

AT&T and Verizon Presentation

December 4, 2018

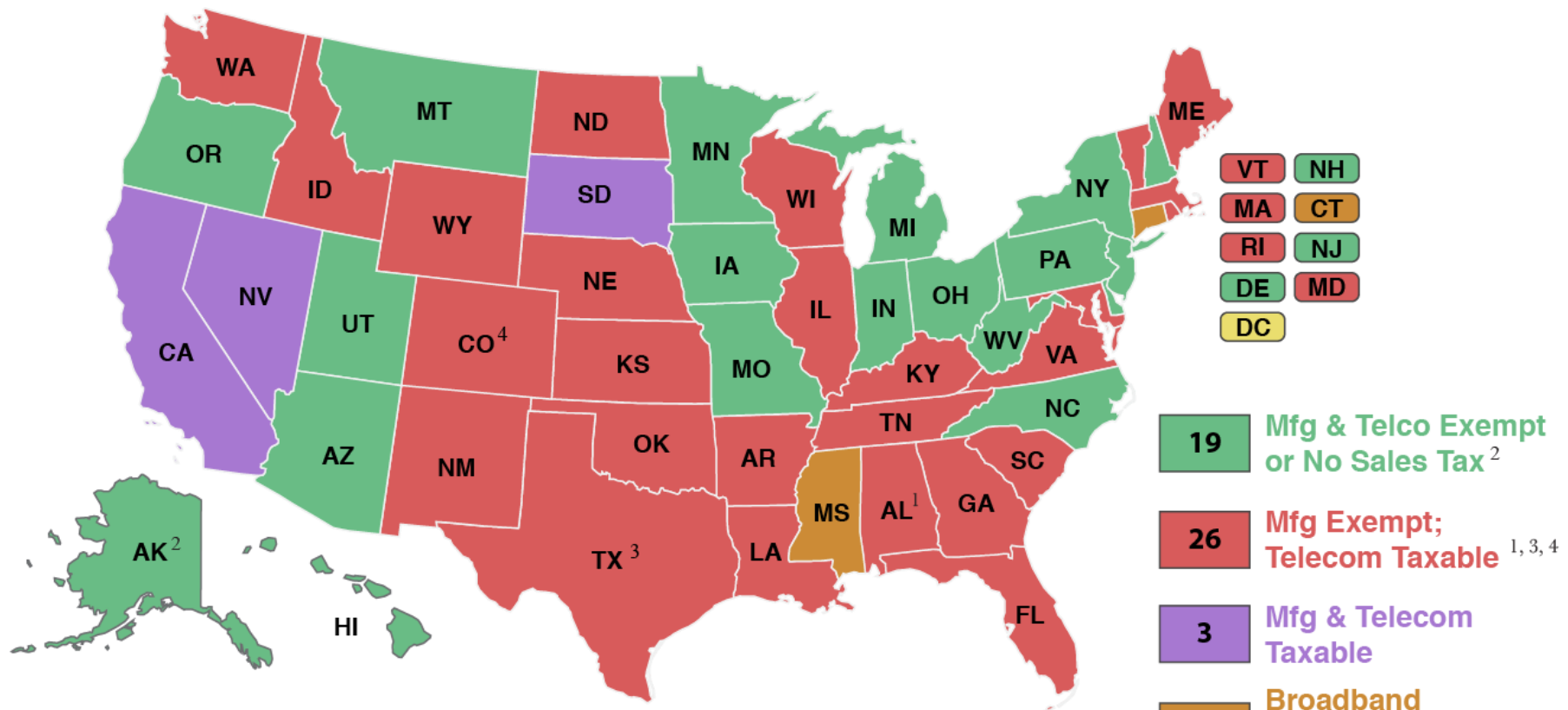
Communication Tax Policy Principles

- Nondiscriminatory
 - Communication services should be taxed at rates not in excess of other taxable purchases.
 - Should not inhibit the growth of new products and services.
- Easy to Administer
 - State administered, uniform statewide rate
 - Ease of administration encourages compliance and limits audit concerns
- Competitively Neutral
 - Tax should not discriminate based on the provider or consumer of service
- Promote investment in broadband networks to support economic growth
 - Do not tax network investment (permanently).
- Consistent with Streamlined Sales Tax Agreement
 - Post *Wayfair* this is an important consideration
- Tax Should Only Apply to the End User – No Taxes on Business Inputs

Do Taxes on Network Investment Matter?

- 2012 Study by Raul Katz at Columbia University (available at https://www.broadbandtax.org/downloads/BTI_KatzStudy_October-2012.pdf)
- Compared per-capita investment in states with taxes on network investment and states without network investment
- Key findings:
 - 1) taxes on network investment reduce per capita investment
 - 2) eliminating sales taxes on network investment would increase network investment, Gross State Product, employment, and broadband penetration

Telecommunications and Manufacturing Investment Sales Tax Exemptions



¹ Alabama - special reduced 1.5% rate

² Alaska - local sales taxes may apply

³ Texas - rebate of taxes paid capped at \$50 million

⁴ Colorado - rebate of taxes paid capped at \$1 million

Taxes on Network Investment -- Comparison

	<u>Georgia</u>	<u>North Carolina</u>
Average Sales Tax Rate	7.15%	6.95%
Network Investment Sales Tax	Y	N
Network Investment	\$100 million	\$100 million
less sales tax	\$7.15 million	--
Actual Network Investment	\$92.85 million	\$100 million
Cost Per Wireless Cell Site	\$225,000	\$225,000
Cell Sites Built / Upgraded	413	444

*The cost per wireless cell site is used for illustration purposes only and does not represent actual provider cost.

Data from Texas Equipment Sales Tax Refund

- Texas enacted a capped rebate on sales taxes paid on network equipment in 2015.
- Companies submit reimbursement request to Comptroller (DOR), and if requests exceed the cap companies get pro-rata refund.
- Based on 2016 actual submissions to the TX Comptroller, the total cost of the exemption would have been \$136 million at a state sales tax rate of 6.25% - about \$22 million per percentage point of sales tax.
- Georgia estimate is \$131 million at 4% sales tax rate – about \$33 million per percentage point of sales tax.
- Given that the population of Texas is 2.8 times the Georgia population, it is not plausible that fiscal impact of the network equipment exemption is 1.5X higher than the actual Texas experience.

Florida CST Information

- CST Enacted in 2001
 - Reduced the discriminatory taxes on some communication services.
 - CST replaced 7 different taxes and fees into single tax structure
- Problems with the Florida CST
 - Excessive rates
 - 14% average CST rate vs 7% sales tax average rate
 - State lowered rate in 2016
 - Narrow tax base is leading to revenue declines
 - High rates lead consumers to find low tax alternatives
 - Static, narrow base leaves new products out of the CST
 - No sales tax equipment exemption
- Communication Services Tax Working Group
 - 2012 Florida commissioned a working group to study CST reform
 - Group recommended repealing CST and replacing with slight increase in sales tax rate