



Testimony

Telecommunications Taxes and Technology Deployment

Testimony before the House Committee on Regulated Industries

by **Bill Peacock**
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Economic Freedom

Consumers have greatly benefitted from recent measures to reduce telecommunications taxes:

- TIF Tax: \$210 million per year
- USF Fee: \$144 million per year when phased in
- Total: \$350 million per year in reduced consumer taxes/fees

But Texas telecom taxes are still high:

- Cable video subscribers paid an average of \$5.90 per subscriber per month, or 14.33 percent of an average monthly bill of \$41.17
- All satellite television subscribers in Texas face a 6.25 percent tax on an average monthly bill of \$50.71 (\$3.17 per month). Currently, state sales tax is the only tax applied to satellite television services.
- Wireline (landline) telephone subscribers paid an average of \$11.12 per month, or 22.30 percent on an average monthly telephone bill. Telephone subscribers in Presidio face the lightest taxation, \$10.13 per month, while those in Dallas are taxed the heaviest, at \$12.24
- Wireless telephone subscribers paid \$9.49 per month in taxes, an average effective rate of 19.25 percent.
- VoIP customers paid an average monthly tax of \$5.31, or 16.40 percent of an average monthly bill of \$32.40. Since VoIP falls within the definition of telecommunications service, it is subject to many of taxes imposed on other voice service providers.
- Consumers who subscribe to cable television and wireline and wireless voice services pay, on average, a total monthly tax burden of \$26.51, or 18.89 percent. This equates to an annual tax bill of \$318.

Comparison of telecom taxes to other taxes:

- Sales Tax – 8.25%
- Cars – 6.25%
- Mixed beverages – 14%
- Cigarettes – 35.6%

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Typical Texas Phone Bill

Monthly Service - Jun 1 thru Jun 30

Charges for 512 xxx-xxxx		
1-01 Basic Local Service-Residence	16.50	
1-02 Call Frwrd-Bsy Line/Don't Answ	1.00	
1-03 Caller ID Name & Number Combo	9.95	
Caller ID Name Deliver		
Caller ID Number Delivery		
1-04 InLine® Repair Plan	7.00	
1-05 Touchtone	.18	
Total Charges for 512 xxx-xxxx	34.63	
Charges for 512 xxx-xxx		
1-06 Personalized Ring	5.00	
Total Monthly Service	39.63	44.57

Surcharges and Other Fees

1-07 Federal Subscriber Line Charge	5.70	
1-08 911 Service Fee	.50	
1-09 TX TIF Reimbursement	.42	
1-10 Federal Universal Service Fee	.64	
1-11 Texas Universal Service	1.22	
1-12 Municipal Charge	1.25	
Total Surcharges and Other Fees	9.73	4.03

Taxes

1-13 Federal (Local Charges)	1.23	
1-14 Federal (Non-regulated & Toll Charges)	.01	
1-15 State and Local (Local Charges)	3.42	
1-16 State and Local (Non-regulated & Toll Charges)	.03	
PUC Gross Receipts Fee	.76	
Total Taxes	4.69	5.45
Total Plans and Services	54.05	9.48
Amount Subject to Sales Tax: 41.86		

Taxes & Fees	Amount	Percent
Local Taxes & Fees	\$2.59	5.81%
State Taxes & Fees	\$5.01	11.24%
Federal Taxes and Fees	\$1.88	4.22%
Total	\$9.48	21.27%

What's Next? The Municipal Franchise Fee

Franchise fees have cost consumers more than \$4.6 billion since 1999

Type	2008*	2007	2006	2005	2004	2003	2002	2001	2000	1999	Total
Electric	\$238,700,919	\$236,851,499	\$229,251,958	\$205,422,778	\$197,582,880	\$202,275,521	\$222,630,660	\$213,980,671	\$181,560,211	\$180,552,002	\$2,108,809,099
Telephone	\$132,105,017	\$141,391,076	\$144,361,848	\$142,542,190	\$150,775,688	\$157,748,061	\$164,702,907	\$154,782,185	\$136,983,820	\$116,850,752	\$1,442,243,543
Cable	\$45,758,877	\$48,048,485	\$37,772,017	\$34,690,791	\$32,671,555	\$31,038,942	\$31,508,944	\$28,829,258	\$23,166,211	\$23,164,514	\$336,649,594
Gas	\$59,704,433	\$60,938,070	\$61,039,728	\$48,793,771	\$47,489,119	\$44,101,640	\$36,513,199	\$47,961,467	\$25,365,512	\$24,091,913	\$455,998,852
Other	\$35,735,245	\$32,310,483	\$44,011,326	\$40,458,873	\$25,305,759	\$29,449,171	\$28,194,171	\$14,618,793	\$12,513,051	\$11,887,411	\$274,484,283
Total	\$512,004,491	\$519,539,613	\$516,436,877	\$471,908,403	\$453,825,000	\$464,613,335	\$483,549,881	\$460,172,374	\$379,588,805	\$356,546,592	\$4,618,185,371

*Budgeted

Companies—and ultimately consumers—pay for using the right of way through multiple fees:

- Franchise Fees
- Pole Connection charges
- Relocation costs
- Local permitting fees

In most cases, the franchise fee is not connected to costs associated with the use of the right of way. Franchise fees go into the general funds of cities.

Conclusions and Recommendations

- Consumers are best served by reducing the costs of the telecommunications services.
- Innovation will be spurred, not by subsidies, but by reduced costs for using the public right of way.
- Do not subsidize the deployment of technology. The USF should not be used to subsidize broadband deployment.
- Phase in reductions to the local franchise fees so that it reflects the marginal cost of the management of the public right of way.
- Eliminate telecommunications taxes that are tied to the old utility model. ★

About the Author

Bill Peacock is the vice president of administration and director of the Texas Public Policy Foundation's Center for Economic Freedom. He has been with the Foundation since February 2005.

Bill has extensive experience in Texas government and policy on a variety of issues, including economic and regulatory policy, natural resources, public finance and public education. His work has focused on identifying and reducing the harmful effects of regulations on the economy, businesses and consumers.

Prior to joining the Foundation, Bill served as the Deputy Commissioner for Coastal Resources for Commissioner Jerry Patterson at the Texas General Land Office. Before he worked at the GLO, Bill was a legislative and media consultant. He has also served as the Deputy Assistant Commissioner for Intergovernmental Affairs for then-Commissioner Rick Perry at the Texas Department of Agriculture and as a legislative aide to then-State Rep. John Culberson.

Bill began his career in state policy in 1989 in the Texas Senate as the analyst for public education and school finance for the Senate Education Committee.

Bill has a B.A. in History from the University of Northern Colorado and a M.B.A. with an emphasis in public finance from the University of Houston.

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