

State Progress Report

2000 Committee *On* State Taxation 50-State Study and Report on Telecommunications Taxation

For Presentation to
FTA Revenue Estimation Conference
September 27, 2000

Deborah Bierbaum
Director External Tax Policy
AT&T
voice: (973) 644-1455
email: bierbaum@att.com

Committee *On* State Taxation

- Non-profit association based in Washington, D.C.
- Membership of more than 500 major multi-state corporations.
- Established the Telecommunications Tax Task Force to focus on issues related to the state and local taxation of members engaged in the telecommunications business.

Study Overview

- Compares the state and local tax burden on telecommunications providers to general businesses.
- Demonstrates the impact of the current tax system on the cost of telecommunications services.
- Suggests specific solutions to address those problems.

Study Methodology

- A steering committee supplied a worksheet and data summary sheet for use in compiling the data for each state.
- One company prepared the worksheet for any given state and a different company reviewed the data.
- Each state worksheet indicates the preparer and reviewer.

Study Assumptions

- The telecommunications business is a statewide service provider and the general business has a store in each taxing jurisdiction.
- The 1999 study included the highest tax rate in the summary data. The 2000 study averages the tax rate in the largest city and the capitol city.

Study Assumptions (cont.)

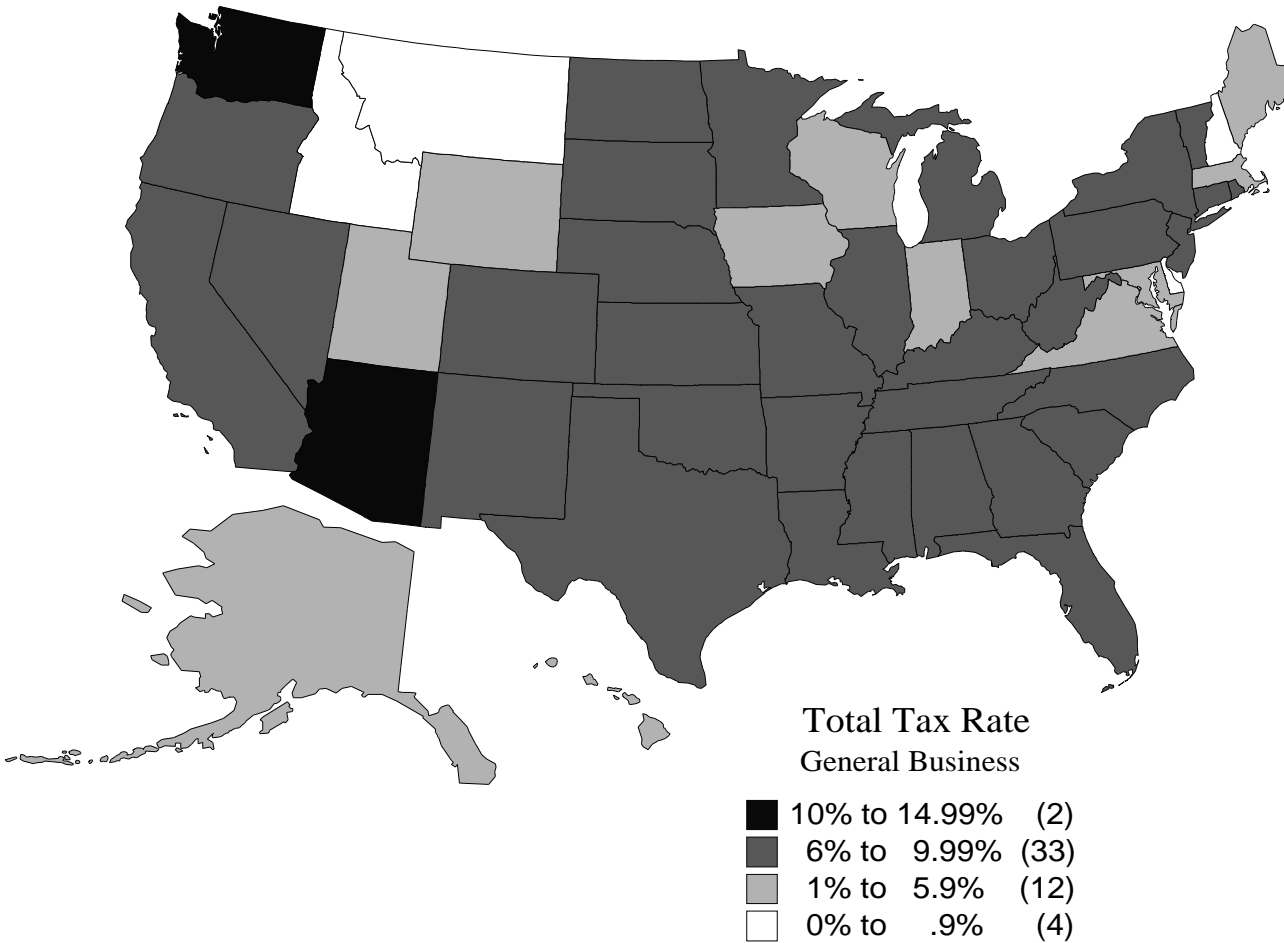
- Flat taxes and fees were converted to percentages based on average monthly residential bills for 1999.
 - Wireline only \$17.42
 - Wireless only \$41.24
 - Both Services \$29.33

