

INFORMATION ANALYSIS: STATE SALES TAX AND LOCAL FEE & TAX OPTIONS

Analysis Description: Repeal the Public Service Company Franchise Tax levied on landline telecommunications services; exempt the purchase of communications network equipment from the State sales tax; remove pay per view boxing and wrestling tax. Replace local sales tax on telecommunications with local sales tax on all communications services not exempted by ITFA at a 2% capped rate; extend application of local ROW franchise fees to telephone and broadband; retain local PEG fee on cable service; institute a local community broadband and communications fund (MD PEG tax) applied to all communications services not exempted by ITFA but allow entities to credit any existing PEG fees paid against this MD PEG tax. MD PEG tax may be used for construction, equipment and operations of community communication networks, broadband (services, infrastructure, training and adoption) and community media (public, educational and government). Institute the State sales tax on all communications services not exempted by ITFA. State sales tax, local sales tax, and MD PEG tax would be applied to broadband only upon repeal of ITFA. Fees for 911 and relay service, as well as state and local property taxes and corporate income taxes, remain unchanged.

Information Analysis – State Sales Tax and Local Fee & Tax Options		Info Analysis Impact	Difference vs. Current
STATE SALES TAX	Replace 2% Public Service Company Franchise Tax with Sales Tax (wireline telephone (i.e., tariffed) services become subject to 6% sales tax instead separate PSC tax)	98,494,094	64,224,388
	Retain 6% Sales Tax on Wireless (wireless telephone services remain subject to 6% sales tax)	132,791,747	0
	Retain Sales Tax on Ancillary Telecommunications Services (voicemail and similar services remain subject to 6% sales tax)	8,506,354	0
	Retain Sales Tax on Communications Equipment either Rented or Sold (all communications services, including equipment sales, now subject to 6% state sales tax – revenue included in sales tax below)	10,868,663	0
	Remove 6% Sales Tax on all Communications Capital Equipment	0	(32,329,708)
	Replace 10% Pay-Per-View Boxing and Wrestling Tax (all video services now subject to 6% state sales tax – revenue included in sales tax below)	0	(1,630,672)
	Replace Sales Tax on Pay-Per-View Service (all video services now subject to 6% state sales tax – revenue included in sales tax below)	0	(11,277,559)
	Institute Sales Tax on Satellite Television (all video services now subject to 6% state sales)	26,610,719	26,610,719
	Institute Sales Tax on Cable Television, including Pay-Per-View (all video services now subject to 6% state sales - estimate is based on areas with franchise fee receipts)	85,436,435	85,436,435
	Institute Sales Tax on Other Currently Non-Taxable Communications Services Not Exempted by the ITFA (all video services now subject to 6% state sales – estimate includes cable television sales in areas not collecting franchise fees)	7,099,086	7,099,086
Institute Sales Tax on Broadband Services (<i>estimated impact \$29,902,752</i>)(subject to repeal of ITFA, all wireline and wireless broadband communications services would become subject to 6% state sales tax)	-	-	
Retain State 9-1-1 Fee (\$0.25 per Account per Month)	14,773,225	0	
Local 9-1-1 Fee (up to \$0.75 per Account per Month)	40,292,213	0	
Retain Maryland Relay Service Fee (\$0.18 per Account per Month)	5,289,855	0	
Retain Corporate Income Tax (8.25%) (same tax rate for any company doing business in Maryland)	32,359,379	0	
Retain Telecommunications Property Tax (same tax rate as other commercial property in Maryland)			
State	456,480	0	
Local	4,835,265	0	
LOCAL OPTION	Replace Varying Rate Local Taxes on Telecommunications (all communications services subject to optional local communications sales tax, rate capped at 2%)(excludes tax on broadband services currently exempted by the ITFA)	123,269,033	(13,077,507)
	Institute Local Sales Tax on Broadband (estimated impact \$9,967,584)(subject to repeal of ITFA, all wireline and wireless broadband communications services could become subject to local communications sales tax capped at 2%)		-
	Retain Local ROW Franchising Fees and Expand to All Communications Services (telephone, cable, broadband) using the public rights-of-way (local franchise fee capped at 5%)	178,194,401	106,997,372
	Retain Local PEG Fees (all communications services subject to local MD PEG fee or tax, capped at 3%, with offset for PEG fees already included in cable right-of-way franchises)	17,800,124	0
	Institute MD PEG fee or tax (all communications services subject to local MD PEG fee or tax, capped at 3%, with offset for current PEG fees)(excludes broadband services currently exempted by the ITFA)	231,301,848	231,301,848
Institute MD PEG tax on Broadband services (<i>estimated impact \$14,951,376</i>)(subject to repeal of ITFA)		-	
Total	1,018,378,920	463,354,401	

