

Maryland Communications Revenue

- 1. Revenue Implications of Proposed Reforms**
 - 2. Differences between Maryland and Virginia**
 - 3. Revenue Forecasting Obstacles**
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Can Maryland Enact Reform Similar to Virginia's and Hold Revenue Constant?

Question

**Yes. But Must Account for
Differences between Maryland's
Current and Virginia's Pre-Reform
Communications Tax Structures**

Answer

**Essentially Replaced Many Taxes and
Fees with 5% Rate on All
Communications**

Virginia Reform

- **Proposal #1:**
 - **Reform complete communications structure**
 - **Replace many taxes and fees with 6% sales tax on all communications**
- **Proposal #2:**
 - **Reform only telecommunications structure**
 - **Replace many taxes and fees with 6% sales tax on only telecommunications**

Proposals for Maryland Reform

- **Proposal #1**
 - **Less \$73.6 million in communications revenue**
 - **Must institute 7.2% tax rate to maintain revenue**
- **Proposal #2**
 - **Less \$106.3 million in communications revenue**
 - **Must institute 8.7% tax rate to maintain revenue**

Revenue Implications

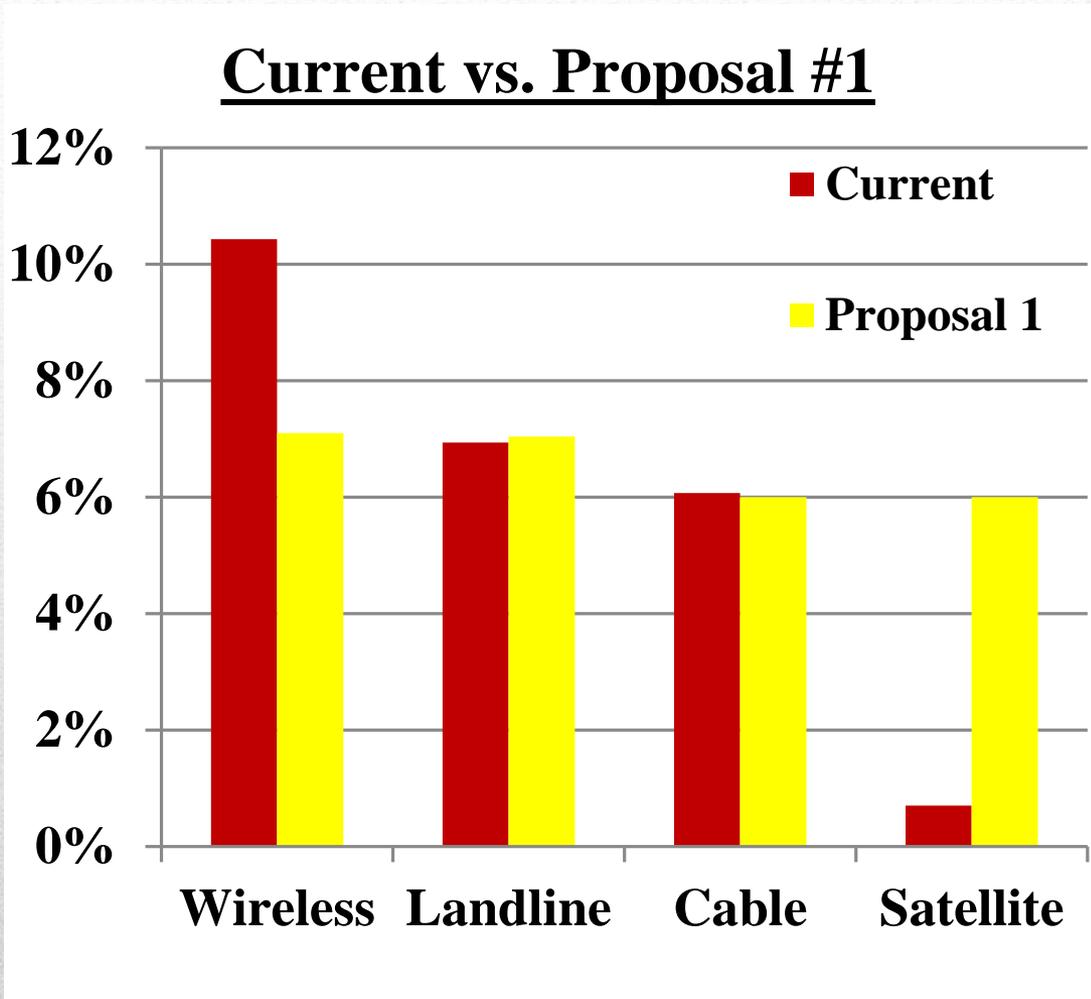
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- **Maryland Effective Rate of “Replaced” Communications Taxes Greater than Virginia**
 - **Virginia Pre-Reform Revenue Expected to Diminish Significantly Over Time**

