

TELECOM TAXES

THE ISSUE

Texas consumers are burdened with high tax rates on telecommunications services. The average consumer who subscribes to telephone, cable, and cellular service pays annual taxes of around \$318. Texas' tax rate on landline telephone service is the third highest in the nation.

The taxes and fees that consumers pay include state and local sales taxes, municipal franchise fees, and charges for the Texas Universal Service Fund (USF).

These average tax rates are representative of the tax burden on a bundle of services. Landline telephone service faces the highest rates, then cellular service, cable/video service, and, finally, satellite service.

Texans pay higher rates on the purchase of these telecommunications services (except satellite) than they do on fireworks and hard liquor. In fact, only cigarettes are taxed at a higher rate.

But there is some good news.

Legislative and regulatory changes have led to the elimination of the Telecommunications Infrastructure Fund (TIF) tax (about \$210 million annually) and a reduction in the USF charges (about \$140 annually). Texas consumers will see their tax bill lowered by about \$350 million per year when these changes are fully implemented.

THE FACTS

- ★ Landline telephone customers 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 customers paid \$9.49 per month in taxes, an average effective rate of 19.25 percent.
- ★ Cable video customers 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 customers in Texas face a 6.25 percent tax on an average monthly bill of \$50.71 (\$3.17 per month).

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- ★ VoIP customers paid an average monthly tax of \$5.31, or 16.40 percent of an average monthly bill of \$32.40.
- ★ 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.
- ★ The elimination of the TIF tax and changes in the USF fee will save Texas consumers about \$350 million a year when fully phased in over the next four years.

RECOMMENDATIONS

- ★ Eliminate the “tax on a tax” aspect of the state and local sales taxes. Taxpayer Savings: \$90 million per year.
- ★ Municipal Franchise Fees. Restructure these fees to reflect the marginal costs of providing services through the right-of-way. Taxpayer Savings: More than \$250 million per year.
- ★ Private Network Service. Eliminate mandated provision of Private Network Service, which is subsidized through the USF. Taxpayer Savings: \$2 million per year.
- ★ Universal Service. Do not expand Universal Service Fund subsidies or fees to new services or technologies, e.g., broadband, VoIP. Examine ways to further reduce the Universal Service Fund once the current reductions are phased in over the next four years.

RESOURCES

- *Testimony Presented to the House Committee on Regulated Industries: Regarding Telecommunications Taxes and Technology Deployment* by Bill Peacock, Texas Public Policy Foundation (June 2008) <http://www.texaspolicy.com/pdf/2008-07-HRI-Testimony-bp.pdf>.
- *Taxes and Fees on Telecommunications Services in Texas* by Paul Bachman, Sarah Glassman, and David G. Tuerck, Ph.D., Texas Public Policy Foundation (Apr. 2007) <http://www.texaspolicy.com/pdf/2007-03-RR06-telecomtaxes-BHill.pdf>.
- *Q&A on the Texas Universal Service Fund* by Bill Peacock, Texas Public Policy Foundation (Aug. 2006) <http://www.texaspolicy.com/pdf/2006-08-PP-USF-Q&A-bp.pdf>.
- *Texas Telecommunications Taxes: An Overview* by Bill Peacock, Texas Public Policy Foundation (Feb. 2006) <http://www.texaspolicy.com/pdf/2006-02-PP-telecom1-BP.pdf>.
- *Texas Telecommunications: Everything Is Dynamic Except the Pricing* by Robert W. Crandall and Jerry Ellig, Texas Public Policy Foundation (Jan. 2005) <http://www.texaspolicy.com/pdf/2005-01-telecom.pdf>.

