

The NetChoice Coalition

Promoting Convenience, Choice, and Commerce on The Net

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RE: **Opposition to the 2012 Budget Proposal to Tax All Digital Products and Services**

Dear Senator Paiva-Weed and Representative Fox:

We write to respectfully oppose Rhode Island's proposal to add sales tax on digital goods. Such a proposal would tax "specified digital products," which includes "digital audio-visual works", "digital audio works," and "digital books."

Harm to Rhode Island's Economy – Driving Away E-Retailers

Now is a critical point in the evolution of e-commerce and Internet content distribution. Online companies are experimenting with new ways to deliver information, services, and content; and businesses of all kinds are going online to reach consumers and advertise to receptive audiences.

At the same time, state governments are looking online for additional revenue, including taxing digital products. However, most states that considered such tax revenue realized the potential harm and avoided such taxes. Vermont and Indiana recently rejected such bills. California and New York likewise changed their positions and now reject the taxation of digital goods.

North Dakota recently enacted legislation that would affirmatively exempt any item transferred electronically in order to lure digital businesses. And Iowa offers tax incentives to encourage e-commerce businesses to its state.

We believe that Rhode Island should conclude that this tax proposal would negatively impact the state. It will penalize the environmental benefits of digitally delivered goods as well as discourage economic development and job creation among Internet companies.

Harm to Rhode Island's Environment – Digital Goods are Green

This tax will also burden the environment by causing consumers to slow their growing shift from physical goods to digital alternatives. Rhode Island's residents will log more miles in their cars to buy physical products whose raw inputs and carbon outputs contribute to global warming.

A digital download is the greenest way to buy music, movies, books, and software. Downloading requires no driving to the store, no delivery vans, and no plastics or packaging.

One study commissioned by the European Union compared the amount of resources (minerals, fossil fuels, etc) required for 56 minutes of music:

- Physical retail: 3.4 lb
- Online purchase with physical delivery: 2.9 lb
- Digital distribution: 1.3 lb

According to the Recording Industry Association of America, in 2007 nearly 100 million full albums' worth of music was digitally downloaded by Americans. In 2007 alone, more than 200 million pounds of natural resources were saved by US consumers buying music digitally instead of driving to the store for a CD. This works out to more than 380 pounds of natural resources every minute.

Rhode Island's leaders should identify ways to encourage the environmental benefits realized when consumers use digital delivery instead of driving to a store for a tangible item that has to be produced and packaged. This would further signal Rhode Island's commitment to environmental sustainability, and it would send a strong positive message about the benefits of eco-commerce.

Competitive Disadvantage to Rhode Island's Economy – Competing with Pro-Business States

A tax on digital downloads would place new burdens on Rhode Island's small businesses, who would be forced to implement costly new systems to calculate, collect, and remit sales taxes.

For example, independent music artists are increasingly bypassing traditional music distribution methods and are instead using Internet websites to sell their own creative works. A tax on digital downloads turns artists into tax collectors and impairs their ability to survive in today's tough economy.

Rhode Island should instead exempt digital goods from taxation. North Dakota and Wyoming passed legislation doing just that, largely to create an advantage for economic development purposes. Rhode Island should recognize that its proposed taxation of digital goods will drive business to Internet-friendly states like New York and Massachusetts.

No Gain Effects – Proposal Is a Tax on Rhode Island Residents

It's essential to remember that, in any event, no new money would flow into Rhode Island. Any incremental sales tax collected just moves from the Rhode Island purchaser to the state treasury at a time when households are being squeezed by a struggling economy.

Rhode Island cherishes its online technology sector. This attack at the new business models created from such technology is an attack on Rhode Island itself. For this reason as well as all the others listed above, we urge you to strike the Digital Goods Tax from the budget and to refrain from imposing additional burdens on Rhode Island residents.

Sincerely,



Steve DelBianco
Executive Director, NetChoice

cc: Members of the Senate and House

NetChoice is a coalition of trade associations and e-Commerce businesses who share the goal of promoting convenience, choice and commerce on the Net. More information about NetChoice can be found at www.netchoice.org