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Taxes on 'digital downloads' arrive in Pa.: What is that going to cost you?

Updated Jul 16, 2016; Posted Jul 16, 2016

By **Charles Thompson**
cthompson@pennlive.com

It stands to reason that Pennsylvania, rarely the league leader in "hip" or "modern," wouldn't be among the first states to tax items bought on-line known as digital downloads.

But, baby, we've arrived now.

Among the tax changes signed by Gov. Tom Wolf this week, the state's 6 percent sales tax will be extended to the purchase of the next big Beyonce hit, a Pokemon Go app, or rights to watch Season Five of Netflix's "House of Cards."

The change takes effect Aug. 1, and from a policy standpoint it is probably one of the easier tax expansions the Legislature has voted in some time.

Here's a few reasons why:

There is an argument for level playing fields here. If I go to the book store and buy Jo Jo Moyes' book "Me Before You," I pay sales tax. If you order it from your e-book device, you don't. So that's an arbitrary market disadvantage both for the traditional merchant and his or her customers.

From a purely political calculation, the new tax should land lightest on the older Pennsylvanians that, in conventional political seasons anyway, have been the most regular voters.

- With 23 states and the District of Columbia already having done this for up to a decade, the tax is a tried-and-true money-maker that many online content providers don't really even fight anymore.

Karen Coates, chief of staff to Speaker of the House Mike Turzai, R-Allegheny County, said she saw very little interest group activity on the digital download issue, one way or the other.

In Pennsylvania, this tax expansion is expected to be worth about \$47 million in 2016-17, according to Wolf Administration estimates - all paid by the consumer in a surcharge that, in most cases, is counted in cents as opposed to dollars.

Plus, some experts believe, it's where the money is going to be for the foreseeable future.

In 2015, for example, the Recording Industry Association of America reports that of \$7 billion national market for music sales last year, just \$2 billion was spent CDs or vinyl - that's down from \$4.3 billion in 2009.

http://lancasteronline.com/news/pennsylvania/tax-facts-things-to-know-about-the-new-digital-tax/article_b26fdd6c-5808-11e6-9fd3-17eaa31e3584.html

Tax facts: 5 things to know about the new digital tax in Pennsylvania

Lindsey Blest, Staff Writer

Aug 1, 2016

The digital industry of buying and selling has evaded the traditional definition of a taxable product in Pennsylvania — until now.

A new budget passed by state lawmakers in July includes for the first time a sales tax on digital products.

Monday was the first day digital products purchased by Pennsylvania residents are subject to the state's 6-percent sales and use tax.

So how does this new tax work? The Department of Revenue published a fact sheet to explain the details.

Here are five things to know:

1. It's time to tax songs, apps — and Netflix, too.

The tax applies to any product transferred electronically by downloading or streaming.

So, any product downloaded online qualifies, including:

- E-books (Amazon Kindle, Barnes & Noble's Nook Press, Scribd)
- Subscriptions to streamed video services (Netflix, Hulu)
- Audio (iTunes, Google Play, Spotify, Audible, ringtones, satellite radio)
- Apps and games (and add-ons)
- Photographs
- E-greeting cards

2. Look for the familiar 6 percent.

The digital tax is the same as the standard sales and use tax: 6 percent of the purchase price.

For example, a premium monthly subscription to Netflix costs \$11.99 per month. With the digital tax, the price tag increases by \$0.72 to \$12.71.

3. Good news for students: There still isn't a textbook tax.

There are a few exemptions to the tax.

Under current state tax laws, textbooks sales are tax-exempt. That same exemption applies for digital textbooks purchased from or through accredited schools.

Purchases made by charitable organizations, volunteer fire companies, religious organizations and nonprofit education institutions won't need to pay the sales tax, either.

And newspaper and magazine subscriptions sales are tax-free, too.

4. Your billing address gives you away.

Traditional sales tax works off the location of the seller. The digital download tax works off the the location of the buyer.

The billing address connected with your payment triggers the tax.

So even if you're on vacation in Delaware — a state without any sales tax — the song you download from iTunes will still be taxed 6 percent.

5. If the business doesn't collect the tax, it's up to you to report it.

Businesses are responsible for collecting the tax and giving it to the Department of Revenue.

