



The VON Coalition

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VoIP Leaders Ask IRS to Hang-Up on Idea of Applying 1898 War Tax to VoIP

Washington, D.C. – The nation's leading VoIP companies, on the cutting edge of developing and delivering voice innovations, asked the IRS today to refrain from applying the 1898 Spanish-American War Tax to 21st century innovations like VoIP.

The Voice on the Net Coalition filed its comments with the Internal Revenue Service, which is considering how the federal telephone excise tax, first created to fund the Spanish-American War, should be applied to new technologies.

The Coalition's filing said that, "This 'tax on talking,' originally meant to fund the Spanish American War, has served our country and should be given an honorable discharge, not another tour of duty." The Coalition also noted that, although the bill never became law, "In 2000, both the House and Senate voted overwhelmingly to eliminate the excise tax completely. President Bush has also supported getting rid of the excise tax. Given the overwhelming opposition to the tax generally, it should certainly not be imposed on Internet communications."

For more than a century, the Federal Government has imposed an excise tax – or "luxury tax" – on telecommunications. In the first instance, this tax was levied as a temporary measure to help pay for the 1898 Spanish-American War. Although the War lasted just under six months and its debt was settled long ago, this excise tax remains in effect. When President William McKinley first signed the tax into law in 1898, he could hardly have contemplated the Internet, let alone the taxation of this innovative medium. In fact, at the time the tax was imposed, only 2,000 phone lines were operational in America.

Over the last two decades, similar Internet innovations like e-mail, the World-Wide-Web, and e-commerce have unleashed powerful transformations that have changed almost every aspect of our lives, grown our economy, and increased our standard of living. The VON Coalition believes that with the right public policies, VoIP can make talking more affordable, while providing a force for increased competition, a platform for innovation, incentives for broadband deployment, and a vehicle for continued economic growth. Any taxation of VoIP, however, might stifle this innovation and leave VoIP's potential unrealized.

"VoIP is not another flavor of telephone service. It's a new frontier in communications for individuals and businesses alike, and it requires forward-thinking regulatory approaches," the Coalition said. "If we subject this new technology to legacy telecom regulation and taxes, consumers and business users will miss out on the new services, increased choices and better prices that VoIP can deliver."

Not only is it bad policy, but taxes on VoIP are impossible to accurately assess and collect. The Coalition's filing notes that, "no tax should be levied if it cannot be easily collected. Substantial government resources are likely to be wasted, and offsetting revenues are likely to be unacceptably low. Technically, an excise tax on VoIP would be extremely difficult to collect. Unlike traditional

telephony, VoIP services utilize an indeterminate array of constantly shifting nodes and communications channels, which rarely (if ever) keep records of the type or destination of information they siphon. Moreover, VoIP transmissions are indistinguishable from other forms of data transfer. Once voice communications are digitized, they look like pure data (e.g. e-mail), and as such any attempt to isolate and tax VoIP would likely prove futile.”

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 AT&T, BMX, Callipso, CallSmart, Convedia, Covad, IceNet, iBasis, Intel, Intrado, Level3, MCI, Microsoft, PointOne, Pulver.com, Skype, 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>