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## July 1

A controversial law since its initial passing, tension has only increased as this permanent implementation date draws near. The loss of this revenue source isn't welcomed by state revenue agencies, particularly as ...

Jun. 24, 2020



The [Internet Tax Freedom Act](#) (ITFA) — passed in 1998 — imposed a moratorium preventing state and local governments from taxing internet access. On July 1, 2020, the Permanent Internet Tax Freedom Act (PITFA) will be fully implemented nationwide, causing the last few grandfathered states allowed to tax internet service providers to lose an [estimated \\$1 billion](#) in combined annual revenue.

[This article first appeared on the Avalara blog:

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Concurrently, some communications companies more heavily focused on providing traditionally taxable services question whether the internet tax moratorium comes at the expense of an increased share of the tax burden on their services.

Proponents of PITFA argue it's required to encourage broadband deployment. However, questions arise as to whether stimulating demand is truly necessary when providers have already achieved **82% market penetration** and most consumers now view internet service as a critical utility.

### **The future of internet taxation**

Although there hasn't been a new tax imposed on ISP service in decades, a handful of states have continued to collect under a grandfather clause and the effect of this sunset will likely come as a painful revenue hit.

There's also a growing imbalance as consumer and business preferences change to data-powered communications, like streaming options and some IoT solutions, rather than voice. Voice is much more heavily taxed, generating more revenue for jurisdictions. As this shift in the ecosystem intensifies it will be difficult for tax and regulatory bodies to accept the moratorium — and they're likely already taking note.

Avalara is monitoring all aspects of these market dynamics. Watch **our blog** for industry updates. **AvaTax for Communications**, our SaaS-based tax calculation engine, is also automatically updated with tax rate and rule changes for every jurisdiction.

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*Toby is an attorney and senior tax consultant in the Avalara Communications business unit. He regularly speaks about and advises customers on complex transaction tax issues, particularly in the field of communications tax and regulatory surcharges.*

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