The state of California imposes a 6-percent tax on most sales. When compared to other states, California's sales tax rate ranks among the highest. Only seven states have higher rates than California's and three of those, including Nevada, have no personal income taxes. Five states, including Oregon, do not impose a state sales tax.

When purchasing a product, Californians generally pay up to three sales taxes. The state imposes a 6-percent uniform state sales tax. A 1.25-percent uniform sales tax is imposed on all counties. Localities may also impose an additional sales tax. The average combined statewide sales tax is 7.92 percent, but sales tax rates vary by locality.

(See Table 1.)

Table 1.
Selected Combined California Sales Tax Rates,
 March 1999

City	County	State	County	Local	Combined
Bakersfield	Kern County	6.00	1.25	0.00	7.25
Los Angeles	Los Angeles	6.00	1.25	1.00	8.25
Sacramento	Sacramento	6.00	1.25	0.50	7.75
San Diego	San Diego	6.00	1.25	0.50	7.75
San Francisco	San Francisco	6.00	1.25	1.25	8.50
San Jose	Santa Clara	6.00	1.25	1.00	8.25

Source: U.S. General Accounting Office, Sales Taxes: Electronic Commerce Growth Presents Challenges; Revenue Losses Are Uncertain, GAO/GGD/OCE-00-165, June 2000, Table III.3, p. 53.

[What Will Happen if California Expands Internet Taxation?](#)

While no one knows exactly how expanding taxation on the Internet will affect the California economy, a recent study conducted by the U.S. General Accounting Office (GAO) can shed light on this question.¹² The GAO reviewed the available literature, interviewed state tax officials, and researched state data to estimate the volume of Internet sales that are untaxed. This study is the most comprehensive, in-depth state-by-state analysis on this issue, to date.

Given the uncertainty surrounding the current volume of Internet sales and growth, the GAO generated both high and low estimates of California's tax revenue losses from Internet sales for the year 2000.¹³ (See Table 2.) "Revenue loss" is the amount of taxes that would have been collected for the state government if California had been taxing the Internet more widely.

Table 2.
California State Sales Tax Revenue Loss Scenarios,
 2000

Lower Scenario	Median Scenario	Higher Scenario
\$19M	\$230M	\$442M

Source: Authors' calculations based on U.S. General Accounting Office, Sales Taxes: Electronic Commerce Growth Presents Challenges; Revenue Losses Are Uncertain, GAO/GGD/OCE-00-165, June 2000, Table IV.1, p. 56; Table IV.2, p. 57; and Table V.1, p. 59. Using GAO sales tax estimates for California, the authors estimated the state sales tax revenue at 83 percent of the combined state and local sales tax revenue. State sales tax is calculated at 6 percent.

It is also important to recognize that neither this study nor the GAO study accounts for changes in consumer behavior that might result from taxing the Internet more fully. For example, if Internet sales are taxed, consumers may become unwilling to pay both shipping and tax for their purchases. Indeed, University of Chicago economist Austan Goolsbee found that applying sales taxes on-line would reduce the number of on-line buyers by 24 percent.¹⁴ If the volume of Internet sales sharply diminished, job losses and other effects could be far more devastating.

[Internet Sales Tax Leads to Job Losses: Static and Dynamic Tax Effects](#)

When taxes are increased, the state's revenue increases. This is referred to as the static effect of taxation. However, tax increases can also dampen economic activity. These dynamic effects, such as lost jobs and declining tax revenues from income, sales, and profits, somewhat offset the initial increases in the state's revenue. Ignoring these dynamic effects—a common error—can give the illusion that tax increases are far less destructive than they actually are.

The Pacific Research Institute's California State Tax Analysis Modeling Project (Cal-STAMP) examines the effects of changes in tax policy.¹⁵ Both the static and dynamic effects of imposing an Internet sales tax were measured.

Because the Cal-STAMP measures the effect of state-level tax changes using baseline values and does not make predictions about future economic changes, the model remains reliable even if economic changes occur. For example, the model might show that increasing the sales tax will cause the permanent destruction of 100,000 California jobs.¹⁶ This will hold true even when the unemployment rate changes. That is to say that even if the economy changes in the next year, these calculations will retain their reliability. That is because only the effects of tax changes, which do not rely on forecasting future economic conditions, are measured.

