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Legislators Should Pull Excess Taxes Off Texans

Few bills are as complicated as telecommunications bills - whether for land lines, cell phones, satellite or cable service. The fees and surcharges, taxes and franchise fees add up to a single bottom line, however, and for Texans, that bottom line is much more than it should be.

That's the finding of the Texas Public Policy Foundation in its new study of telecommunications taxes, released this month.

"The maze of telecommunications taxes is as hard on consumers' pocketbooks as it is difficult for them to understand," says Bill Peacock, director of the foundation's Center for Economic Freedom.

"Texans pay the third highest level of state and local telecom transaction taxes in the nation," he says. "This includes state and local sales taxes, municipal franchise fees, and charges for the Texas Universal Service and Texas Telecommunications Infrastructure funds."

In fact, "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."

Not only are the taxes high, they are confusing and contradictory, Peacock says.

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

He points to the Telecommunications Utility/Commercial Mobile Service Provider Assessments (formerly known as the TIF fee), a tax that was levied to fund installation of communications infrastructure at public institutions.

"With that goal achieved, the fee was scheduled to expire," Peacock says. "However, the Texas Legislature extended it through 2011 at a cost to Texas consumers of about $211 million per year."

And the sales taxes levied on telecommunications services are double-dipping, he says, since they act as a tax on other taxes.

"This tax on a tax costs Texas consumers over $90 million a year," Peacock says.

The Universal Service Fund adds about 5.65 percent to local and intrastate phone service, for more than $500 million per year, he explains.

"While the fund helped promote the transition to a market-based system, today the fund is more often a hindrance than a help in fostering competition, essentially subsidizing some consumers and businesses at the expense of others," he says.

And Peacock charges that "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."

He recommends that lawmakers eliminate the Telecommunications Utility/Commercial Mobile Service Provider Assessments (for a savings of $211 million per year).

Eliminate the tax-on-a-tax aspect of state and local levies on telecommunications (for a savings of $90 million per year).

Bring all rates for residential phone service to parity with urban rates, and provide for a corresponding reduction in universal service charges (for a savings of $90 million per year).

Restructure municipal franchise fees to reflect the marginal costs of placing facilities in the right of way (taxpayer savings unknown).

Eliminate mandated provision of Private Network Service (for a savings of $2 million per year).

Texans shouldn't have to pay taxes on taxes, fees for functions that are long since fulfilled, and to subsidize some businesses over others.