Highlights of 2000 Findings*

	<u>Gen. Bus.</u>	<u>Telco</u>
Avg. Effective Transaction Tax Rate	6.07%	13.80%
# Tax Returns Filed per Year	9,271	61,215
# of Taxes to Administer	133	348
# States Taxing Intangible Property	4	16

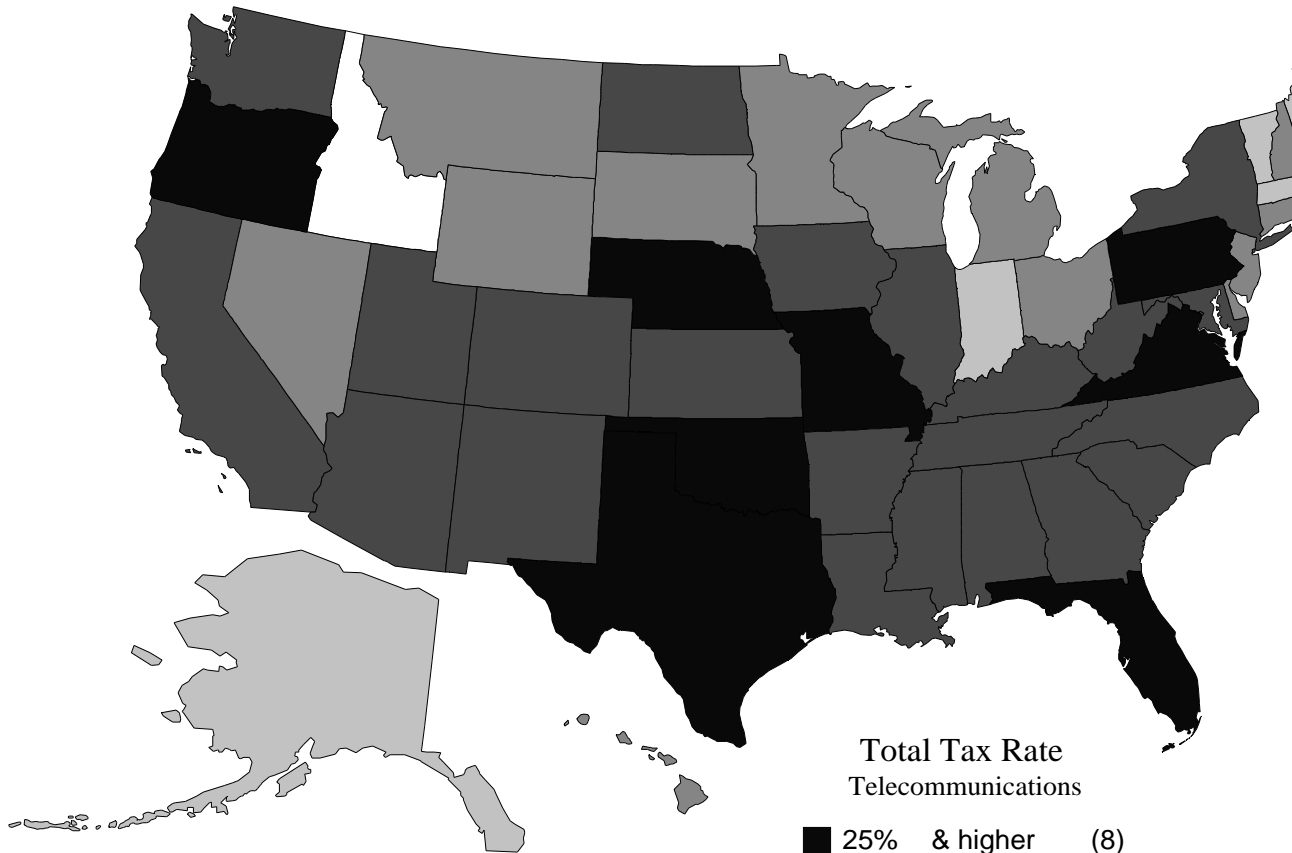
Results are Preliminary

