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Commentary

Telecom taxes put heavy burden on Texans

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For the past couple of years, Texans have focused on reducing school property taxes, and rightly so. As a percentage of income, the per-capita property tax burden in Texas ranked us 11th-worst among the states in 2004.

However, there is at least one area of taxation where Texas ranks even worse -- telecommunications.

Texans pays a total of 29.29 percent in taxes on the average phone bill.

This means Texans face the third-highest telecom tax burden in the country.

Another problem with the telecommunications tax system today is that, in a world where voice, video and data communications are merging into almost indistinguishable packets of electrons, taxes still discriminate based on the type of telecommunications service being provided, with traditional telephone service being the most heavily taxed.

Though Texas clearly has an inequitable and excessive telecom tax burden, changing the system will not be easy because these taxes supply significant revenue streams to both the state and local governments. And they are reluctant to part with the money.

The current period of sustained growth in the Texas economy provides a great opportunity for policymakers to reduce telecom taxes.

At the state level, even after the property tax reduction, Texas has a budget surplus of at least \$4.2 billion that could be used to reduce telecom taxes -- with two especially deserving of elimination.

The first is the TIF tax, originally levied on phone bills to fund the installation of Internet and other infrastructure at a variety of public institutions.

However, once this task was completed the Texas Legislature decided to keep the \$200 million the tax generates every year and divert the funds to general revenue.

The second is the portion of the sales tax that is levied on other telecom taxes, including the TIF, utility gross receipts and municipal franchise fees, on phone bills. This tax-on-a-tax costs consumers about \$90 million a year.

The biennial cost of eliminating these two taxes would be about \$600 million -- chump change compared to the current budget surplus.

In a time of increased business efficiencies and technological innovation, consumers are benefiting from declining prices on a wide variety of telecommunications products and services.

Government at all levels should similarly adopt innovative tax policies that will bring much-needed relief to Texas taxpayers.

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