[The Trade-Offs](#)

Using the state revenue loss estimates shown in Table 2, the Cal-STAMP produced three key findings (see Figures 1-3):

- 1) Further taxing Internet sales will immediately and permanently destroy thousands to tens-of-thousands of California jobs.
- 2) If Internet sales are robust, and the state sales tax is applied more broadly, more than 100,000 California jobs could be permanently destroyed by 2002. (See Figure 3A.)
- 3) Even under the highest Internet sales projections, further taxing the Internet will generate less than one-half percent (0.47 percent) of the state's total tax revenue. (See Figure 3B.) Moderate predictions show that revenue from Internet sales will remain below one-quarter percent. (See Figure 2B.)

Californians should publicly debate whether further taxing the Internet is worth destroying thousands of jobs. In an era of state budget surpluses, Californians must decide whether taxing the Internet is really worth the trade-off.

Figures 1A and 1B: Lower Revenue Loss.

Source: Pacific Research Institute's California State Tax Analysis Modeling Project (Cal-STAMP) assuming \$19M in 2000 state sales tax revenue losses.

Figure 1A
Lower Revenue Loss Scenario

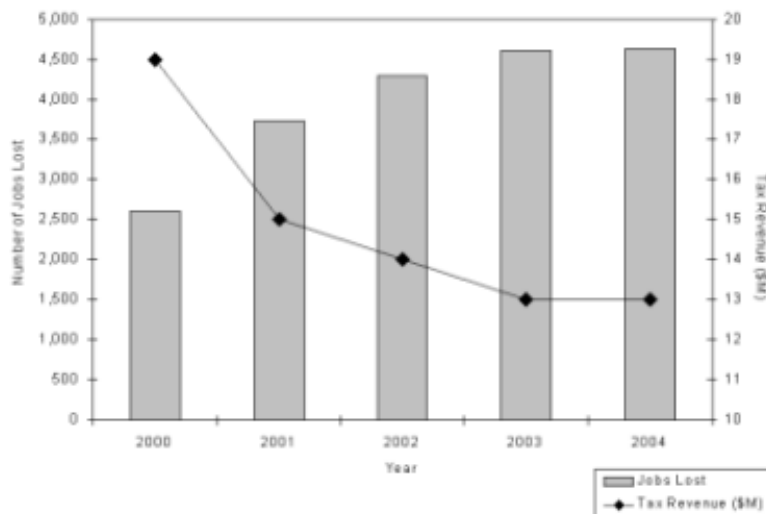
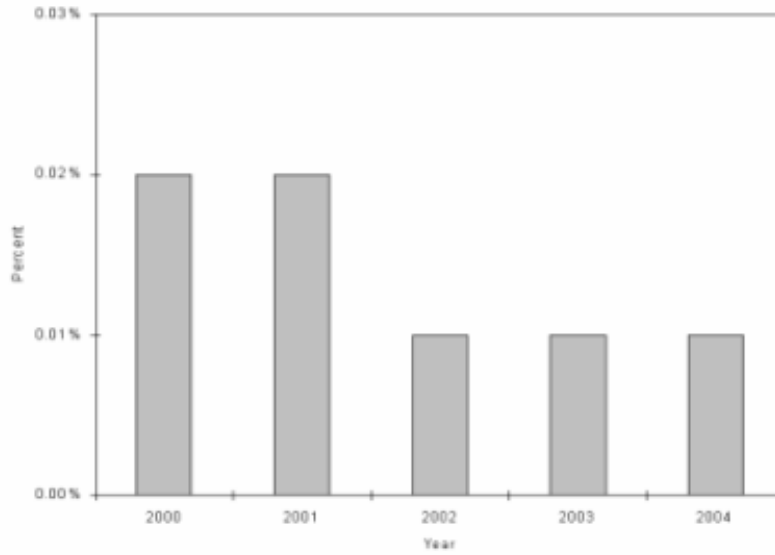


Figure 1B
Revenue Loss as Percent of Total Tax Revenue



Figures 2A and 2B: Median Revenue Loss.

