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Press Release

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NEW STUDY SHOWS FAILURE TO RENEW INTERNET TAX FREEDOM ACT WILL SET THE UNITED STATES BACK MANY YEARS IN BROADBAND ADOPTION GROWTH

Failure to Extend ITFA Will Also Cause US to Fall in OECD Broadband Rankings

WASHINGTON, D.C. – In 1998, Congress passed the Internet Tax Freedom Act ("ITFA"), which imposed a three-year moratorium on the imposition of (new) state and local taxes on Internet access. Since 1998, this moratorium has been extended three times, and is due to expire again in November 2014. While there is generally broad bi-partisan support to extend—if not make permanent—the ITFA's moratorium, given current Congressional gridlock there are no guarantees.

In a new study released today entitled *Should the Internet Tax Moratorium be Made Permanent?* Phoenix Center Chief Economist Dr. George Ford estimates the likely effects of a failure to extend the ITFA. Unfortunately, Dr. Ford's results do not present a rosy picture.

In particular, Dr. Ford estimates that the levying of the typical state and local communications taxes on Internet connections will have a sizeable adverse effect on broadband adoption, likely erasing all reasonable estimates of the gains to Internet adoption from the billions of dollars spent to date on federal, state and private-sector programs. Indeed, given the price sensitivity of many Americans to broadband service, eliminating the ITFA and allowing states and municipalities to tax Internet connections will set the country back many years of broadband adoption growth.

For example, Dr. Ford estimates that if the effective state or local tax rate was 10%, then six years of fixed-line growth would be reversed, returning the adoption rate to the level observed in 2008. And, while wireless service adoption has been growing rapidly in the last few years, Dr. Ford estimates that the imposition of state and local taxes on wireless connections could easily reduce the adoption rate to the level seen two or three years ago.

Dr. Ford also shows that failure to extend the ITFA could adversely impact how the United States is ranked by the OECD for broadband adoption. For fixed-line connections, Dr. Ford estimates that a loss of 5 million connections would lower the U.S. one spot in the OECD's rankings, and a loss of 13.5 million fixed lines would cause the U.S. to fall from a rank of 16 to 21. For wireless, a plausible loss of 30 million lines would result in a 10% drop in adoption and would move the U.S. from the 7th to the 9th spot in the OECD's rankings of mobile broadband adoption.

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"It is axiomatic that taxes reduce consumption," said Phoenix Center Chief Economist Dr. George Ford. "Given that a key policy goal of the United States Government for the last twenty years has been to *increase* broadband adoption—a goal to which we have allocated billions of dollars over the years—choosing now to *reduce* broadband consumption by letting the ITFA expire is an odd and counterproductive policy."

A full copy of the paper, PHOENIX CENTER POLICY PERSPECTIVE NO. 14-03: *Should the Internet Tax Moratorium be Made Permanent?* may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/perspectives/Perspective14-03Final.pdf.

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