Brief Analysis: The table above provides a fiscal impact of total estimated fiscal year 2012 communications revenue for informational purposes by using: actual fiscal year 2012 collections reports by CTRC staff for Proposal 1; an estimate that broadband revenues equal 35% of cable revenues; and an assumption that right-of-way fees on broadband services can be collected but taxes on broadband services would require expiration of federal Internet Tax Freedom Act (ITFA). The figures above show the increase in revenues assuming all local jurisdictions opt to apply all available local taxes and fees. All local fees and taxes would be optional, at the election of the local jurisdiction. (Legal authority of cities and counties to collect communications taxes and franchise fees for telephone and broadband would need to be addressed.) While the Public Service Company Franchise Tax is levied against governments' and non-profits' purchases, these entities are exempt from sales tax obligations; thus, applying the sales tax to landline services would shrink the applicable tax base. Counteracting this decreased base is the addition of new services – cable television, satellite television, internet-streamed television and movies, and currently untaxed VOIP service. In the result, the state sales tax would apply to all communications services not exempted by the ITFA. Local government rental revenues are protected by retaining the option to collect franchise fees for use of rights of way, including on cable, telephone, and broadband. Applying a 5% franchise fee to cable, telephone and broadband would increase rental fees by an estimated \$107 million. Local government sales tax revenues are reduced by more than \$13 million as the local sales tax is capped at 2% of a wider base (all communications services not exempted by the ITFA). New local funding (MD PEG fee/tax) offsets the decrease in local sales tax and funds local community communications networks, broadband adoption and community media. The MD PEG fee/tax is applicable to all communications services not exempted by the ITFA; flexibility to retain current cable PEG fees or to negotiate MD PEG as fee in right-of-way agreement or collect as a tax, both combination of fees and taxes is capped at 3%. Instituting state and local sales taxes and the MD PEG tax on broadband, subject to repeal of ITFA, would generate almost \$55 million in revenues after repeal.