If they don't, the tax collection is up to you.

The state Department of Revenue asks consumers to report the 6 percent tax as use tax on their Pennsylvania personal income tax return the next year.

<http://www.wgal.com/article/pa-budget-comes-with-new-tax-on-digital-downloads-1/6242842>

HARRISBURG, Pa. —

Pennsylvania's new budget includes some new taxes, including an extension of the state's sales tax to digital downloads.

If you buy music, books, apps or subscribe to streaming services like Netflix, you'll now have to pay a 6 percent state sales tax. Previously the state sales tax did not apply to these items.

Democratic Gov. Tom Wolf signed a \$1.3 billion revenue package into law, just hours after the legislation became public and passed both the Pennsylvania House and Senate on Wednesday.

The Republican-controlled Senate voted 28-22, minutes after the House voted 116-75 on the tax bill negotiated between Wolf and top lawmakers, and adjourned until September.

Budget negotiators say the election-year tax increase is necessary to balance the state's deficit-riddled budget and a 5 percent increase in spending.

The package is split between tax increases and one-time infusions of money, including a \$200 million loan from a state medical malpractice insurance fund.

The new budget also includes a \$1 per-pack tax increase on cigarettes, to \$2.60 per pack.

It also counts on \$100 million from pending legislation to make Pennsylvania the fourth state to legalize online gambling.

Governor Wolf released the following statement on the completion of the 2016-2017 budget:

“Over the last several months, I have worked together with Republicans and Democrats to achieve major progress on issues including the legalization of medical marijuana, the passage of historic liquor reform, and the enactment of a fair funding formula that ensures basic education funding is distributed to schools based on a district's unique needs.

“Recently, we also came together to pass a budget that included historic investment in education at all levels and much-needed funding to combat Pennsylvania’s heroin crisis. Today’s passage of a revenue package means that we avoid another lengthy impasse, our budget is balanced this year, and we have greatly reduced the commonwealth’s structural budget deficit. I will sign this revenue package.

“This package is an important step forward and includes sustainable, recurring revenue that makes significant progress toward reducing our structural deficit. When I took office, I inherited a deficit of more than \$2 billion and schools that were devastated from drastic funding cuts.

“I have fought hard to turn things around and move the commonwealth forward. We have made progress – our schools have seen historic funding increases and the deficit has been significantly reduced. We still have much work to do in next year’s budget, and I look forward to continuing to work with legislative leaders on important issues facing Pennsylvania.

“Now that this year’s budget is complete, it is imperative that we all continue working together to focus on our greatest public health crisis – Pennsylvania’s opioid abuse and heroin use epidemic. While the budget allows us to expand treatment for individuals suffering from addiction, we can and should do more to address this matter that is plaguing all of our communities. My administration will keep its focus on this issue and I will continue preparing for the upcoming special session.”

<https://www.usatoday.com/story/tech/news/2017/08/17/netflix-tax-yes-and-its-already-thing-some-states/500416001/>

A 'Netflix tax'? Yes, and it's already a thing in some states

[Mike Snider](#), USA TODAY Published 8:30 a.m. ET Aug. 17, 2017 | Updated 11:08 a.m. ET Aug. 18, 2017

Your monthly bill for Netflix, Amazon, Hulu and other streaming entertainment services could go up soon as states such as Illinois try to find ways to offset declining sales taxes and other revenue shortfalls. Chicago, Pennsylvania and Florida have already passed a so-called Netflix tax, and cities such as Pasadena, Calif. have broached the issue.

These taxes can translate to additional fees of less than \$1 each month to consumers. But over the months — and tacked onto multiple streaming subscriptions — they might add up to \$50 or more each year.

Netflix, consumer tax groups and tech trade organizations have voiced their opposition to such taxes, warning they can be unfair and deter innovation. Some opponents have initiated legal challenges, and at least one state has shelved plans after a court decision. But state and local governments aren't likely to halt fresh efforts as falling pay-TV subscriptions and video rentals mean there's less opportunity to tax cable bills or charge sales tax at the cash register.

