

MEMO# 10199

August 13, 1998

FULL HOUSE AND SENATE FINANCE COMMITTEE APPROVE DIFFERENT INTERNET TAX MORATORIUM LEGISLATION

1 See Memorandum to Board of Governors No. 38-98, Federal Legislation Members No. 11-98, Primary Contacts-Member Complex No. 46-98, Public Information Committee No. 20-98, dated May 26, 1998. 2 H.R. 4105 succeeded H.R. 3849, which the House Commerce and Judiciary Committees approved in May and early June respectively. [10199] August 13, 1998 TO: BOARD OF GOVERNORS No. 51-98 FEDERAL LEGISLATION MEMBERS No. 20-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 70-98 PUBLIC INFORMATION COMMITTEE No. 36-98 RE: FULL HOUSE AND SENATE FINANCE COMMITTEE APPROVE DIFFERENT INTERNET TAX MORATORIUM LEGISLATION

_____ In late June, the House of Representatives approved legislation that would place a moratorium on certain state and local taxes on Internet activities while a national commission works to develop a uniform electronic commerce tax regime. The "Internet Tax Freedom Act" was approved by voice vote following earlier approval by the House Judiciary and Commerce Committees.¹ A similar bill, also known as the "Internet Tax Freedom Act" was approved by the Senate Finance Committee on July 28. The Senate bill is expected to proceed to a vote in the full Senate in mid-September. The "Internet Tax Freedom Act" as approved by the House, was introduced on June 22 as H.R. 4105 by Representative Christopher Cox (R-CA).² The bill would prohibit for three years new "multiple" or "discriminatory" taxes on electronic commerce, bit taxes, and taxes on Internet access or online services. During that time, a 31-member Advisory Commission on Electronic Commerce would be tasked to develop a tax structure that would apply to electronic commerce generally and encourage the growth of Internet commerce. After two years, the advisory commission would be required to report its findings to Congress for expedited consideration. The legislation contains a limited grandfather provision that would allow some existing state taxes to continue, provided certain conditions are met. It would also prohibit state and federal regulators from setting Internet access and online service fee levels. In addition, the bill would direct the President to seek international agreements to ensure that Internet activities are free from undue and discriminatory regulation by foreign governments. Although somewhat similar to its House counterpart, the legislation approved by the Senate Finance Committee contains important differences. The moratorium would extend for only two years, rather than three, although it would apply to the same taxes. In addition, the Senate legislation would treat the advisory commission differently, placing greater restrictions on its composition and requiring that it report recommendations for congressional consideration within 18 months,

rather than two years. Finally, the Senate bill does not include a grandfather clause, and would not allow the continuation of existing state or local taxes under any conditions. The Senate bill, S. 442, was introduced in March, 1997, by Senator Ron Wyden (D-OR), and was approved by the Senate Commerce Committee last fall. The Finance Committee significantly amended the legislation prior to approval. We will keep you informed of further developments. Matthew P. Fink President

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.