Information Analysis			Industry Proposal #1		Industry Proposal #2		
Information Analysis - State Tax and Local Fee & Tax Options	Information Analysis Impact	Difference vs. Current	Proposed	Difference vs. Current	Proposed	Difference vs. Current	
STATE SALES TAX	Replace 2% Public Service Company Franchise Tax with Sales Tax (wireline telephone (i.e., tariffed) services become subject to 6% sales tax instead separate PSC tax)	98,494,094	64,224,388	98,494,094	64,224,388	98,494,094	64,224,388
	Retain 6% Sales Tax on Wireless (wireless telephone services remain subject to 6% sales tax)	132,791,747		132,791,747		132,791,747	
	Retain Sales Tax on Ancillary Telecommunications Services (voicemail and similar services remain subject to 6% sales tax)	8,506,354		8,506,354		8,506,354	
	Retain Sales Tax on Communications Equipment either Rented or Sold (all communications services, including equipment sales, now subject to 6% state sales tax – revenue included in sales tax below)	10,868,663		10,868,663		10,868,663	
	Remove 6% Sales Tax on all Communications Capital Equipment		(32,329,708)		(32,329,708)	3,456,489	(28,873,219)
	Remove 10% Pay-Per-View Boxing and Wrestling Tax (all video services now subject to 6% state sales tax – revenue included in sales tax below)		(1,630,672)		(1,630,672)	1,630,672	
	Remove Sales Tax on Pay-Per-View Service (all video services now subject to 6% state sales tax – revenue included in sales tax below)		(11,277,559)	11,277,559		11,277,559	
	Institute Sales Tax on Satellite Television (all video services now subject to 6% state sales)	26,610,719	26,610,719	26,610,719	26,610,719		
	Institute Sales Tax on Cable Television, including Pay-Per-View (all video services now subject to 6% state sales - estimate is based on areas with franchise fee receipts)	85,436,435	85,436,435				
	Institute Sales Tax on Other Currently Non-Taxable Communications Services Not Exempted by the ITFA (all video services now subject to 6% state sales – estimate includes cable television sales in areas not collecting franchise fees)	7,099,086	7,099,086	7,099,086	7,099,086		
	Institute Sales Tax on Broadband Services (estimated impact \$29,902,752)(subject to repeal of ITFA, all wireline and wireless broadband communications services would become subject to 6% state sales tax)		-				
	Retain State 9-1-1 Fee (\$0.25 per Account per Month)	14,773,225		14,773,225		14,773,225	
Local 9-1-1 Fee (up to \$0.75 per Account per Month)	40,292,213		40,292,213		40,292,213		
Retain Maryland Relay Service Fee (\$0.18 per Account per Month)	5,289,855		5,289,855		5,289,855		
Retain Corporate Income Tax (8.25%) (same tax rate for any company doing business in Maryland)	32,359,379		32,359,379		32,359,379		
Retain Telecommunications Property Tax (same tax rate as other commercial property in Maryland)							
State	456,480			(456,480)		(456,480)	
Local	4,835,265			(4,835,265)		(4,835,265)	
LOCAL OPTION	Replace Varying Rate Local Taxes on Telecommunications (all communications services subject to optional local communications sales tax, rate capped at 2%)(excludes tax on broadband services currently exempted by the ITFA)	123,269,033	(13,077,507)		(136,346,540)		(136,346,540)
	Institute Local Sales Tax on Broadband (estimated impact \$9,967,584)(subject to repeal of ITFA, all wireline and wireless broadband communications services could become subject to local communications sales tax capped at 2%)		-				
	Retain Local ROW Franchising Fees and Expand to All Communications Services (telephone, cable, broadband) using the public rights-of-way (local franchise fee capped at 5%)	178,194,401	106,997,372	93,021,819	4,024,666	71,197,029	
	Retain Local PEG Fees (all communications services subject to local MD PEG fee or tax, capped at 3%, with offset for PEG fees already included in cable right-of-way franchises)	17,800,124				17,800,124	
	Institute MD PEG fee or tax (all communications services subject to local MD PEG fee or tax, capped at 3%, with offset for current PEG fees)(excludes broadband services currently exempted by the ITFA)	231,301,848	231,301,848				
Institute MD PEG tax on Broadband services (estimated impact \$14,951,376)(subject to repeal of ITFA)		-					
Total	1,018,378,920	463,354,401	481,384,713	(73,639,806)	448,737,403	(106,287,116)	

