

Telecommunications Tax Policy

Background:

In September of 2007, the Department of Revenue held a Telecommunications Conference with several hundred in attendance from private and public sectors. Documents from the conference include a baseline report found at <http://dor.wa.gov/docs/reports/telecombaselinereport.pdf>. Conference speakers spoke about the convergence of technology, the future of the telecommunications industry and the importance of pro-investment communications tax policy. The Department of Revenue recognizes the need to address the many issues raised during the conference and commits to launch a focused effort in 2009 on telecommunications tax policy after the legislative session adjourns. Many states are realizing that investment in communications infrastructure have spillover economic benefits far beyond the direct impact on the companies making the investment. Nationally, some 17 jurisdictions have reformed their tax policy on telecommunications by granting exemptions from the retail sales/use tax for the purchase of equipment used to provide telecommunications service. North Carolina became the latest state to enact an exemption effective in 2006.

Problem:

Telecommunications infrastructure and access is key to all aspects of Washington State's economy. However, consumers in Washington pay approximately 21.5% in tax on their bill, which is the third highest tax rate in the nation following only New York and Florida. This is due to high taxes and fees imposed on the telecommunications industry. The industry is also hit with the retail sales and use tax on the purchase and installation of equipment used to provide telecommunications services. The retail sales tax rate currently varies statewide between 7% and 8.9%. Ensuring the speedy deployment of advanced telecommunications equipment and services is an expensive process. The application of tax both on the end users and on the inputs used to provide results in a substantial pyramiding of the tax on telecommunications. This pyramiding of tax violates sound tax policy of only levying such taxes on the end purchaser of the goods or services. Imposing multiple levels of tax on the industry results in reducing available investment, slowing rollout of products and increasing the price of service. Washington's telecommunications tax policy slows the rapid rollout of new infrastructure and services rather than fostering the deployment of new services and products.

Solution:

Address significant issues facing the telecommunications industry and resulting taxes on consumers including::

1. Reduce customer taxes while considering tax policy that minimize the impact of reforms in the industries ability to compete based on the technology they use.
2. Prevent the taxation of business inputs, also known as tax pyramiding.
3. Address the revenue structure of the 911 surcharge.
4. Establish a centralized utility tax collection administered by the Department of Revenue.
5. Exempting inter-company transactions by communications service providers from the Washington B&O tax
6. Clarify that the universal service fund collections and revenues by communication service providers are exempt from the state and local Washington B&O tax.
7. Prevent the expansion of the utility tax and the establishment of new utility taxing authorities.