Preliminary 2000 COST Study



Federal, State and Local Rate

Preliminary 2000 COST Study



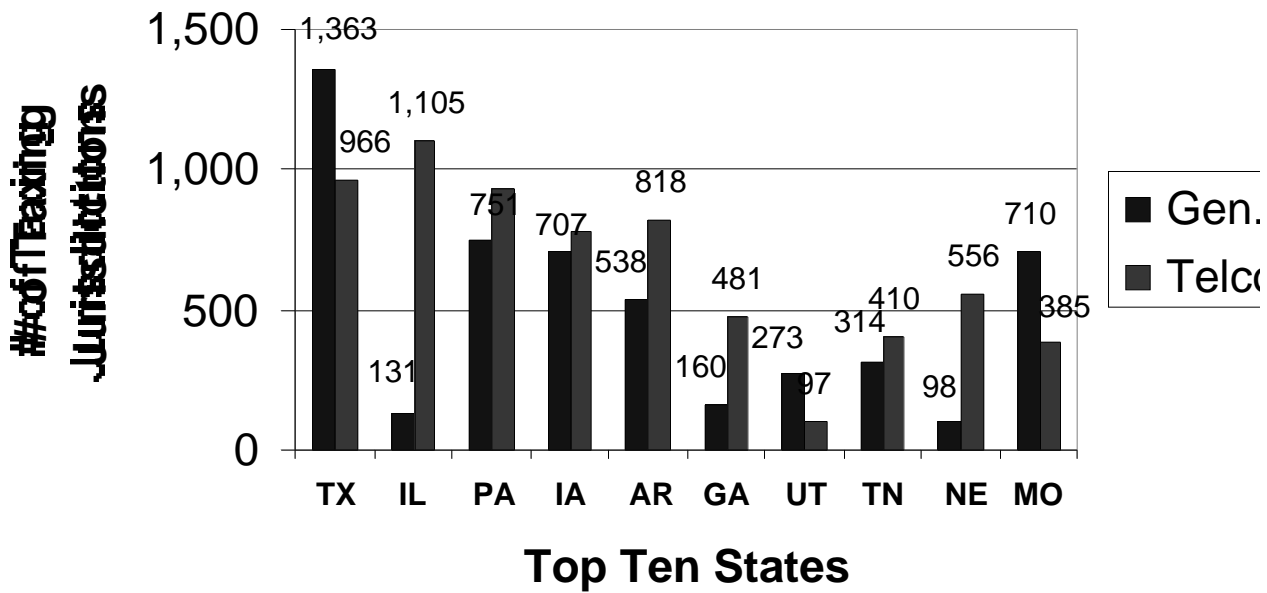
Federal, State and Local Rate

Total Tax Rate
Telecommunications

■	25% & higher	(8)
■	15% to 24.99%	(24)
■	10% to 14.99%	(13)
■	6.0% to 9.99%	(5)
■	1% to 5.9%	(1)