*Maryland vs. Virginia Pre-Reform
Tax and Fee Structures*



- **Wireless Rate Reduced**
- **Satellite Rate Increased**
- **Revenue Reductions Not Included in Chart:**

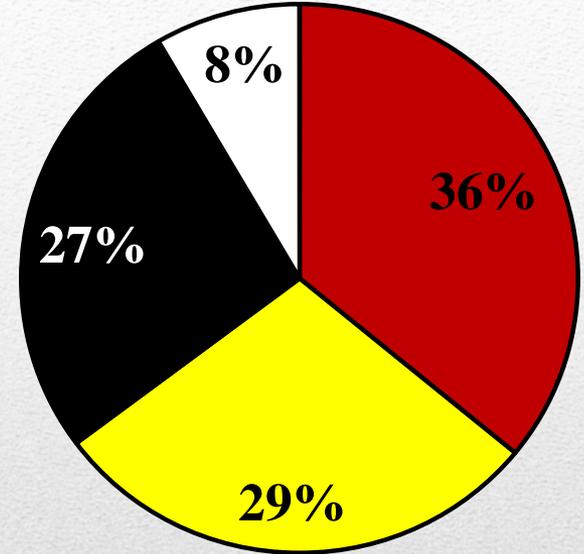
- **Network equipment sales tax exemption**
- **Telecom property tax rate reduction**



Direct Effective Rates by Service

- **Ranking Maryland's Potential Taxable Base:**

- 1.) **Wireless telecom (36%)**
- 2.) **Landline telecom (29%)**
- 3.) **Cable television (27%)**
- 4.) **Satellite television (8%)**



- **Virginia Difference:**

- **Reform raised wireless rate**
- **Pre-reform: Landline tax greater than wireless**

Market Size Consideration

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- **Maryland Effective Rate of “Replaced” Communications Taxes Greater than Virginia**
 - **Virginia Pre-Reform Revenue Expected to Diminish Significantly Over Time**

Recap: Maryland vs. Virginia Pre-Reform Tax and Fee Structures

- **Virginia Revenue was Expected to Diminish due to Movement to Wireless from Landline**
- **Maryland Revenue Forecast Obstacles**
 - **Unknown adoption rate of new technologies**
 - **Unknown outcome of certain federal factors**

Revenue Base In Future



- **Netflix**
 - **Arrested Development**
 - **House of Cards**
- **Amazon**
 - **Alpha House**
- **Services not Codified as Taxable**



Internet-Streamed Television

- **Nexus Requirements and Sales Tax**
 - **Marketplace Fairness Act passed Senate**

- **Internet Tax Moratorium**
 - **Expires November 2014**



Federal Factors

Conclusions

- **To Enact Reform Proposals and Hold Revenue Constant, Maryland Must Institute Higher Tax Rate on Communications than Current State Sales Tax Rate**
 - **Forecasting Rate that Communications Revenue will Grow or Diminish is Difficult at this Time**
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**Staff Presentation to the
Communications Tax Reform
Commission
Meeting of May 16, 2013**
