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March 17, 2013

BY HAND DELIVERY AND EMAIL

Senator John W. Fonfara, Co-Chair
Representative Patricia M. Widlitz, Co-Chair
Finance, Revenue and Bonding Committee
Room 3700, Legislative Office Building
Hartford, Connecticut 06106

Re: Concerns re RB 1117 Tax on Digital Products

Dear Senator Fonfara and Representative Widlitz:

I write to express concern regarding the proposed tax on digital products contained in Raised Senate Bill 1117 ("RB 1117"). As you will see in the attached Digital Tax Resolution, a broad range of companies have serious concerns about state sales and use taxes applied to digital goods and services. The provisions of RB 1117 will hurt the Connecticut economy and create an incentive for high-tech businesses to locate in states that do not tax digital products, like Rhode Island, New York, and Massachusetts. In addition, the proposed new tax suffers from a lack of clear sourcing rules and thus may subject Connecticut residents and businesses to double taxation.

RB 1117 would hurt Connecticut businesses and drive consumers to buy from vendors located outside the state. Because Connecticut can only impose its tax on products sold by a Connecticut business to a Connecticut customer, and given that digital products are extremely price-sensitive, consumers will either change their buying habits to purchase digital products tax-free from companies located outside the state or choose to obtain such goods illegally. In the digital world, tax free shopping no longer requires a drive to New Hampshire. Instead, a viable, tax-free alternative is a screen tap away. RB 1117 thus sends a clear message to existing and start-up businesses: locate in a more digital-friendly state if you want to sell your products without charging Connecticut sales tax.

The bill also would raise the tax on computer and data processing services sold to consumers. Again, this will adversely impact Connecticut businesses trying to sell to Connecticut consumers who can easily purchase such services from out-of-state businesses.

Because appropriate federal and state guidance for sourcing digital products sold in interstate commerce do not currently exist, the legislation may lead to Connecticut customers

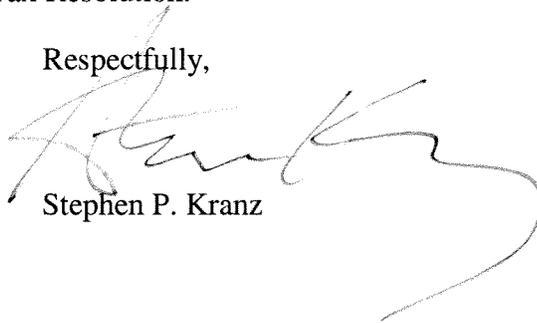
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being taxed twice for the same transaction. For instance, a Connecticut resident may purchase a digital song through an account with a Connecticut billing address but make that purchase while visiting family in New Jersey. Because of potentially inconsistent sourcing rules, that Connecticut resident may face tax obligations in both states. SB 400 lacks sourcing provisions and thus contributes to the prospect of double taxation.

I appreciate the Committee's consideration of the issues arising from the proposed new tax on specified digital products and computer and data processing services, and the concerns of businesses expressed in the attached Digital Tax Resolution.

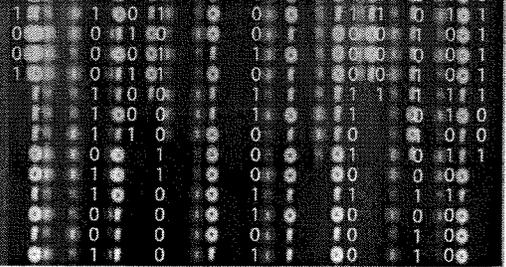
Respectfully,

A handwritten signature in black ink, appearing to read "Stephen P. Kranz", is written over the typed name. The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Stephen P. Kranz

cc: Members - Joint Finance, Revenue and Bonding Committee

Enclosure



The Digital Tax Resolution

A national group of companies and trade associations are concerned about current state efforts to impose taxes on digital goods and digital services. It is critical to the digital economy that state efforts await federal legislation that clarifies the rights and obligations of states, and thus ensure that consumers are protected from multiple and duplicative taxes.

These companies support federal legislation delineating which state has the right to impose taxes on digital goods and services by sourcing those transactions to the state where the consumer resides. This legislation would also ensure that sales of digital goods and services are taxed the same as in-state commerce and not subject to discriminatory or duplicative taxes.

The undersigned companies and trade associations join with the Digital Goods and Services Coalition in support of the following principles:

- No taxes should be imposed on sales of digital goods and digital services until after Congress has passed the Digital Goods and Services Tax Fairness Act.
- Without the federal legislation, taxes on sales of digital goods and services are harmful to the state's economy, increase the cost of doing business in the state, and could subject consumers and businesses to the risk of multiple and discriminatory taxation.
- The federal legislation would provide a consistent state sourcing regime – the absence of such a regime could lead to multiple states taxing the same transaction.
- No telecommunications taxes should be imposed on sales of digital goods and digital services.
- No taxes should be imposed on digital goods and services purchased by business for resale or as component parts of products and services that are then resold and subject to tax.
- Digital goods and services do not always have equivalents in the tangible world and thus must be treated consistent with how a state approaches the taxation of general services.
- Digital goods and services are borderless by nature; states should recognize that out of state vendors can put in-state businesses at a competitive disadvantage when tax collection burdens can only be imposed on businesses in the state.
- States should synchronize and rationalize their tax systems and economic development efforts such that they are not seeking to impose new taxes on sales of on high-tech digital goods and services while trying to lure high-tech investment into the state.

The Digital Tax Resolution

Signatories:

- Amazon.com
- American Association of Advertising Agencies
- American Advertising Federation
- Apollo Group, Inc.
- Cbeyond
- Cox Enterprises
- CTIA – The Wireless Association
- Electronic Arts
- Entertainment Software Association
- Grammy – The Recording Academy
- Industry Sales Tax Solutions
- Insight
- JDA Software
- Microsoft Corp.
- National Black Chamber of Commerce
- Newspaper Association of America
- NetChoice
- Philips
- Recording Industry Association of America
- Software Finance & Tax Executives Council
- Symantec Corporation
- TechAmerica
- Tech Council of Maryland
- Technology Association of Georgia
- T-Mobile
- Verizon