Source: Pacific Research Institute's California State Tax Analysis Modeling Project (Cal-STAMP) assuming \$19M in 2000 state sales tax revenue losses.

Figure 2A
Median Revenue Loss Scenario

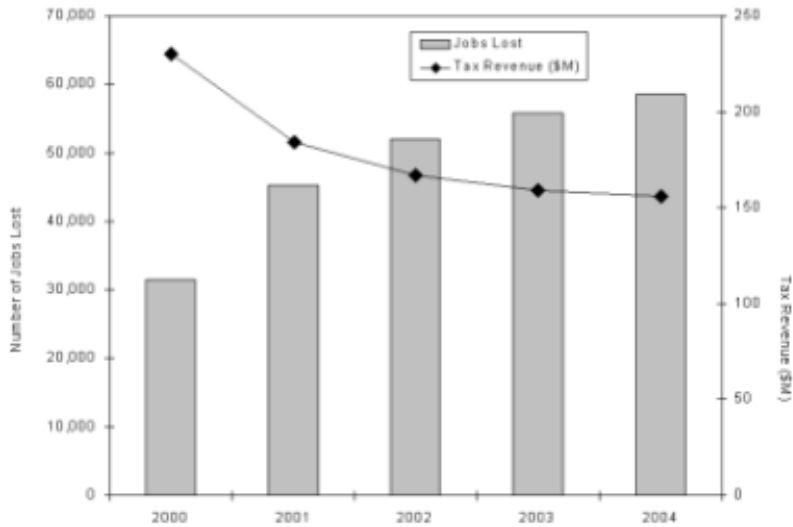
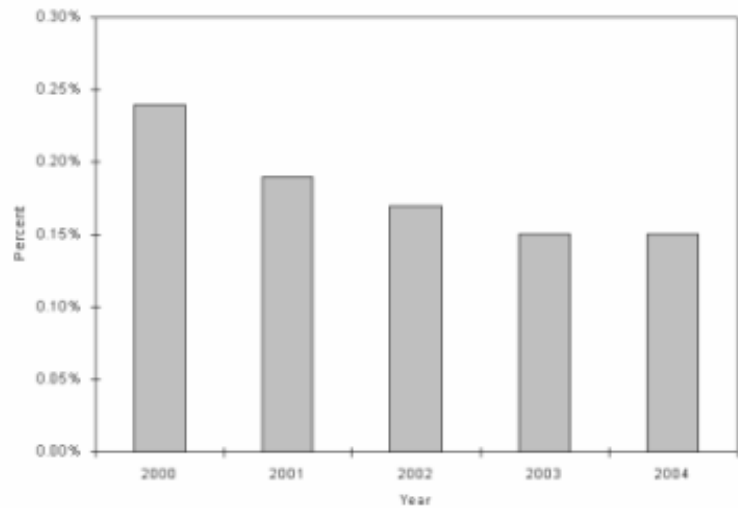


Figure 2B
Revenue Loss as Percent of Total Tax Revenue



Figures 3A and 3B: Higher Revenue Loss.

Source: Pacific Research Institute's California State Tax Analysis Modeling Project (Cal-STAMP) assuming \$19M in 2000 state sales tax revenue losses.

