

MINUTES

ADVISORY COUNCIL ON THE DIGITAL ECONOMY

Monday, January 31, 2000
2:00 p.m.
Texas State Capitol, Senate Chamber
Austin, Texas

Pursuant to a notice posted in accordance with Senate Rules, a public hearing of the Advisory Council on the Digital Economy was held on Monday, January 31, 2000 at the Texas State Capitol in Austin, Texas.

MEMBERS PRESENT

Chairman Mike Maples
Gonzalo Barrientos
Andrew Busey
Rodney Ellis
Bob Fabbio
Donald Hackett
John Hime
Terrell B. Jones
Jim Lee
John McCain
Dick Moeller
Dennis E. Murphree
David G. Nance
Steve Ogden
Kevin Rollins
Florence Shapiro
David Sikora
James Truchard

MEMBERS ABSENT

Michael Capellas
Ken DeAngelis
Thomas (Tom) Engibous
Katherine Hammer
Christy Jones
Hector Ruiz
Max Watson

The Chair called the meeting to order at 2:03 p.m. Chairman Maples asked that quorum be called, and then, the Council would hear the charges at hand. There being a quorum present, the following business was transacted.

Lieutenant Governor Rick Perry thanked the Chair for his service to the state, and for presiding over the Council. As a Council, the Lieutenant Governor hopes the Council's work will help Texas' business climate explore and map the new information technology economy, while making government more efficient and user-friendly. "What we should do - and what I hope this Council does - is to examine what the Internet and e-commerce will mean, in the long run, for commerce and state revenue. That way we can recognize trends and avoid surprises," stated Perry.

The meeting was turned back over to Chairman Maples at 2:13 p.m. He discussed some administrative details, such as breaking up these larger issues into subcommittees, and they would have a chance to share their ideas at the next Council meeting in April.

Chairman Maples introduced the panel on Internet taxation:

Dr. George Zodrow is a professor and chair of the Department of Economics at Rice University. His research interests are tax reform in the U.S. and in developing countries and state and local public finance. Zodrow summarized the issues surrounding Internet taxation. He outlined the various ways of defining "taxing electronic commerce," and noted that "the Internet Tax Freedom Act of 1998 imposes a three-year moratorium on "new taxes" on the Internet, most importantly new taxes on Internet access." Zodrow added that there seems to be little support for extending sales taxes in regard to Internet access. Zodrow's discussion focused on six issues -- four arguments that have been used to justify a moratorium on, and in some cases exemption of, taxation of Internet sales, and two arguments which suggest that the short run costs of not taxing Internet sales are low.

Dr. Charles E. McLure, Jr. is a senior fellow at the Hoover Institution at Stanford University. He is a specialist in the economics of taxation, and his current research focuses on intergovernmental fiscal relations, consumption-based taxes, and taxation of electronic commerce. McLure discussed the distinctions between the sales tax on intrastate sales and the use tax on interstate sales, including those made over the Internet. McLure asked the Council to consider two scenarios for exemption of electronic commerce from sales tax: permanent sales tax exemption for electronic commerce and temporary sales tax exemption for electronic commerce. McLure suggested that a temporary but non-statutory use tax exemption would be appropriate. He said that a statutory exemption would be a mistake as it would be unnecessary because Quill provides a de facto exemption, and it would be unwise because of the risk of unintended results * that an exemption intended to be temporary would become permanent or be badly drafted. McLure also recommended that the Council suggest that state and local governments move expeditiously to simplify their sales and use taxes, so that an expanded duty to collect use tax would not constitute an unacceptable burden on interstate trade.

Mr. Stanley S. Sokul is a member of the Advisory Commission on Electronic Commerce, representing the Association for Interactive Media. Sokul spoke about the Internet taxation issues, and how it encompasses several distinct tax issues, and primarily focuses on state and local activity.

Mr. Frank Shafroth is Director of State-Federal Relations of the National Governors' Association. Mr. Shafroth initially discussed issues including jurisdiction in setting Texas states' revenue policies; Internet tax freedom and fixing the sales tax or replacing it with an alternative neutral tax system. He also suggested ways Texas could simplify the current tax system.

Chairman Maples introduced the panel on Regional Clustering:

Ms. Meredith Walker is an economist at the Federal Reserve Bank of Dallas and assistant to the President. Ms. Walker researches how globalization and technology are shifting economic and political paradigms and investigates the regional economic impact of emerging technologies. Ms. Walker explained that the technological changes spurring the digital economy would seem to render location increasingly irrelevant; thus, businesses and governments can use the cluster approach to capitalize on location-specific sources of competitive advantage in their region.

Mr. Ruben Barrales is President and Chief Executive Officer of Joint Venture: Silicon Valley Network. Mr. Barrales discussed ways that California is successful in the New Economy, as well as ways to nurture cluster to foster high tech economic and human capital development. Some of these areas included addressing the workforce gap and digital divide, and the need to ensure affordable housing.

Mr. Ron Robinson is President and Chief Executive Officer of the Richardson Chamber of Commerce. He discussed the successes of the Telecom Corridor(R) Technology Business Council, an organization of 200 high technology companies within the boundaries of the Telecom Corridor(R), how to create a technology cluster, technology programs that address workforce, education, business development, transportation and environmental implications, and strategies to keep high tech firms engaged in the community.

Mr. Steve Papermaster is CEO of Agillion, the eCustomer Services company, and is Co-chairman of the 360 Summit, is a non-profit organization of technology, business and community leaders committed to identifying and addressing key issues facing Austin's technology industry. He addressed the council on findings from the most recent 360 Summit meeting. Those findings included: quality of life issues surrounding the growth of tech in Austin in relation to the continued success of the tech industry: transportation, access to education, the digital divide, workforce improvement, entertainment outlets to lure tech talent, and preserving environmental resources.

Chairman Maples introduced:

Ms. Carolyn Purcell, executive director of the Texas Department of Information Resources (DIR). Ms. Purcell discussed the status of Texas IT processes and state efforts to establish a presence on the World Wide Web. Ms. Purcell requested the Council's recommendations and advice.

Chairman Maples requested that the Council members email him to volunteer to serve on a task force to more deeply examine the issues raised in the meeting.

There being no further business, at 5:43 p.m. Chairman Maples adjourned the meeting.