

## KEEP YOUR EYE ON ITAX PLANS

*If California's pro-tax lobby gets its way, a new tax on digital downloads could reach consumers before Apple's next innovation can pass the test phase. Their end goal is a wider sales tax base that includes services, food and water.*

<http://www.dailybreeze.com/opinion/articles/9810422.html?showAll=y&c=y>

**By Michelle Steel**

The iPod started it all. Then came iTunes and now the iPhone. Could the next step in the iRevolution be the iTax? If California's pro-tax lobby gets its way, a new iTax on digital downloads could reach California consumers before Apple's next innovation can even pass the test phase.

To understand the looming iTax threat, take a brief moment to understand California's basic sales and use tax law. Most consumers know that when you buy a tangible good in California, you must pay sales tax on the purchase. For example, when you buy a CD or DVD from a store, you will pay sales tax on that product.

However, Apple's innovations have revolutionized the way that consumers access digital entertainment.

### **Downloading's On The Rise**

Increasingly, consumers are choosing to download software, movies, music and entertainment from the Internet, instead of buying a CD or DVD from a brick-and-mortar store. Because no tangible goods are physically transferred, California lacks the legal authority to apply sales tax to these transactions.

That's where the iTax advocates enter the equation. Pro-tax lobby groups such as the New America Foundation, which are desperately seeking more government revenue, view this perceived inconsistency as the impetus for a new iTax on all digital downloads. Their end goal isn't just this iTax, but a wider sales tax base that includes services, food and water. Earlier this year, New Jersey paved the way by expanding its sales tax base to dozens of other sectors and services along with its new iTax.

This iTax trend is one fad Californians can afford to pass up. Expanding the sales tax base contradicts the primary function of California's sales tax law, stifles innovation and hurts our state's robust e-commerce industry.

California's Depression-era lawmakers, who created our sales, use and personal income tax laws, thought it was wrong to double-tax goods and services. When drafting the state's sales tax code, they used the precise phrase "tangible goods" to avoid any excess taxation. Digital downloads are

not a tangible good, and expanding the sales tax base to include these products essentially replaces our sales tax law with a European-style value-added tax.

As President Reagan once said, "A value-added tax actually gives a government a chance to blindfold the people and grow in stature and size." Value-added taxes also increase the propensity for double taxation because the burden is on taxpayers to ask for a refund.

Even worse, this new iTax stifles technological innovation. America is an invention incubator because we protect new ideas from theft and taxes. In return, our inventors reward us with the countless benefits of innovation.

Digital downloads are just better. Consumers instantly receive the product; businesses save money on packaging; and the environment benefits from fewer trips in your car and less packaging sent to public landfills.

### **e-commerce Helps the State**

While California loses some sales tax revenue from e-commerce, the economic benefits of e-commerce far outweigh any lost sales taxes. More so than any other state, e-commerce has been an economic boon for California. E-commerce brings high-paying jobs, major economic benefits, and significant tax revenue to the Golden State.

State government has received increased capital gains, property, income and business taxes from e-businesses. Earlier this year, capital gains from the stock sales of just 16 Google employees delivered \$380 million in tax revenue for California. That's right, just 16 Google employees offset close to 40 percent of the lost sales-tax revenue from all of e-commerce.

California's recent budget battle showcased state government's desperate search for more revenue. Given enough time, government always finds a way to tax ingenuity's affluence.

However, Californians shouldn't rush to download a new I-tax.

Michelle Steel serves on the California State Board of Equalization, California's sales and use tax agency. She represents a district that includes part of the South Bay.



## THE GOLDEN PEN

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**Michelle Steel**



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### DlyBreeze: Keep your eye on iTax plans

Steel, a member of the State Board of Equalization, casts a dire warning - liberals want to tax your downloads!