

Maryland Tax Reform Commission

State-Level Communications Tax Reform Proposal

June 5, 2012

Submitted by: Scott Mackey (Wireless Industry Representative)

In December I submitted to the Commission two proposals for consideration. The first proposal called for comprehensive communications tax reform, including both state and local taxes. The second proposal called for reform of state and local telecommunications taxes while excluding changes to the taxation of video services.

As you know, the analysis of the fiscal impact of these proposals by the Comptroller's staff showed that there would not be enough new state revenue to fully compensate local governments for lost revenues. Recognizing this concern, I asked Commission members for the opportunity to present another alternative for consideration at the final meeting in June.

I am proposing a third option that would create a statewide communications tax while leaving the local tax structure in place. This proposal would reduce – but not eliminate – the disparate tax treatment of communications services; create a pro-investment tax policy to promote additional broadband investment; and leave discussion of local tax reform for another day.

Thank you for considering this proposal.

STATE LEVEL COMMUNICATIONS TAX REFORM PROPOSAL

- 1) Impose a 4% sales and use tax on all communications services, including wireline services, wireless services, ancillary services, pay-per-view, communications equipment rented or sold to consumers, cable service, satellite service, and other currently non-taxable communications services including “over the top” services. The tax rate on services currently subject to the 6% sales tax would be reduced to 4%. This is the rate needed to make the proposal revenue neutral. The 2% public service company gross receipts tax on communications companies would be repealed.
- 2) Exempt network equipment purchased by communications service providers from the sales and use tax.
- 3) Reduce the property tax rate applicable to wireline service providers to the same rate generally applicable to other businesses. Local governments would receive State funds to fully compensate for this change.
- 4) Provide about \$17 million in annual funding for the expansion of broadband to rural and underserved areas.
- 5) Local telecommunications taxes, franchise fees, and PEG fees would not be modified at this time.

Proposal Description: Repeal the Public Service Company Franchise Tax levied on landline telecommunications services; reduce the tax rate on public utility telecommunications property to the rate of non-public utility property; exempt the purchase of communications network equipment from the State sales tax. Institute a new 4.0% State sales tax against all communications services, including reducing the sales tax rate on wireless service from 6.0% to 4.0%. Proposal indicates that additional State revenue will be used to replenish local property tax revenues and to establish funding for broadband development in rural areas.

Proposal 3		
	Proposed Revenue	Difference vs. Current Law
Replace Public Service Company Franchise Tax (4.0%)	65,662,729	31,393,023
Replace Sales Tax on Wireless (4.0%)	88,527,831	(44,263,916)
Replace Sales Tax on Ancillary Telecommunications Services (4.0%)	5,670,902	(2,835,451)
Remove Sales Tax on All Communications Capital Equipment (0%)	-	(32,329,708)
Retain Maryland Relay Service Fee (\$0.18 per Account per Month)	5,289,855	-
Remove Pay-Per-View Boxing and Wrestling Tax (0.0%)	-	(1,630,672)
Replace Sales Tax on Pay-Per-View Service (4.0%)	7,518,372	(3,759,186)
Replace Sales Tax on Television Equipment either Rented or Sold by the Service Provider (4.0%)	7,245,775	(3,622,888)
Retain Corporate Income Tax (8.25%)	32,359,379	-
Telecommunications Property Tax		
Reduce State Rate	-	(456,480)
Reduce Local Rate	-	(4,835,265)
Retain State 9-1-1 Fee (\$0.25 per Account per Month)	14,773,225	-
Retain Local 9-1-1 Fee (\$0.75 per Account per Month)	40,292,213	-
Retain Local Sales Taxes on Telecommunications (Levied by Local Governments)	136,346,540	-
Retain Franchise Fees (Negotiated by Local Governments)	71,197,029	-
Retain Public, Governmental and Educational Fees (Negotiated by Local Governments)	17,800,124	-
Institute Sales Tax on Cable Television (4.0%)	61,429,969	61,429,969
Institute Sales Tax on Satellite Television (4.0%)	17,740,479	17,740,479
Institute Sales Tax on Currently Non-Taxable Over-the-Top Communications Services (4.0%)	4,732,724	4,732,724
Gross Communications Revenue	576,587,148	21,562,629
Less New Funding:		
Replace Local Government Property Tax Revenue Losses	4,835,265	4,835,265
Institute Rural Broadband Expansion Funding (Estimated Amount Proposed Gross Revenue Exceeds Current Law)	16,727,364	16,727,364
Net State and Local Government Revenue	555,024,519	-