SUMMARY	Information Analysis		Industry Proposal #1		Industry Proposal #2	
	Information Analysis Impact	Difference vs. Current	Proposed	Difference vs. Current	Proposed	Difference vs. Current
STATE SALES TAX	369,807,098	138,132,689	295,648,222	63,973,813	267,025,578	35,351,169
911 & RELAY FEES	60,355,293	0	60,355,293	0	60,355,293	0
STATE CORPORATE INCOME TAX	32,359,379	0	32,359,379	0	32,359,379	0
STATE PROPERTY TAX	456,480	0	0	(456,480)	0	(456,480)
TOTAL STATE IMPACT	462,978,250	138,132,689	388,362,894	63,517,333	359,740,250	34,894,689
LOCAL PROPERTY TAX	4,835,265	0	0	(4,835,265)	0	(4,835,265)
LOCAL SALES TAX	123,269,033	(13,077,507)	0	(136,346,540)	0	(136,346,540)
LOCAL ROW FRANCHISE FEES	178,194,401	106,997,372	93,021,819	4,024,666	71,197,029	0
LOCAL MD PEG FEE/TAX	249,101,972	231,301,848	0	0	17,800,124	0
TOTAL LOCAL IMPACT	555,400,671	325,221,713	93,021,819	(137,157,139)	88,997,153	(141,181,805)
TOTAL IMPACT	1,018,378,921	463,354,402	481,384,713	(73,639,806)	448,737,403	(106,287,116)

TOTAL BROADBAND REVENUE SUBJECT TO ITFA EXPIRATION	Information Analysis		Industry Proposal #1		Industry Proposal #2	
	Information Analysis Impact	Difference vs. Current	Proposed	Difference vs. Current	Proposed	Difference vs. Current
STATE	29,902,752	29,902,752	0	0	0	0
LOCAL	24,918,960	24,918,960	0	0	0	0
TOTAL ITFA IMPACT	54,821,712	54,821,712	0	0	0	0

	Annual Communications Tax & Fee Revenue								Estimated Gross Revenue / Tax Base
	Current	State	Local	Telephone Wireline	Telephone Wireless	Video / Cable	Satellite	Other	
Public Service Company Franchise Tax (2%)	34,269,706	34,269,706		34,269,706					1,713,485,300
Sales Tax on Wireless (6%)	132,791,747	132,791,747			132,791,747				2,213,195,783
Sales Tax on Ancillary Telecommunications Services (6%)	8,506,354	8,506,354		8,506,354					141,772,567
Sales Tax on Capital Equipment (6%)	32,329,708	32,329,708						32,329,708	538,828,467
Maryland Relay Service Fee (\$0.18 per Account per Month)	5,289,855	5,289,855		5,289,855					
Pay-Per-View Boxing and Wrestling Tax (10%)	1,630,672	1,630,672				1,630,672			16,306,720
Sales Tax on Pay-Per-View Service (6%)	11,277,559	11,277,559				11,277,559			187,959,317
Sales Tax on Communications Equipment either Rented or Sold (6%)	10,868,663	10,868,663		10,868,663					181,144,383
Corporate Income Tax (8.25%)	32,359,379	32,359,379						32,359,379	392,234,897
Telecommunications Property Tax (2.5 Times Higher Tax Rate)									
State	456,480	456,480		456,480					
Local	4,835,265		4,835,265	4,835,265					
State 9-1-1 Fee (\$0.25 per Account per Month)	14,773,225	14,773,225		14,773,225					
Local 9-1-1 Fee (\$0.75 per Account per Month)	40,292,213		40,292,213	40,292,213					
Local Sales Taxes on Telecommunications (Levied by Local Governments)	136,346,540		136,346,540	125,666,986		10,679,554			4,544,884,667
Franchising Fees (Negotiated by Local Governments)	71,197,029		71,197,029			71,197,029			1,423,940,580
Public, Governmental, and Educational Fees (Negotiated by Local Governments)	17,800,124		17,800,124			17,800,124			4,544,884,667
	555,024,519	284,553,348	270,471,171	244,958,747	132,791,747	112,584,938	0	64,689,087	

