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Despite geographic challenges, including large swaths of rural and mountainous land, 98.8 percent of Pennsylvanians today have access to wired Internet service. According to BroadbandNow, it is the 19th most-connected state in the land.



Internet bills. Low-income households will be hit the worst, and some might have no choice but to go offline. Supported by both Democrats and Republicans, including U.S. Rep. Mike Doyle, PITFA should be passed by the Senate without delay when Congress returns to session next month. – Letter from Pete Sepp, National Taxpayers Union President in the *Pittsburgh Post-Gazette*

State tax officials are trying to catch up with fans of “Orange Is the New Black” and One Direction. With sales of DVDs, videogames and traditional packaged software slumping

Widespread Internet access, including wireless, is due to a number of factors, but according to the Federal Communications Commission’s National Broadband Plan, the single-largest reason is the costs associated with it. Keep them low, and going online is more attractive; make them higher, and usage drops.

In order for Pennsylvania to keep pace in our ever-connected world, we must tear down financial barriers to Internet adoption and prevent new ones from popping up. A new bill in Congress has the potential to do exactly this. Known as the Permanent Internet Tax Freedom Act (PITFA), this legislation would cement into place a measure initially passed in 1998 that bars state and local governments from taxing Internet access.

The House has already passed PITFA, but unless the Senate follows up before the current ban expires Oct. 1, Pennsylvanians could see double-digit increases in their

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for years, more state and local governments are eyeing technologies, such as streaming video subscriptions and cloud computing, to help make up for hundreds of millions of dollars or more in lost revenue. Applying age-old sales taxes to the era of new media hasn't been simple.

States have long taxed tangible goods, but the broad array of new digital products often don't fit the category. Some states are trying to use existing laws, while others are taking on the politically thorny task of rewriting tax rules. The result is a patchwork of tax policies—and some new laws—for fast-growing slices of consumer and business sales. While taxes on digital entertainment and software represent only a sliver of the \$271 billion that states collected in sales taxes last year, the issue highlights the challenge states and localities face as technologies rapidly shift. “What’s so hard about digital goods is they move so fast there’s not the time for states to grasp them and figure out what to do,” said Diane Yetter, president of Yetter, a Chicago-based sales-tax consultancy.

Last month, Tennessee extended its 7% sales tax to software and digital games that are accessed remotely. Meanwhile, Chicago is one of the first cities to wade into taxing digital goods, requiring in the coming months local taxes on cloud computing and streaming entertainment. But Alabama lawmakers recently shelved its own “Netflix tax” after months of study, and Vermont ended an effort to levy taxes on cloud computing after finding the technology was more akin to a service than a tangible good.

States and cities have struggled for decades with shrinking tax bases, often driven by the decades-long decline of manufacturing, but also the more recent rise in e-commerce, which is hard to police when individuals buy goods from out-of-state companies. Nationally, the average, inflation-adjusted growth rate for state sales-tax revenue was 1.5% between 2004 and 2014, down from 3.1% a decade earlier, according to Nelson A. Rockefeller Institute of Government at the State University of New York. “There’s a concern when you have something that the state as a policy matter has clearly chosen to tax, but it starts not being taxed because of changes in technology,” said David Gerregano, deputy revenue commissioner of Tennessee, which expects to collect \$11.3 million in the first year following its tax changes, providing some additional revenue for the state’s multibillion-dollar budget.

States still don't have a handle on how much revenue they have lost from the decline of physical media, because they typically don't track tax collections for specific items. Annual U.S. spending on sales and rentals of DVD and Blu-ray discs have fallen to slightly more than \$10 billion from a peak of \$20.2 billion less than a decade ago, according to data from Digital Entertainment Group, a trade association. Sales of CDs have seen an even sharper decline, with data from the Recording Industry Association of America showing record-company shipments fell to \$1.9 billion last year from \$13.2 billion in 2000. Sales of videogames also have fallen steeply in recent years.

States have likely lost hundreds of millions of dollars a year in tax revenue from those three items, perhaps more than \$1 billion. Not all states assess sales tax, and in the 45 states that do, rates range from less than 3% to more than 7%, when local taxes aren't included. As CD and DVD sales have fallen, first downloads and then streaming subscriptions have notched rapid growth. Netflix Inc., for instance, drew in \$2.01 billion in sales in this year's first half from its U.S. streaming video business. The company says its offerings are currently taxable in roughly half of U.S. states and certain municipalities.

Another fast-growing area that could bolster state coffers is cloud computing, an amorphous term that includes renting online computing storage and using remote Internet-connected servers for number crunching. Gartner Inc. projects the cloud-computing market in the U.S. will reach \$115 billion next year, which includes business processing, infrastructure and security. Idaho has moved cautiously on taxing cloud computing and streaming video. Two years ago, the state decided to exempt most cloud-based software from sales taxes, viewing it as a service. The following year, it exempted

downloadable software, while taxing digital music, video, books and games, according to the state tax commission.

Netflix, which determined it had to collect sales taxes on subscriptions under the Idaho law, fought the law at the capitol in Boise. "Netflix unquestionably provides a service, not the sale or rental of digital products," the company said in comments to the Idaho State Tax Commission. Earlier this year, Idaho legislators passed a new law specifying that unless the consumer got a permanent right to the content, it wasn't taxable, which exempts streaming services from the sales tax.

Meanwhile, Chicago is facing pushback from businesses for its effort to drum up about \$12 million a year in taxes from various digital offerings. For now, the city has extended the period for businesses to come into compliance on cloud computing to the start of next year, and new exemptions are under discussion. Asked about Chicago's move, a Netflix spokeswoman said the company has "no broader policy beyond reviewing situations on a case-by-case basis." – *Wall Street Journal*

The state Supreme Court agreed on Thursday to consider former state Rep. Michael Veon's appeal in a legislative corruption case. In a one-page order, the court said it would hear Veon's arguments that the state's conflict-of-interest law is unconstitutionally vague and that a trial judge improperly expanded its reach to bar public officials from realizing even "intangible" political benefits from their actions. The appeal also will challenge \$1 million in restitution that the former Beaver County lawmaker was ordered to pay to the state on grounds that the commonwealth cannot be a victim entitled to restitution, said one of his lawyers, Joel Sansone. "The Supreme Court has made the right choice," Sansone said. Veon, a longtime House Democratic whip, was released from prison in June after serving five years for convictions at two trials of using state funds to pay bonuses to state employees for campaign work, illegal campaign fundraising and the misuse of taxpayers' money for a nonprofit he ran. Veon served in the House for 22 years until voters ousted him in the 2006 election. His sentence was the longest among 22 House members and aides who were convicted or pleaded guilty as a result of an investigation by the state attorney general's office. A spokesman for Democratic Attorney General Kathleen Kane said her office would review the court's order before making any response.

Pennsylvania government officials are looking into whether state employees used state-owned computers or email to access an online website for people who want to cheat on their spouses. Office of Administration spokesman Dan Egan said Thursday the agency was investigating to see if anyone violated the state's policy regarding the use of technology in connection with the Ashley Madison website. Leaked data from the website has raised questions about whether public employees were using government resources to seek partners for extramarital affairs. Egan says the state's policy prohibits the use of state computers or email to access sexual, pornographic or obscene material. He says violations could result in discipline, including potential firings. The Philadelphia Inquirer reports the city's information technology department is undertaking a similar investigation. – *Associated Press*



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