Figure 3A
Higher Revenue Loss Scenario

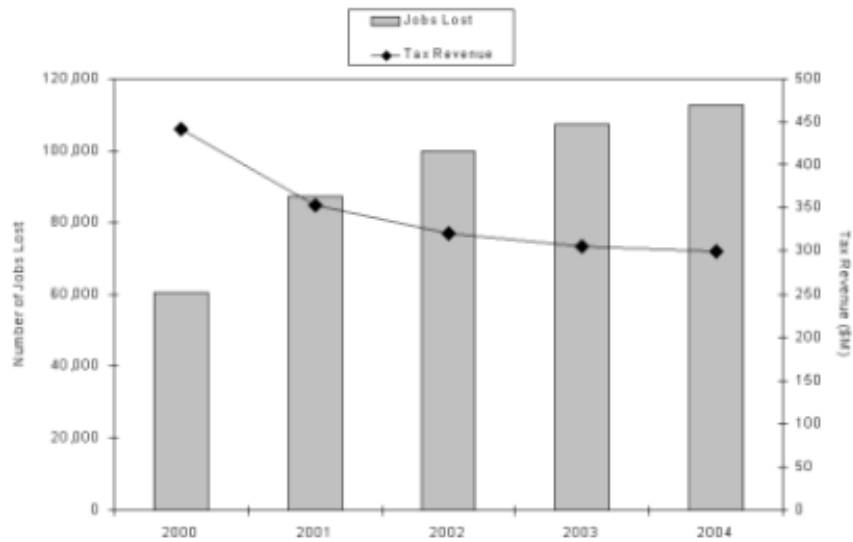
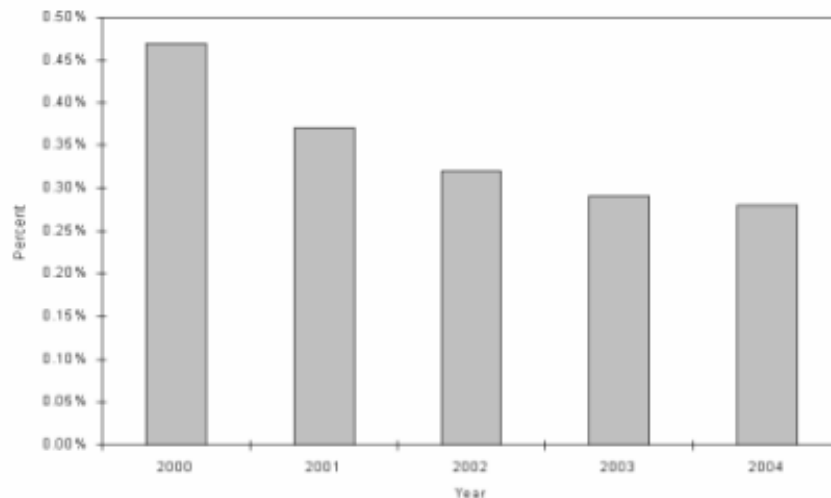


Figure 3B
Revenue Loss as Percent of Total Tax Revenue



[Fewer Tax Dollars Will Not Mean the End of Community Services](#)

Many state and local government officials are terrified that the boom in electronic commerce will leave them in the dust, without the ability to provide community services such as schools and police. For instance, Dallas Mayor Ron Kirk, who was a member of the Advisory Commission on Electronic Commerce (ACEC), said, "even in the cyberworld, you need police, roads, and bright red fire engines."¹⁷ But contrary to what Kirk and others would have us believe, electronic commerce will not mean the end of local services or communities.

If allowed to flourish, electronic commerce will bring prosperity and economic growth. The pro-tax argument relies on the myth of the zero-sum game—the idea that growth in one sector is fueled by a loss of growth in another.

The growth of a "tax-free" Internet does not translate into less revenue for local governments. Instead, the opposite is true. Over the last five years, as Internet shopping has grown, so have traditional retail sales taxes collected by local governments. In California, where the zest for on-line buying is astounding, traditional sales tax revenues have ballooned.

According to Dean Andal, chairman of California's Board of Equalization and member of ACEC, "between 1994 and 1998, California's sales tax revenues have grown at an annualized rate of 5.8 percent for an impressive total of 25.5 percent."¹⁸

That growth surpasses the state's inflation and population growth combined. And it happened in tandem with rising e-commerce sales which have doubled every year since 1995. The reason for this impressive performance is clear.

The economy is expanding and the economic pie is growing. It is not a zero-sum game. Internet retailers are reaching out to markets well beyond their local communities, sometimes even beyond the United States. This success leads to a more robust economy and higher incomes.

People with higher incomes have more cash to spend, and many of them will spend it on local retail or property—both of which lead to increased taxes for local government. But pro-tax lobbyists don't seem to understand this concept of economic expansion. Instead, they argue that the pie will remain the same size, thereby predicting that e-commerce will cause them to lose their cut.

It is clear that on-line purchases have not harmed local government coffers, and there is ample evidence that taxes are economically destructive. Government revenues, however, do shrink when the economy hits a downturn.

