

The Taxation of Telecommunications in California

A Study by the Center for State and Local
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The Taxation of Telecommunications in California

- The telecommunications industry: deregulation and technological change
- Relevant federal laws and restrictions
- Corporate franchise and income taxes, sales and use tax, franchise fees, utility user tax
- Property tax, surcharges and fees, federal taxes
- Cumulative tax rate on telecommunications services
- Equity and efficiency consequences of existing tax policy
- Comparison to other states
- Key questions and recommendations

Key Questions

- Is the burden of the existing tax treatment of telecommunications services and providers distributed equitably?
- Does the existing tax system impose different tax burdens on the providers (or consumers) of similar services?
- Is the existing tax structure the most efficient means of raising the current level of tax revenue?

Key Questions

- Does the existing tax system distort the consumer's choice between competing telecommunications services and technologies?
- Does the existing tax system distort the location decision of telecommunications providers or consumers?

Property Tax

- State versus local assessment
- Significance of intangible assets
- Rapid depreciation of tangible personal property
- Possessory interests
- Declining revenue stream

State Taxes on Intrastate Services

TAX	CURRENT RATE
Universal Service	
California Relay Service and Communications Device Fund (CRSCDP)	0.48%
Universal Lifeline Telephone Service Program (ULTS)	1.45%
California High Cost Fund-A (CHCF-A)	0.36%
California High Cost Fund-B (CHCF-B)	1.42%
California Teleconnect Fund (CTF)	0.30%
California Emergency Telephone Users (911) Tax	0.72%
CPUC Regulatory Fee	0.11%
TOTAL	4.83%

Federal Taxes

TAX	CURRENT RATE
Federal Excise Tax (intra and interstate services)	3.00%
Federal Universal Service (interstate and international services)	7.28%

Cumulative Tax Rate

Intrastate Services		Interstate Services	
State	4.83%	Federal Excise Tax	3.00%
Federal	3.00%	Fed. Univ. Service	7.28%
Local	0-11.00%	Local	0-11.00%
TOTAL	7.83 - 18.83%		10.28 - 21.28%

California Compared to Other States

State	Number of Local Taxes	Number of State Taxes	Total Tax Rate	Number of Tax Bases	Number of Returns
Arizona	3	5	13.13%	18	205
California	2	7	12.28%	17	2,440
Florida	5	5	21.79%	10	4,731
Nevada	6	3	2.89%	7	194
New Mexico	13	8	8.53%	23	120
New York	5	8	17.26%	10	5,623
Oregon	1	4	13.20%	86	1,017
Texas	3	8	28.56%	4	3,107
Washington	8	5	19.26%	12	4,446
NATIONAL AVERAGE	3	4	13.90%	54	1,312

Is the burden of the existing tax treatment of telecommunications services and providers distributed equitably?

- According to benefit principle: No
- According to ability-to-pay principle: No
- According to horizontal equity principle: No

Does the existing tax system impose different tax burdens on the providers (or consumers) of similar services? YES

- Cable and satellite services are not subject to the federal excise tax nor the myriad of federal and state universal service taxes.
- Internet telephony services escape all of these and the local UUT.
- LECs are exempt from franchise fees.
- Telephone companies are subject to state assessment while others, such as cable, are locally assessed.

Is the existing tax structure the most efficient means of raising the current level of tax revenue? NO

- Current system leads to at least a four percent efficiency loss.
- Raising the tax rate on local exchange access and lowering the rate on other services such as long-distance and wireless would reduce this loss.

Does the existing tax system distort the consumer's choice between competing telecommunications services and technologies?

- Economic theory suggests that differences in taxes should influence consumer choices.
- Of greatest interest and concern is the switch to Internet telephony which increased an estimated 300 percent from 1999-2000.

Does the existing tax system distort the location decision of telecommunication providers or consumers?

- Telecommunication costs vary from city to city and from county to county in California
- The Utility User Tax alone ranges from zero to 11 percent.
- Decisions to locate in California are probably not affected, however the specific choice of location within the state by heavy users of telecommunications services is very likely influenced.

Recommendations

- Extend the manufacturer's investment credit and sales tax exemption for new manufacturers to telecommunication companies
- Examine the apportionment and sourcing rules as they apply to telecommunications and information services
- Establish new nexus guidelines for the information age

Recommendations

- Simplify and consolidate the various taxes and charges imposed on end-user revenues by local jurisdictions and the CPUC
- Simplify the local utility user tax
- Provide for uniform assessment of all business property

Recommendations

- Examine the funding for development and management of public rights-of-way
- Clarify issues regarding internet telephony in general, and cable IP telephony in particular
- Monitor and work with the federal government in its efforts to restrict state and local tax systems
- Provide uniform relief for low-income individuals and households