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GFOA: State and Local Governments Lose Battle against Federal Preemption.

Despite strong sustained opposition from GFOA and other groups representing local government, Senate leaders announced a legislative deal that would compromise local governments' ability to deliver essential services to their communities. Senators dropped their objections to the inclusion of the Permanent Internet Tax Freedom Act (ITFA) in the Trade Facilitation and Trade Enforcement Act conference report (HR 644) and approved the legislation in exchange for a commitment from Senate majority leadership to provide floor time for a discussion on the Marketplace Fairness Act (MFA) later this year. The move permanently removes local tax policy control on telecommunications services in exchange for mere consideration of MFA, with no guarantee as to the outcome.

The deal was made on February 10, but the ITFA has long legislative history. For nearly 15 years, GFOA has pressed Congress to lift the temporary moratorium prohibiting states and their local governments from raising revenue to supplement the costs they bear, including expanding the infrastructure used to facilitate the expansion of broadband fiber. The ITFA moratorium, originally passed in 1997 to protect the then-nascent internet industry, is now not only permanent, but also lifts the clause protecting seven states' grandfathered ability to collect these revenues (over a four-year period). The legislation, to be enacted in 2016, will essentially exempt an entire (and enormously fast-growing and prosperous) sector of the economy – the telecommunications and cable industries – from state and local taxation.

Turning our sights to the other side of the bargain, it is now more important than ever for state and local governments to help members of Congress understand the considerable importance of passing MFA. Although there is no indication of when MFA will be called up for discussion on the floor of the Senate, GFOA's Federal Liaison Center will continue to urge Congress to support any efforts to advance legislation that would finally bring federal law into the digital age by enabling state and local governments to collect sales taxes on online purchases that are already owed. To help you with this outreach, please feel free to visit and use materials on the Marketplace Fairness Act Resource Center.

Government Finance Officers of America

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