Could more internet taxation be in your future?

■ *The Internet Tax Freedom Act, passed in 1998, prohibits taxes Internet purchases differently than offline sales. But it is set to expire this October.*

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As with all endeavors that have the potential to make money, the Internet has grabbed the attention of government as a possible source of revenue through taxation. To date, there has been minimal taxation of Internet access and items sold online, but that could change soon. Here is some important information, along with a little background.

The Internet Tax Freedom Act was first passed into law in 1998. It prohibits taxes on Internet access, double taxation of a product or service bought over the Internet by two or more states, and taxes that treat Internet purchases differently than offline sales.

The law was extended in 2001 and 2004. And in 2007, President Bush signed the Internet Tax Freedom Act Amendments Act, which extends the moratorium on state and local government Internet access taxes and multiple and discriminatory taxes on electronic commerce for seven years, through November 1, 2014.

Since 1998, there has been a federal moratorium on multiple and discriminatory taxes on Internet access and fees (see right-hand box). The statute prohibits state, county and local governments from imposing taxes on Internet access or traffic. The current ban expires in November 2014.

The more significant issue and the one that causes the most controversy is the collection of sales taxes for items sold over the Internet. Currently, a 1992 Supreme Court decision prohibits states from taxing catalog, telephone and other "remote" sales unless the sellers have a physical presence or "nexus" in the state. When the case was decided more than a decade ago, Internet sales were not a significant part of the commerce landscape.

That obviously has changed. And with many states struggling with budget deficits, the pressure is increasing to allow states to collect taxes on online sales. Various studies estimate that states lose billions of dollars in sales tax revenue every year for sales made on the Internet.

Bricks-and-mortar retailers are also concerned about the lack of taxation of Internet sales. They argue that online retailers, such as Amazon.com, have an unfair competitive edge because they don't have to collect sales taxes. Amazon claims that it could not possibly comply with the tax laws of thousands of jurisdictions across the country. Yet, some retailers with an Internet presence and bricks-and-mortar stores have begun to voluntarily collect sales taxes online, including Wal-Mart and Target.

As it stands, the Internet is still largely a tax-free zone. Whether that will be the case in the future remains to be seen.

Christmas Past

Christmas-future

It's a Dickens of an idea