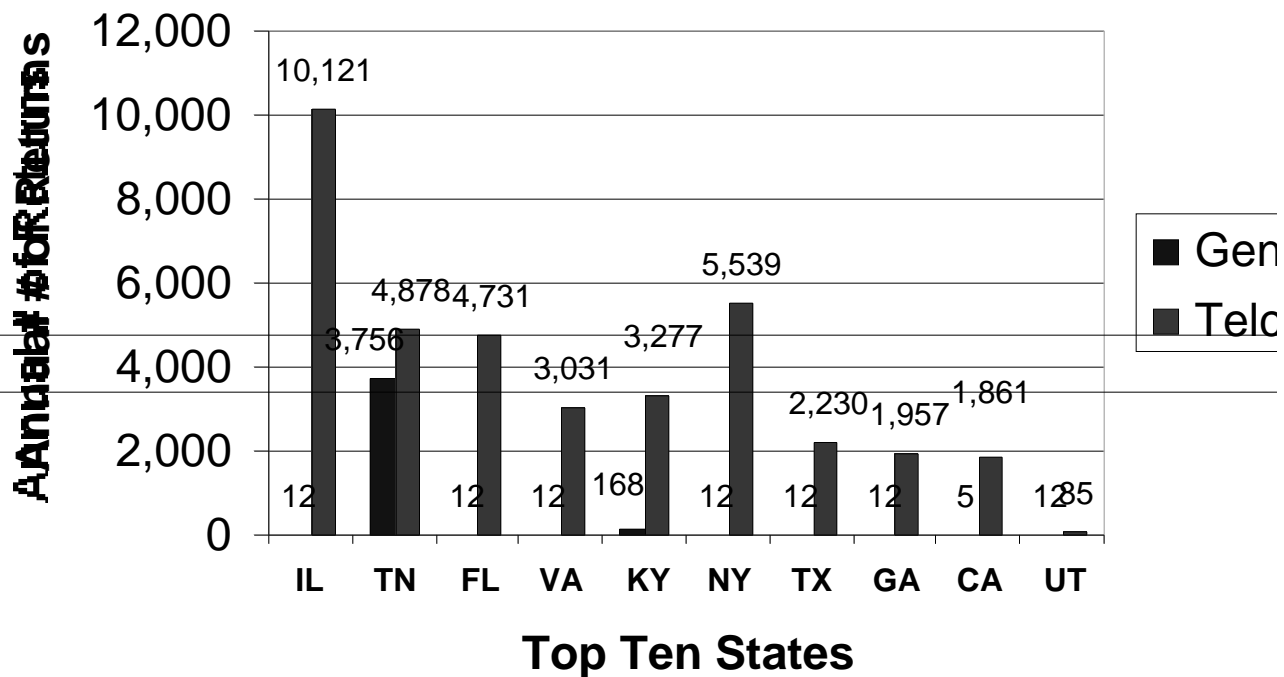
Preliminary 2000 COST Study

Comparison of Total # of Taxing Jurisdictions



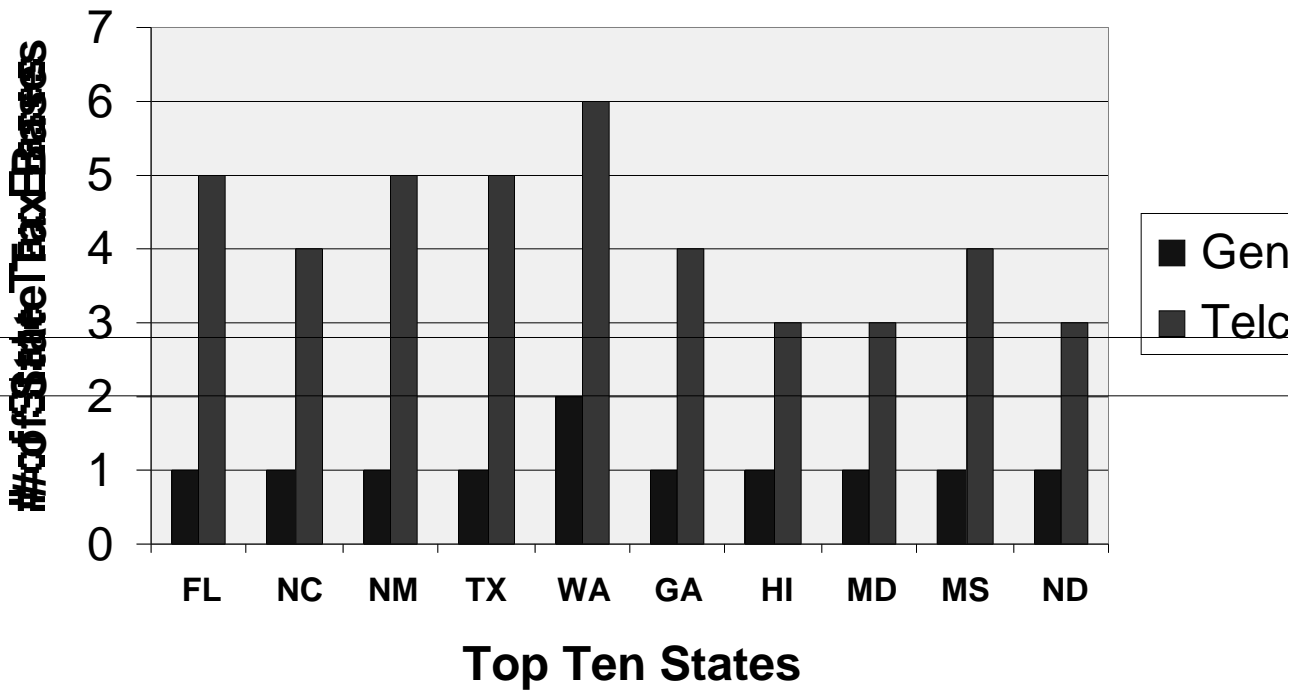
Preliminary 2000 COST Study

Comparison of Annual # of Returns



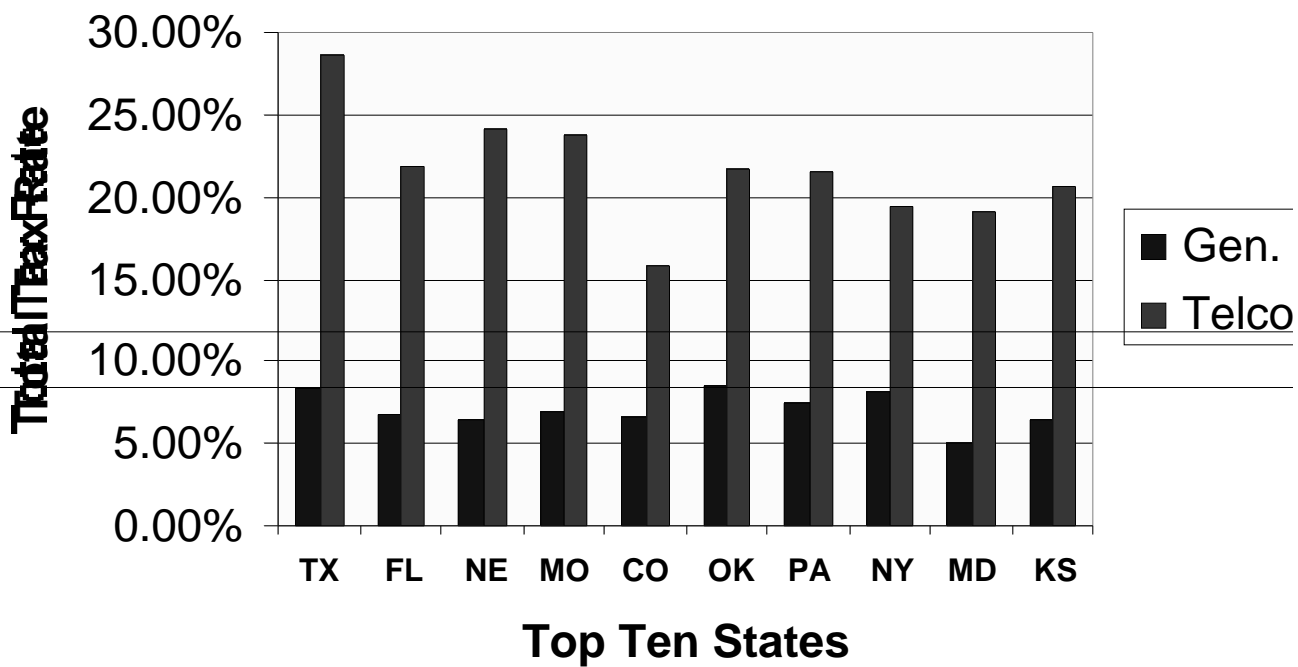
Preliminary 2000 COST Study

Comparison of # of State Tax Bases



Preliminary 2000 COST Study

Comparison of Total Tax Rates



1999 Study versus 2000 Study

- The average total state and local rate applied to telecommunications decreased by .35% from 1999 to 2000.
- The Total number of returns increased by 2034 for general business and 5,467 for telecommunications companies.