Brief Analysis: The table above illustrates the total estimated fiscal year 2012 communications revenue under the tax structure of Proposal 3 and this revenue relative to actual fiscal year 2012 collections. 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 this sales tax to landline services would shrink the applicable tax base. Counteracting this decreased base are the addition of new services – satellite, cable and internet-streamed television and movies – and currently untaxed VoIP service. Furthermore, revenue losses are associated with decreasing the sales tax rate against wireless from 6.0% to 4.0%. The revenue lost from removing the sales tax on capital equipment may vary greatly by year. Under this proposal, approximately \$4.8 million in revenue will be due to local governments to replenish lost property tax revenue and \$16.7 million may be applied to rural broadband expansion funding. Overall, the reform proposal is estimated to be revenue neutral.

Monthly Direct Communications Taxes and Fees Incurred: Family of three with one landline phone account for \$30.00 per month; three cell phones on family plan for \$50.00 per month; and, one basic television plan for \$50.00 per month.

	Current		Proposal #3	
	Family Recieves TV via Cable	Family Recieves TV via Satellite	Family Recieves TV via Cable	Family Recieves TV via Satellite
Allegany County	\$ 8.46	\$ 5.96	\$ 10.06	\$ 7.56
Anne Arundel County	11.36	8.36	12.96	9.96
Baltimore City	24.78	21.96	26.38	23.56
Baltimore County	11.52	8.36	13.12	9.96
Calvert County	8.46	5.96	10.06	7.56
Caroline County	8.46	5.96	10.06	7.56
Carroll County	8.46	5.96	10.06	7.56
Cecil County	8.46	5.96	10.06	7.56
Charles County	8.96	5.96	10.56	7.56
Dorchester County	N/A	5.96	N/A	7.56
Frederick County	5.96	5.96	7.56	7.56
Garrett County	5.96	5.96	7.56	7.56
Harford County	7.46	5.96	9.06	7.56
Howard County	8.66	5.96	10.26	7.56
Kent County	8.46	5.96	10.06	7.56
Montgomery County	22.46	18.46	24.06	20.06
Prince George's County	16.36	12.36	17.96	13.96
Queen Anne's County	8.46	5.96	10.06	7.56
Somerset County	7.46	5.96	9.06	7.56
St. Mary's County	8.46	5.96	10.06	7.56
Talbot County	6.96	5.96	8.56	7.56
Washington County	N/A	5.96	N/A	7.56
Wicomico County	8.46	5.96	10.06	7.56
Worcester County	N/A	5.96	N/A	7.56

Note: Cable Service is Only Available in Certain Municipal Corporations and Cities within Dorchester, Washington and Worcester Counties.

Effective Tax Rate of Direct Communications Taxes and Fees Incurred: Family of three with one landline phone account for \$30.00 per month; three cell phones on family plan for \$50.00 per month; and, one basic television plan for \$50.00 per month.

	Current		Proposal #3	
	Family Recieves TV via Cable	Family Recieves TV via Satellite	Family Recieves TV via Cable	Family Recieves TV via Satellite
Allegany County	6.5%	4.6%	7.7%	5.8%
Anne Arundel County	8.7%	6.4%	10.0%	7.7%
Baltimore City	19.1%	16.9%	20.3%	18.1%
Baltimore County	8.9%	6.4%	10.1%	7.7%
Calvert County	6.5%	4.6%	7.7%	5.8%
Caroline County	6.5%	4.6%	7.7%	5.8%
Carroll County	6.5%	4.6%	7.7%	5.8%
Cecil County	6.5%	4.6%	7.7%	5.8%
Charles County	6.9%	4.6%	8.1%	5.8%
Dorchester County	N/A	4.6%	N/A	5.8%
Frederick County	4.6%	4.6%	5.8%	5.8%
Garrett County	4.6%	4.6%	5.8%	5.8%
Harford County	5.7%	4.6%	7.0%	5.8%
Howard County	6.7%	4.6%	7.9%	5.8%
Kent County	6.5%	4.6%	7.7%	5.8%
Montgomery County	17.3%	14.2%	18.5%	15.4%
Prince George's County	12.6%	9.5%	13.8%	10.7%
Queen Anne's County	6.5%	4.6%	7.7%	5.8%
Somerset County	5.7%	4.6%	7.0%	5.8%
St. Mary's County	6.5%	4.6%	7.7%	5.8%
Talbot County	5.4%	4.6%	6.6%	5.8%
Washington County	N/A	4.6%	N/A	5.8%
Wicomico County	6.5%	4.6%	7.7%	5.8%
Worcester County	N/A	4.6%	N/A	5.8%

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