"The way, particularly, municipalities rationalize this is, 'Well, we don't have Blockbuster Video anymore. We were charging them tax, that's got replaced by streaming services like Netflix, so for us it's really just replacing one tax with another for the exact same service'," said Larry Downes, project director of Georgetown University's Center for Business and Public Policy.

Sales tax revenue last year grew less than 1%, after accounting for inflation, and states are facing slow growth into 2018, according to the Rockefeller Institute of Government at the State University of New York.

"When you see the sales tax base dwindling like this, it is understandable for lawmakers to get together and say, 'Is there a way that we can expand this?'" said John Buhl of the Tax Foundation, a non-partisan think tank.

Netflix, which boasts more than 50 million U.S. subscribers, hasn't publicly protested the growth in streaming sales taxes but it warns of attempts to assign utility-type taxes.

"Our view is that it is a dangerous precedent to start taxing Internet apps and websites using laws intended for utilities like water and electricity," said spokesman Jonathan Friedland. "

Amazon and Apple declined to comment; Hulu did not return request for comment.

Where your Netflix is already taxed

States including Alabama, Illinois, Louisiana, Maine and West Virginia have considered taxes on streaming and digital entertainment. Those that have already passed so-called Netflix taxes give a sense of the fees facing consumers.

Chicago amended its 9% amusement tax, originally written to tax concert and sporting event tickets, in 2015 to apply to Netflix and other streaming entertainment, including online game networks. For a typical Netflix or Spotify subscriber with a \$9.99 monthly plan, that translates to an additional 90 cents per month or \$10.79 for the year.

Pennsylvania in August 2016 expanded its 6% sales tax to include streaming services, as well as downloads of apps, movies, music, games and e-books. So, when Apple or Amazon sells a \$13.99 ebook to a Pennsylvania resident, the seller must include an 84 cent tax. The state has collected about \$46.9 million in the first 10 months of the tax.

Washington, Florida and North Carolina also tax digital goods.

'A tax on millennials'

Sometimes efforts don't stick.

Kentucky began taxing Netflix in 2015, comparing it to a multichannel video programming service such as traditional pay TV. But the state's tax appeals board nullified the attempt, saying the service was not equivalent to a traditional pay-TV service. That decision was subsequently reaffirmed by the state court.

"States are increasingly looking to raise revenue, but these efforts must be both lawful and not discriminate against any one sector," said Dustin Brighton, vice president of state government affairs for the Internet Association.

The Internet Association has yet to publicly oppose streaming taxes, but would do so if the group disagrees with how a tax is levied, Brighton says.

Some new tax efforts would seek voter approval, but many result from adapting current laws to cover streaming services and digital goods. Lawmakers that have fought them say while revenues may be bolstered, they can backfire on local governments.

While in the Pennsylvania House, Republican Mike Regan, now a state senator, voted against the law, despite the state's \$1.3 billion deficit. He considered it "a tax on millennials" and "short-sighted" because it could dissuade companies that might locate in the state.

Taxpayers and legislators voiced opposition last year when the city of Pasadena discussed applying its city utility user taxes on Net-delivered services such as Netflix. In Pasadena, that would have meant a 9% tax.

Legal challengers to streaming taxes say federal law that prohibits a tax on e-commerce that discriminates against online providers means some of these municipal efforts should be halted. Earlier this year, the Entertainment Software Association, an industry trade group representing video game hardware makers and software publishers, filed a suit challenging the Chicago law, citing the Internet Tax Freedom Act.

Internet taxation became an issue two months ago when President Trump tweeted about Amazon, founded by Jeff Bezos, and *The Washington Post*, which Bezos paid \$250 million for four years ago, accusing "The #AmazonWashingtonPost" of not paying "internet taxes."

There is no "internet tax" but Amazon does collect sales taxes on goods it sells online to buyers in 46 states.

Yet state and local governments, wrestling with slipping tax revenues, recognize many digital sales go un-taxed. As retail tax bases shrink and with more consumers buying online and purchasing digital goods, more states are likely to debate a streaming tax.

"We are at the very beginning of a trend where local governments begin evaluating their policy vis á vis digital taxation," said Stephen Kranz, an attorney with McDermott Will & Emery, a Washington-based law firm handling the Entertainment Software Association's case.

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