



## Texans to get break on phone tax

08:01 AM CDT on Thursday, April 24, 2008

By **ANDREW D. SMITH** / The Dallas Morning News  
asmith@dallasnews.com

A compromise agreement to cut \$144 million from the state's Universal Service Fund would reduce all phone bills about 1 percent starting in January.

The deal, if approved Friday, would be the second cut to Texas' telecom taxes, which are some of the highest in the nation.

The first came last year when legislators axed the Telecommunications Infrastructure Fund that adds 1.25 percent to telecom bills.

A third cut may come in 2009, when tax cutters will lobby lawmakers on municipal right-of-way fees, which cost Dallas residents \$12 per line per year.

"Taxes add nearly 30 percent to telecom bills in Texas, which is crazy," said Bill Peacock, director of the Center for Economic Freedom, a libertarian think tank in Austin.

"Normally, governments levy extra taxes on dangerous things like tobacco or alcohol. But telecom isn't dangerous. It's beneficial. It drives growth."

Back when AT&T Inc. owned all the phone lines, it profited from city-to-city long distance offsets the cost of running wire to rural customers.

After AT&T split apart, politicians created tax-supported funds to equalize rural and urban phone costs.

The Texas USF adds a 4.4-cent tax to every dollar spent on in-state calls, even on cellphones. That money goes to phone companies that provide rural coverage and other services.

Large phone companies, which got \$395 million from the USF last year, said they needed every penny to serve rural areas. Others doubted it.

Rising telecom revenue (mostly from cellphones) and falling service costs (from better technology and development in once-rural places such as Frisco) left the USF far too big, tax cutters contend.

Last month, staffers at the state Public Utility Commission sided with the tax cutters. Slash the USF by \$262 million, they said. Their report spurred negotiations and agreement to a smaller cut, \$144 million, by 2012.

The PUC is expected to approve this deal at its meeting Friday. It would save less for consumers than PUC staffers had wanted, but industry support would prevent time-consuming legal action.

"I think this is an outstanding outcome," said PUC Chairman Barry Smitherman.

If the USF tax rate falls to 3.4 percent, a family that spends \$300 a month on phone bills will save \$3 a month. The extra \$4.50 a month from the infrastructure fund's elimination would boost those yearly savings to \$90.

Consumers could save even more if lawmakers ease municipal right-of-way fees.

Those fees more than compensate cities for supporting phone, power, gas and cable TV service. They raise big bucks for other programs.

Dallas will collect about \$31 million from right-of-way fees this year.

"We know cities must raise money somehow, but we oppose these flat fees that keep on rising even when telephone bills fall," said Kristie Ince, an executive at Time Warner Telecom of Texas and spokeswoman for the USF Reform Coalition.

Ms. Ince will lobby to replace flat right-of-way fees with a percentage charge that will cover costs but not raise extra revenue for cities.

Such a proposal will probably please the phone companies that fought Ms. Ince over USF taxes, but it will still face opposition.

"We'd love to see our customers benefit from a reduction, but cities will have something to say about losing that money," said AT&T spokesman Kerry Hibbs. "The debate in Austin would be – how should I put this? – vigorous."

### TAXING TALK

State and local taxes and fees on residential phone service in Dallas:

**State sales tax:** 6.25%

**Local sales tax:** 2%

**911 equalization tax:** 1% (on intrastate long distance)

**911 local tax:** 62 cents

**Municipal fee:** \$1.48

**PUC Gross Receipts:** 0.17% (charged to carriers)

**PUC Access Line Fee:** 0.25% (charged to carriers)

**Universal Service Fund:** 4.4%; may fall to about 3.4% by 2012

**Telecommunications Infrastructure Fund:** 1.25%; was cut last year; will vanish from bills in fourth quarter

SOURCES: Texas Public Utilities Commission; AT&T