Information Analysis - State Tax and Local Fee & Tax Options	Information Analysis Impact	State	Local	Telephone Wireline	Telephone Wireless	Video / Cable	Satellite	Other [A]	Estimated Gross Revenue / Tax Base
Replace 2% Public Service Company Franchise Tax with Sales Tax (wireline telephone (i.e., tariffed) services become subject to 6% sales tax instead separate PSC tax)	98,494,094	98,494,094		98,494,094					1,641,568,233
Retain 6% Sales Tax on Wireless (wireless telephone services remain subject to 6% sales tax)	132,791,747	132,791,747			132,791,747				2,213,195,783
Retain Sales Tax on Ancillary Telecommunications Services (voicemail and similar services remain subject to 6% sales tax)	8,506,354	8,506,354		8,506,354					141,772,567
Retain Sales Tax on Communications Equipment either Rented or Sold (all communications services, including equipment sales, now subject to 6% state sales tax – revenue included in sales tax below)	10,868,663	10,868,663		10,868,663					181,144,383
Remove Sales Tax on all Communications Capital Equipment	0	0						0	0
Replace 10% Pay-Per-View Boxing and Wrestling Tax (all video services now subject to 6% state sales tax – revenue included in sales tax below)	0	0				0			0
Replace Sales Tax on Pay-Per-View Service (all video services now subject to 6% state sales tax – revenue included in sales tax below)	0	0				0			0
Institute Sales Tax on Satellite Television (all video services now subject to 6% state sales)	26,610,719	26,610,719					26,610,719		443,511,983
Institute Sales Tax on Cable Television, including Pay-Per-View (all video services now subject to 6% state sales - estimate is based on areas with franchise fee receipts)	85,436,435	85,436,435					85,436,435		1,423,940,580
Institute Sales Tax on Other Currently Non-Taxable Communications Services Not Exempted by the ITFA (all video services now subject to 6% state sales – estimate includes cable television sales in areas not collecting franchise fees)	7,099,086	7,099,086						7,099,086	118,318,100
Institute Sales Tax on Broadband Services (estimated impact \$29,902,752)(subject to repeal of ITFA, all wireline and wireless broadband communications services would become subject to 6% state sales tax)	-	-					-		
Retain State 9-1-1 Fee (\$0.25 per Account per Month)	14,773,225	14,773,225		14,773,225					
Local 9-1-1 Fee (\$0.75 per Account per Month)	40,292,213		40,292,213	40,292,213					
Retain Maryland Relay Service Fee (\$0.18 per Account per Month)	5,289,855	5,289,855		5,289,855					
Retain Corporate Income Tax (8.25%)	32,359,379	32,359,379						32,359,379	392,234,897
Retain Telecommunications Property Tax (Same Tax Rate as Other Property)									
State	456,480	456,480		456,480					
Local	4,835,265		4,835,265	4,835,265					
Replace Varying Rate Local Taxes on Telecommunications (all communications services subject to optional local communications sales tax, rate capped at 2%)(excludes tax on broadband services currently exempted by the ITFA)	123,269,033		123,269,033	39,289,704	44,263,916	0	8,870,240	2,366,362	6,163,451,630
Institute Local Sales Tax on Broadband (estimated impact \$9,967,584)(subject to repeal of ITFA, all wireline and wireless broadband communications services could become subject to local communications sales tax capped at 2%)									
Retain Local ROW Franchising Fees and Expand to All Communications Services (telephone, cable, broadband) using the public rights-of-way (local franchise fee capped at 5%)	178,194,401		178,194,401	82,078,412		96,115,989			3,563,888,016
Retain Local PEG Fees (all communications services subject to local MD PEG fee or tax, capped at 3%, with offset for PEG fees already included in cable right-of-way franchises)	17,800,124		17,800,124			17,800,124			
Institute MD PEG fee or tax (all communications services subject to local MD PEG fee or tax, capped at 3%, with offset for current PEG fees)(excludes broadband services currently exempted by the ITFA)	231,301,848		231,301,848	108,181,603	66,395,874	39,869,469	13,305,360	3,549,543	7,710,061,600
Institute MD PEG tax on Broadband services (estimated impact \$14,951,376)(subject to repeal of ITFA)									
	1,018,378,920	422,686,037	595,692,883	413,065,867	243,451,536	153,785,583	134,222,753	45,374,370	23,993,087,773

Additional fees for DSL/ADSL broadband service are assigned to telephone providers and additional fees for cable modem broadband service are assigned to cable providers.

