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Telecommunications Taxes

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The maze of telecommunications taxes is as hard on consumers' pocketbooks as it is difficult for them to understand. Texans pay the third highest level of state and local telecom transaction taxes in the nation. This includes state and local sales taxes, municipal franchise fees, and charges for the Texas Universal Service and Texas Telecommunications Infrastructure funds.

According to the COST study, which looked at the capitol and largest city in each state, the average Texas' local telecom tax rate is 11.32 percent and the average state tax rate is 13.97 percent. Adding federal taxes to the mix means that the average Texan's total telecom tax bill is just under 30 percent, almost one third of the cost of telecommunications services. In comparison, the general transaction (or sales) tax rate in Texas is 8.25 percent.

The Foundation has just finished conducting a study of telecom taxes in Texas. This study is much broader and uses different methodology, and therefore shows different results and cannot be used to compare Texas to other states. Nevertheless, the study still shows that telecom services in Texas suffer from a significantly higher tax burden than most other goods and services.

According to our study, consumers of wireline, wireless, and VoIP services all pay over 19 percent.

Cable service has an average rate in Texas of about 14 percent, though cable companies offering traditional phone service generally face a similar level of taxes and fees on that service as phone companies do. Satellite service faces an even lower burden—about 6.25 percent, having to pay only sales taxes.

Compare this to what most consumers pay. The sales tax is 8.25 percent. The hotel and motor vehicle tax are 6 and 6.25 percent, respectively. Even the mixed beverage tax averages only 14 percent. Today, telecom taxes more resemble sin taxes than the average business tax.

The Legislature needs to address both the high overall telecom tax burden and the disparate tax treatment of the different technologies. The Foundation has identified over $382 million of telecommunications tax cuts that could be implemented by the 80th Texas Legislature to address both of these issues.

THE FACTS

- The Telecommunications Utility/Commercial Mobile Service Provider Assessments (GR Account 3238, formerly known as the TIF fee) is a gross receipts tax intended to fund the installation of communications infrastructure at public institutions. With that goal achieved, the fee was scheduled to expire. However, the Texas Legislature extended it through 2011 at a cost to Texas consumers of about $211 million per year.

- The sales tax levied on telecommunications services function as taxes on a tax, since they are levied on several other telecom taxes, including the Federal USF charge, the Texas USF charge, the TIF fee, the Utility Gross Receipts Assessment, and Municipal Franchise Fees. This tax on a tax costs Texas consumers over $90 million a year.

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Quick*Fact*:

Texas' local telecom tax rate is 11.32 percent and the average state tax rate is 13.97 percent. Adding federal taxes to the mix means that the average Texan's total telecom tax bill is just under 30 percent, almost one third of the cost of telecommunications services.

- The Universal Service Fund (USF) is funded by a charge on the monthly phone bill equal to about 5.65 percent of local and intrastate phone service, costing consumers over $500 million a year. While the Fund helped promote the transition to a market-based system, today the fund is often more a hindrance than a help in fostering competition, essentially subsidizing some consumers and businesses at the expense of others.

- Municipal franchise fees have become divorced from paying for the cost of managing the right-of-way, and turned into just another revenue source for cities.

RECOMMENDATIONS

- Eliminate the Telecommunications Utility/Commercial Mobile Service Provider Assessments. Taxpayer Savings: $211 million per year.

- Eliminate the tax on a tax aspect of the state and local sales taxes. Taxpayer Savings: $90 million per year.

- Universal Service. Bring rates for all basic residential phone service to parity with urban rates and provide for a corresponding reduction in Universal Service charges. Taxpayer Savings: $90 million per year.

- Municipal Franchise Fees. Restructure these fees to reflect the marginal costs of placing facilities in the right-of-way. Taxpayer Savings: Unknown.

- Private Network Service. Eliminate mandated provision of Private Network Service. Taxpayer Savings: $2 million per year.

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