

Texas Public Policy Foundation

# Keeping Texas Competitive

## A Legislator's Guide to the Issues 2013-2014



### Telecommunications

#### The Issue

Texas has recently been one step ahead of the rest of the country in telecommunications, passing major telecom reform legislation in both 1995 and 2005. Thanks to the most recent legislation—SB 5—local telephone service for more than 15 million Texans was significantly deregulated as of January 1, 2006. This was a major step forward in reducing costs and bringing new technologies and services to millions of Texans.

Texas again took the lead in 2011. The Legislature passed SB 980, an omnibus telecommunications deregulation bill. This legislation will allow new technology and innovation such as VOIP, broadband, and cable to compete in the market. The law ended specific tariffing requirements and removed monopoly relic regulation. Ultimately, it will increase competition in the marketplace and lower costs for Texas consumers.

However, there is still room for improvement. Texas consumers are particularly burdened with high tax rates on telecommunications services. 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).

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

#### The Facts

- Landline telephone customers paid an average of \$11.12 per month, or 22.30% of an average monthly telephone bill.
- Wireless telephone customers pay an average effective tax rate of 19.25%.
- Cable video customers paid an average of \$5.90 per subscriber per month, or 14.33% of an average monthly bill of \$41.17.
- Consumers who subscribe to cable television and wireline and wireless voice services pay an annual tax bill of \$318.
- Upon deregulation, interstate long distance rates fell 68% from 1984 to 2003, while intrastate rates fell 56%. The slower decline of intrastate rates is due largely to state regulators who have kept intrastate access charges artificially high in order to maintain subsidies of local phone rates.
- The dual system in Texas of deregulated urban markets and regulated rural markets could create a “digital divide” between urban and rural customers.

#### 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.**

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- 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.

## Resources

*Telecommunications Taxes in Texas* by Bill Peacock and Chris Robertson, Texas Public Policy Foundation (Apr. 2009).

*Testimony Presented to the House Committee on Regulated Industries: Regarding Telecommunications Taxes and Technology Deployment* by Bill Peacock, Texas Public Policy Foundation (June 2008).

*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).

*Q&A on the Texas Universal Service Fund* by Bill Peacock, Texas Public Policy Foundation (Aug. 2006).

*Texas Telecommunications Taxes: An Overview* by Bill Peacock, Texas Public Policy Foundation (Feb. 2006).

*Texas Telecommunications: Everything Is Dynamic Except the Pricing* by Robert W. Crandall and Jerry Ellig, Texas Public Policy Foundation (Jan. 2005).

*Consumer Choice and Telecommunication Contracts* by Chris Robertson, Texas Public Policy Foundation (Apr. 2009).

*Testimony Regarding the NFL Network Dispute* by Bill Peacock, Texas Public Policy Foundation (Dec. 2007).

*Texas Telecom Deregulation* by Bill Peacock, Texas Public Policy Foundation (Apr. 2006).

*Texas Telecommunications: The Road Ahead* by Bill Peacock, Texas Public Policy Foundation (Oct. 2005).

*A Telecommunications Policy Primer* by Dianne Katz, Texas Public Policy Foundation (Jan. 2005).