A study by Dean Stansel and Stephen Moore at the Cato Institute demonstrates how taxation affects the economy. They found that following California's \$7 billion tax hike in 1991, "actual revenue growth came in below projections in each of the next three years."¹⁹ Alternatively, when California cut taxes between 1995 and 1998, income tax revenues rose 48 percent.²⁰

Further, data from the Pacific Research Institute's Cal-STAMP program demonstrate that there is a significant trade-off between sales tax revenue collected and number of jobs in the economy. For instance, if California applied sales tax revenue to all Internet purchases in the year 2000, California would gain \$184 million in additional state revenue, but lose 45,207 jobs in 2001.²¹

Given the evidence, it is obvious that the best outcome for consumers, and their governments, is to leave the current nexus standard in place and allow electronic commerce to remain free of new and discriminatory taxes. Otherwise, both the Internet and the prosperity of the nation will suffer.

[The Fairness Argument](#)

Pro-tax advocates complain that requiring bricks-and-mortar businesses to collect a sales tax that on-line retailers do not collect is unfair. At first blush, this argument for a "level playing field" sounds reasonable. But this argument is flawed for a number of reasons.

One problem is that it only allows for fairness to go in one direction—taxing the Internet. Proponents of "fairness" fail to allow that fairness could also dictate that main-street retailers stop collecting the sales tax. Main-street businesses, it should be noted, do not have the added expense of shipping their goods. Internet businesses do.

Second, many on-line businesses are out of state. It does not seem fair to ask out of state businesses to pay sales taxes for government services, such as schools and police, that they do not use.

Third, taxes of any kind seldom pass a fairness standard. For example, Dallas Mayor Ron Kirk, an outspoken proponent of tax fairness, recently gave a \$3 million tax break to the Dallas Hyatt Regency Hotel so it could expand. But the other hotels in Dallas did not get this same opportunity.²² This

demonstrates that government control of revenue does not always ensure fairness. Leaving dollars in consumers' pockets is more likely to ensure fairness for everyone.

[The National Governors' Association and Its National Tax Plan](#)

In order to skirt Supreme Court rulings preventing states from collecting sales taxes from businesses without nexus, the National Governors' Association (NGA) came up with a plan called a "Streamlined Sales Tax System for the 21st Century." Packaged as a plan to streamline and equalize state sales-tax collection, the NGA's plan was nothing but a ravenous national tax scheme in sheep's clothing.

The plan proposed creating new entities called "Trusted Third Parties" (TTPs) which would act something like private tax collection agencies. These TTPs would create and maintain a technologically-feasible national tax collection system for on-line businesses and offer incentives to businesses to join the system. Incentives would be needed because, according to the NGA, the new tax regime would be "voluntary"—that's how they would get around the Commerce Clause that was the rationale for the Supreme Court's ruling that states can't tax out-of-state businesses without nexus. Each TTP would then charge each state for these services, passing along the costs to consumers.

Here's how it would work: Jane would purchase an item on the Internet, and included in the purchase price would be her state's sales tax, the TTP fee to collect it, and the "incentive" fee for each business that integrates with the TTP. Essentially that amounts to three taxes where previously there was one, or none at all, and is hardly what most analysts would describe as fair and streamlined.

The NGA's proposal was presented at the December meeting of the Advisory Commission on Electronic Commerce, and it's interesting to note that since its appearance, a whole host of companies hoping to be TTPs have sprung up. Taxation software companies such as eQuantum, NationalTax Online, esalestax.com, and Taxware have devised software that they claim will meet the demands of the NGA's proposed plan. But not everyone thinks that the enlistment of software firms will make the tax collection process less complex.

As R. Bruce Josten, executive vice president of government affairs for the U.S. Chamber of Commerce put it, "putting new tires on a Model T tax code will not enable it to catch a space-age market."²³ The NGA's plan does not really simplify the taxation process. All it does is transfer the many complexities of the tax system from government to a third party. The software schemes pose other difficulties.

Taxware's Transaction Tax Server works by confirming that the address that the consumer has listed as the delivery address exists. If the consumer lives in a state in which the vendor has a physical presence, the system will calculate a sales tax for the purchase. If the consumer is buying from a state in which the vendor does not have a presence, the system will calculate the use tax. But taxing consumers based upon an address they voluntarily provide is riddled with problems, especially in a market in which digital goods are delivered over the Internet.