1999 Tax Gap

Table 3: Average Burden of Taxes and Charges on Telecommunication vs. General Business

	Tax Rates (Percent)			Tax
	Genl. Business	Taxes and Charges as a % of Avg. Residential Phone Bill		
State	State/Local (1)	State/Local (2)	State/Local + Fed. Excise Tax and Fees (3)	
Texas	8.25%	28.56%	32.56%	
Florida	7.50%	24.47%	28.47%	
Nebraska	6.50%	24.15%	28.15%	
Missouri	6.73%	23.79%	27.79%	
Colorado	8.80%	23.70%	27.70%	
Oklahoma	6.50%	21.71%	25.71%	
Pennsylvania	7.50%	21.46%	25.46%	
New York	8.50%	21.33%	25.33%	
Maryland	5.00%	20.92%	24.92%	
Kansas	5.90%	20.59%	24.59%	

Source: Progress and Freedom Foundation Report and COST 1999 Study

State Actions: 2000 Session

Florida Replaces*:

- Sales Taxes on Telecommunication (7%)
- Sales Tax on Cable (6%)
- Local Option Sales Tax (up to 2.5%)
- Telecommunications Gross Receipts Tax (2.5%)
- Municipal Utility Tax - Option 1 (10%)
- Municipal Utility Taxes - Option 2 (7%)
- Franchise Fees - Cable (5%)
- Franchise Fees - Local Exchange Companies (1%)
- Permit Fees for Long Distance
- Permit Fees for Cable
- Permit Fees for Local Exchange Companies

**With
Revenue Neutral
Communications
Services Tax**

State Actions: 2000 Session

Property Tax Reform

Louisiana -- Income tax refund of property tax classification disparity (HB 224)

Mississippi -- State refund of property tax classification disparity (SB2512)

Kansas -- Income tax refund for tax assessment rate differential (HB2589)

Maine -- Phases out higher rate on telecommunications tangible personal property by 2009 (Chapter Laws of 2000)

State Actions: 2000 Session

Equipment Exemptions

New York - Modernization

Expands the exemption to include machinery and equipment outside of the central office facilities used to provide telecommunications services and equipment used to provide Internet Access Services (Chapter 63 Laws of 2000)

New York - Web Hosting

Effective September 1, 2000 exemption applies to tangible personal property (including some "ancillary" machinery and equipment) and services used in Internet data centers. The property must be installed or located in an Internet data center, and must be necessary for and directly related to Internet web site services for sale. (Chapter 63 of the Laws of 2000)

State Actions: 2000 Session

Equipment Exemptions (cont.)

Connecticut - Broadband

Provides a sales and use tax exemption for broadband telecommunications and cable equipment purchased on or after July 1, 2001. (PA 00 170.)

Florida - Broadband

Provides a sales and use tax exemption for broadband telecommunications equipment purchased on or after July 1, 2001. (2000-164)

2000 Multistate Initiatives

- NCSL passes resolution on the need to reform telecommunications taxes.
- NGA issues best practice paper calling for telecommunications tax reform.
- Telecommunications Tax Reform Initiative (TTRI) joint industry and government effort.
 - NCSL, NGA, NLC, FTA, MTC

2000 Federal Action

- **Wireless Uniform Sourcing**
 - On July 28, 2000 the President signed into law the Mobile Uniform Sourcing Act (H.R. 4391)
- **Federal Excise Tax**
 - On September 14, 2000 the House passes the conference committee version to repeal the tax. On September 20, 2000 the Senate failed to pass the bill which included fiscal 2001 legislative branch appropriations with Treasury-Postal spending.

Rationalized Communication Tax

- Does not apply outdated statutes to new technologies.
- Does not discriminate taxes based on who is providing the service.
- Does simplify compliance burdens.
- Does provide the information necessary for taxpayers to properly comply.

Suggested Reading

- Cordes, Joseph J., THE TANGLED WEB OF TAXING TALK: Telecommunications Taxes in the New Millennium, Progress and Freedom Foundation (www.pff.org), September 2000.
- Palladino and Mazer, Telecommunications Tax Policies: Implications For The Digital Age, National Governors' Association New Economy Task Force (<http://www.nga.org/Pubs/IssueBriefs/2000/000202TeleCom.asp>), February 2, 2000