[A] - Other includes amounts that could not be separated by type.

	Information Analysis Impact	State	Local	Telephone Wireline	Telephone Wireless	Video / Cable	Satellite	Other [A]	Estimated Gross Revenue / Tax Base
Change from Current to Proposed	463,354,401	138,132,689	325,221,712	168,107,120	110,659,789	41,200,644	134,222,753	(19,314,717)	
Change from Amount Paid by Company	(71,891,159)	(67,055,894)	(4,835,265)	(39,561,451)	0	0	0	(32,329,708)	
Change in Amount Paid by / Passed through to Customer	535,245,560	205,188,583	330,056,977	207,668,571	110,659,789	41,200,644	134,222,753	13,014,991	

Information Analysis - State Tax and Local Fee & Tax Options	Information Analysis Impact	Difference Proposed vs. Current
Replace 2% Public Service Company Franchise Tax with Sales Tax (wireline telephone i.e.,	98,494,094	64,224,388
Retain 6% Sales Tax on Wireless (wireless telephone services remain subject to 6% sales tax)	132,791,747	0
Retain Sales Tax on Ancillary Telecommunications Services (voicemail and similar services remain	8,506,354	0
Retain Sales Tax on Communications Equipment either Rented or Sold (all communications	10,868,663	0
Remove Sales Tax on all Communications Capital Equipment	0	(32,329,708)
Replace 10% Pay-Per-View Boxing and Wrestling Tax (all video services now subject to 6% state	0	(1,630,672)
Replace Sales Tax on Pay-Per-View Service (all video services now subject to 6% state sales tax –	0	(11,277,559)
Institute Sales Tax on Satellite Television (all video services now subject to 6% state sales)	26,610,719	26,610,719
Institute Sales Tax on Cable Television, including Pay-Per-View (all video services now subject to	85,436,435	85,436,435
Institute Sales Tax on Other Currently Non-Taxable Communications Services Not Exempted by the	-	-
Institute Sales Tax on Broadband Services (estimated impact \$29,902,752)(subject to repeal of ITFA, all wireline and wireless broadband communications services would become subject to 6%	7,099,086	7,099,086
Retain State 9-1-1 Fee (\$0.25 per Account per Month)	14,773,225	0
Local 9-1-1 Fee (\$0.75 per Account per Month)	40,292,213	0
Retain Maryland Relay Service Fee (\$0.18 per Account per Month)	5,289,855	0
Retain Corporate Income Tax (8.25%)	32,359,379	0
Retain Telecommunications Property Tax (Same Tax Rate as Other Property)		
State	456,480	0
Local	4,835,265	0
Replace Varying Rate Local Sales Taxes on Telecommunications (all communications services subject to optional local communications sales tax, rate capped at 2%)(excludes tax on broadband	123,269,033	(13,077,507)
Institute Local Sales Tax on Broadband (estimated impact \$9,967,584)(subject to repeal of ITFA, all wireline and wireless broadband communications services could become subject to local		
Retain Local ROW Franchising Fees and Expand to All Communications Services (telephone,	178,194,401	106,997,372
Retain Local PEG Fees (all communications services subject to local MD PEG fee or tax, capped at	17,800,124	0
Institute MD PEG fee or tax (all communications services subject to local MD PEG fee or tax, capped at 3%, with offset for current PEG fees)(excludes broadband services currently exempted by	231,301,848	231,301,848
Institute MD PEG tax on Broadband services (estimated impact \$14,951,376)(subject to repeal of ITFA)		
	1,018,378,920	463,354,401