When consumers buy software off the Internet and loads it onto their computers, there's no way of knowing where individuals actually are if they are protecting their identity with a re-mailer like the

Anonymizer²⁴ or Zero Knowledge's Freedom software.²⁵ Since companies selling digital goods use consumers' addresses for taxation purposes and not for delivery, a customer could easily lie about his or her address in order to get a better tax rate.

Taxware and other companies also purport to keep track of which products are tax exempt and will charge consumers accordingly. However, this process becomes decidedly chaotic because states exempt different products from the sales tax and change these exemptions often.

As Christopher Swope has pointed out, "in Massachusetts, the first \$175 of an article of clothing is tax-exempt. In Connecticut, only the first \$50 spent is tax-exempt. In New Jersey, clothing is completely tax-exempt."²⁶ Also, consider that in some states a scarf for decorative purposes is taxable, while a winter scarf intended for warmth is tax-exempt.²⁷ It's hard to imagine a system that can correctly tax according to the cornucopia of tax-exemption rules. Since the software will likely fail to distinguish between tax-exempt and taxable goods, Americans run the risk that governments will attempt to solve the problem by scrapping tax-exemptions altogether, thereby extending taxes even further. And privatizing tax collection does not make much sense either.

Historically, when governments used a third party to collect taxes, a perverse incentive was created for tax collectors to increase their profits.²⁸ Adding technology to this process won't solve that problem. Tax software manufacturers and third party tax collectors will have a strong incentive to over-charge because the government will pay them according to the amount of money that they generate for state and local governments. As Adam Thierer of the Heritage Foundation has argued, this means there is little reason to trust the "trusted third parties" in the NGA's plan.²⁹

Fortunately, the Commission voted down the NGA's proposal, but that doesn't mean it is dead. Since it is not based on Congressional activity, it could be implemented independently by the voluntary participation of each individual state. This means that California legislators will need to take a stand. They should make tough decisions based on the facts, not deceptive advertising.

New taxes will damage the California economy and the working families that have made it productive. Lawmakers in the Golden State should legislate against California's participation in the NGA's tax plan.

[Conclusion and Recommendations](#)

California lawmakers should be proud of the state's robust economy. By passing the California Internet Tax Freedom Act and by leaving the Internet free of discriminatory regulations, lawmakers have laid the foundations for the success of the digital economy.

The challenge that lies ahead will be resisting attempts to quash this growth through the imposition of taxes. In response, lawmakers should:

- Make permanent the California Internet Tax Freedom Act.
- Recognize that taxing the Net means losing tens-of-thousands of jobs and significantly harming California's economy and families.

- Support efforts to write current nexus standards into law.
- Legislate against state involvement in the NGA's national tax scheme.

Notes

1 Stacy Lawrence, "Net Drives Economic Boom," *The Industry Standard*, June 26, 2000.

2 See http://www.leginfo.ca.gov/pub/97-98/bill/asm/ab_1601-1650/ab_1614_bill_19980824_chaptered.html.

3 Of the 19 members on the panel, 8 represented state and local governments, 8 represented business and consumers, and 3 represented the federal government.

4 For a copy of the report, go to <http://www.ecommercecommission.org/report.htm>.

5 *National Bellas Hess Inc. v. Department of Revenue of Illinois*, 386 U.S. 753 (1967). Nexus is usually established if remote sellers have an office, place of business, agent, or property in the taxing state. It is not established for insignificant property.

6 Scott Mackey, "Can Sales Tax Survive Cyberspace?," *State Legislatures Magazine*, December 1999.

7 *Quill Corp v. North Dakota*, 504 U.S. 298 (1992).

8 Adam Thierer, "The NGA's Misguided Plan To Tax The Internet and Create A New National Sales Tax," *Heritage Foundation Backgrounder No. 1343*, February 4, 2000, p. 9.

9 This is worldwide sales by US-based companies. See Center for Research in Electronic Commerce, University of Texas at Austin, *Measuring the Internet Economy* at <http://crec.bus.utexas.edu>.

