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Sales and Use Tax - Charges for Connection to or Furnishing Access to the Internet and On-line Information Services. CHARGES TO END USERS FOR INITIAL CONNECTION TO THE INTERNET OR AN ON-LINE INFORMATION SERVICE, ARE TAXABLE WHEN THE CONNECTION INCLUDES COMPUTER SOFTWARE. CHARGES TO END USERS FOR ACCESSING THE INTERNET OR AN ON-LINE SERVICE ARE NOT TAXABLE.

Advice has been requested regarding the application of sales and use tax to charges for the initial connection to the Internet or an on-line information service and to charges for continuing access to the Internet or on-line information services.

Providers of Internet access and on-line information services (service providers) furnish end users (subscribers) with a connection to the information resources via a telephone line. Connection to the Internet or an on-line information service requires that subscribers have communication software as well as a computer, a modem, and a phone line. The software may or may not be furnished by the service provider. The service provider normally charges for the initial connection or a "start-up" fee. Once the service is established, subscribers are charged additional fees for the time they are on-line using the service.

Charges for the initial connection to such services are not taxable unless the service provider furnishes software. If the service provider furnishes the necessary software, as part of a connection package or as "free" software, the charge is taxable. If the charge for the software is included in the connection fees, the entire amount of the connection fee is taxable. If software is not provided, the connection fee is not taxable.

The service provider charges the subscriber for the time they have access to the Internet or the information service. This charge may be a flat rate per billing period, a fee based on actual time the subscriber has access to the Internet or the information service or a combination of both types of billing. Regardless of the method used for billing, the charges for access are not taxable as the charge does not constitute a charge for telephone communication service.

APPROVED:



M. Berri Balka
State Tax Commissioner

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