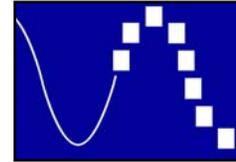


April 4, 2005



The VON Coalition

To Legislators on the Arkansas House Committee on Revenue and Taxation:

As the nation's leading companies developing and delivering voice innovations over the Internet, we are writing to encourage you to oppose HB 2728 which would expand the definition of telecommunications service to include Internet voice service in order to apply telecommunications taxes to these new services.

The VON Coalition believes that with the right public policies, Voice over Internet Protocol or VoIP can make talking more affordable, can be a force for increased competition, a platform for innovation, a driver for broadband deployment, and a vehicle for continued economic growth. But subjecting this transformative technology to tax policies established for legacy telephone networks could stifle this innovation.

One of the inherent characteristics of Internet voice services, and one of its key advantages, is that it is entirely geographically neutral. By its very nature, IP-based services, including VoIP, ignore state boundaries. The efficient routing of IP traffic depends on the free flow of packets over global networks of Internet servers and soft-switches. In many cases, these facilities can be located out of state, across the country, or even around the globe – making communications efficient, but state taxation impractical.

Due to this fundamental non-geographic characteristic of an IP-end of most IP-enabled communications, it is impossible to determine which jurisdictional boundaries an IP communication crosses or precisely where the end user customer is located. For example, because VoIP customers can use their service in any state at any time without the provider's knowledge, a VOIP provider has no way of knowing if a New York VoIP user took a vacation in Arkansas and is subject to the tax. Furthermore, once voice communications are digitized, VoIP transmissions are indistinguishable from other forms of data traffic – making voice traffic difficult to separate out from other e-mail and web surfing traffic for tax purposes. This is precisely why the FCC decided to assert limited but exclusive federal jurisdiction over VoIP, to avoid the possibility of 51 conflicting regulatory models.

Indeed, the proposed legislation is drafted so broadly that, by its terms, it could be read to encompass all internet traffic (such as radio broadcasting, email, even greetings messages recorded at home and sent as a happy birthday song), whether or not connected to the public switched telephone network, whether or not serving even remotely the same function, much less acting as a substitute for ordinary telephone service.

Taxes on VoIP are impossible to accurately assess and collect. No tax should be levied if it cannot be easily collected. Therefore, HB 2728 would only serve to waste substantial government resources, with offsetting revenues that would be unacceptably low. Unlike traditional telephony, VoIP services utilize an indeterminate array of constantly shifting Internet

nodes and communications channels, which rarely (if ever) keep records of the type or destination of information they siphon.

Defining VoIP as a telecommunications service could also create unintended problems. Last year the FCC opened up a broad proceeding to determine whether VoIP is an information service like the Internet or a telecommunications service like a telephone. There isn't need for any action prior to the FCC's decision which is expected sometime this year.

VoIP can play a critical role in boosting broadband demand, putting new tools in the hands of American consumers and small businesses to enhance productivity, manage daily affairs, and enjoy leisure pursuits. In fact, many experts now agree that VoIP may be the long awaited "killer application" for driving broadband in both the residential and small business markets. But increasing the cost of VoIP won't help it lift Arkansas from its 44<sup>th</sup> in the nation ranking in per capita broadband penetration. Other states like Florida, have recently considered and rejected the notion of adding additional taxes to VoIP – because they have come to recognize the benefits of IP applications for their citizens and the economic development potential of remaining an internet tax free zone. Taxing VoIP, when other states do not, will put Arkansas at a competitive disadvantage.

VoIP service is not another flavor of telephone service, just as the desktop PC was not another version of a typewriter or adding machine. VoIP is a new and improved frontier in communications that requires forward thinking approaches. We look forward to working with Arkansas leaders to forge pragmatic solutions that enable consumers, businesses, and the economy to achieve the full promise and potential that VoIP can deliver.

Sincerely,

**The VON Coalition**

**About the VON Coalition:**

The Voice on the Net or VON Coalition consists of leading VoIP companies, on the cutting edge of developing and delivering voice innovations over Internet. The coalition, which includes Acceris, AccessLine, AT&T, BMX, BT Americas, CallSmart, Convedia, Covad, Earthlink, IceNet, iBasis, Intel, Intrado, Level 3, MCI, Microsoft, MobilePro, Multi-Link, PointOne, Pulver.com, Skype, T-Mobile USA, Teleglobe, Texas Instruments, USA Datanet, VocalData, and Voiceglo, believes that Americans are fundamentally better off with a generally hands off regulatory approach to Internet and Internet based services like VoIP. Since its inception, the VON Coalition has consistently advocated that federal and state regulators maintain current policies of refraining from extending legacy regulations to Internet services, including VoIP. More information about the VON Coalition can be obtained at the following website:

<http://www.von.org>