10 Paul Greenberg, "Retailers React to Pressure from Online Shopping," *E-Commerce Times*, January 20, 2000 and *Principles for Making Electronic Commerce Fair and Modernizing States's Tax Systems for the 21st Century*, a paper submitted to ACEC by the Council on State Governments, et al., November 1999. See also, Merrill Matthews, Jr., "Should We Tax the Internet?," *Institute for Policy Innovation Policy Report #152*, March 20, 2000.

11 Alan Reynolds, "The Futility of an Internet Sales Tax," *American Outlook Magazine*, Winter 2000.

12 U.S. General Accounting Office, *Sales Taxes: Electronic Commerce Growth Presents Challenges; Revenue Losses Are Uncertain*, GAO/GGD/OCE-00-165, June 2000, Table III.3, p. 53.

13 To generate higher tax loss scenario estimates, GAO used a high estimate of sales, a low estimate of nexus for sellers, a low rate of purchaser compliance, and a low rate of product and purchaser sales tax exemptions. For the lower tax loss scenario estimates, they used low sales, high nexus, high compliance, and high exemptions. They also subtracted estimated displacement of other remote sales. For a complete discussion of the GAO's methodology, see their report, Appendix I, pp. 28–36.

14 Austan Goolsbee, "In a World Without Borders: The Impact of Taxes on Internet Commerce," *Quarterly Journal of Economics*, May 2000, vol. 115(2), pp. 561–76.

15 David G. Tuerck, Ph.D., et. al., California-STAMP: Measuring the Effects of Tax Changes in California Using the California State Tax Analysis Modeling Program, Beacon Hill Institute for Public Policy Research at Suffolk University, July 2000. The authors assumed that the state sales tax rate would remain unchanged in upcoming years.

16 Permanent job losses reflect job losses that are not offset or replaced in other areas of the economy.

17 By Leah Beth Ward and Jennifer Files, "Net Tax Opponents Prevail", Dallas Morning News, March 22, 2000, p1D.

18 Dean Andal, California Board of Equalization.

19 Dean Stansel and Stephen Moore, "The State Spending Spree of the 1990s," Cato Institute Policy Analysis No. 343, May 13, 1999, p. 22.

20 Ibid., p. 24.

21 Analysis is based on the GAO's median revenue loss estimate for California in 2000.

22 Matthews, p. 14.

23 R. Bruce Josten, E-commerce Taxation: Issues in Search of Answers, submission to the Advisory Commission on Electronic Commerce, September 8, 1999, p. 17.

24 www.anonymizer.com

25 www.zks.net

26 Christopher Swope, "E-Conomics Problem," Governing Magazine, March 2000, p. 5.

27 Ibid.

28 For more on this, see Thierer.

29 Ibid.

[About the Authors](#)

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Naomi Lopez Bauman, director of the Center for Enterprise and Opportunity at the Pacific Research Institute, has conducted research on federal and state health and welfare programs, children's issues, women's issues, barriers to entrepreneurship, Social Security privatization, and tax expenditure programs. Ms. Lopez Bauman also serves on the California Senate Bipartisan Task Force on Homelessness. Prior to joining the Institute, she worked as a research associate in health care and welfare at the Institute for SocioEconomic Studies and as an entitlements policy analyst at the Cato Institute. She also served as special policy advisor to the state of Michigan's Secchia Commission, which provided recommendations for state government reform. A frequent media guest, Ms. Lopez Bauman has appeared on ABC's "Politically Incorrect," PBS, CNN, CNBC, FOX News Channel, and MSNBC. She is the author of *Perilous Prescriptions: The Lessons of Government Health Care in Canada and the United States* (forthcoming, January 2001) and contributor to PRI's *Legislators' Guide to Children's Issues* 1999. Her articles have appeared in *Investor's Business Daily*, *Los Angeles Daily Journal*, *Washington Times*, *San Diego Union-Tribune*, *Chicago Tribune*, *Houston Chronicle*, *Insight*, and *Liberzine.com*. Ms. Lopez Bauman holds a B.A. in economics from Trinity University in Texas and an M.A. in government from Johns Hopkins University.