

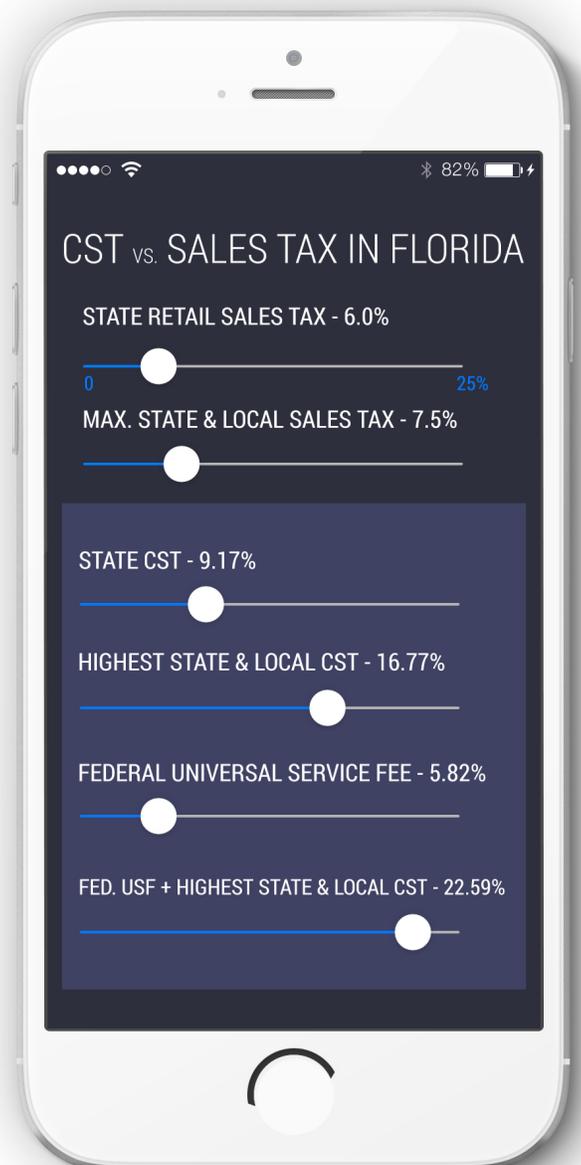
# THE COMMUNICATIONS SERVICES TAX: TIME FOR A CHANGE

This upcoming Legislative Session, Florida lawmakers will once again evaluate the Communication Services Tax (CST), which is currently levied on cell phones, cable and satellite television, and non-residential landline phone service. There are state and local components to the CST, so tax rates vary across the state. Additionally, all applicable services are subject to the federal Universal Service Fund (USF) charge of 5.82 percent.<sup>1</sup>

The state rate is 9.17 percent and when local taxes are added, the average tax rate exceeds 14 percent and the highest rate is nearly 17 percent. This is more than twice the highest state and local general sales tax rate in the state.<sup>2</sup> The CST is expected to raise just over \$2.1 billion in FY2014-15, \$750 million of which is for local governments.

In his FY2015-16 budget recommendations, Governor Scott proposed the reduction of the state portion of the tax by 3.6 percentage points (from 9.17 percent to 5.57 percent). This equates to a potential \$470.9 million in annual savings.

For several years, Florida TaxWatch has recommended the Legislature reduce this burdensome and highly regressive tax on consumers. The high rate makes the tax punitive and distortionary, and makes the state less competitive than other states, particularly in terms of reducing investment in broadband network infrastructure.



<sup>1</sup> The Universal Service Fund (USF) charge is set by the Federal Communications Commission (FCC) and is intended to promote universal access to telecommunications services in the United States.

<sup>2</sup> Direct-to-home satellite services are taxed at a state rate of 13.17 percent, local taxes do not apply.

## THE CST CONTINUES TO BURDEN FLORIDA TAXPAYERS, FAMILIES, AND BUSINESSES

A true “apples to apples” comparison of CST rates among the states is difficult. But a comparison of wireless rates finds that Florida has the fourth highest tax rate in the country, trailing only Washington, Nebraska, and New York.<sup>3</sup> The top ten states are shown below.

### TOP TEN STATES WITH HIGHEST AVERAGE WIRELESS TAX RATE IN 2014

Source: Tax Foundation

RANK	STATE	WIRELESS STATE+ LOCAL TAX RATE	FEDERAL USF RATE	COMBINED FEDERAL, STATE, AND LOCAL TAXES
1	Washington	18.60%	5.82%	24.42%
2	Nebraska	18.48%	5.82%	24.31%
3	New York	17.74%	5.82%	23.56%
<b>4</b>	<b>Florida</b>	<b>16.55%</b>	<b>5.82%</b>	<b>22.38%</b>
5	Illinois	15.81%	5.82%	21.63%
6	Rhode Island	14.58%	5.82%	20.41%
7	Missouri	14.58%	5.82%	20.40%
8	Pennsylvania	14.05%	5.82%	19.87%
9	Arkansas	13.43%	5.82%	19.26%
10	South Dakota	13.02%	5.82%	18.84%

A typical wireless service user<sup>4</sup> in Florida faces a combination of local, state, and federal impositions that can add up to more than a 22 percent tax on their bills. This translates into over \$11 per month in taxes, fees, and surcharges on a \$50 bill that could have been spent in other goods and services. These taxes are a tremendous burden to Florida families, especially low-income individuals and families, who spend a larger share of their income on these services. Wireless is increasingly the only telephone service used by low income individuals. A Centers for Disease Control survey found that 59.1 percent of all poor adults only used wireless services in 2013, up from 42.8 percent in 2010.<sup>5</sup>

Florida’s high CST rate makes the tax distortionary. Florida has the third largest disparity between wireless and general sales tax rates according to the Tax Foundation.<sup>6</sup> Therefore, switching to prepaid calling, which is taxed at the much lower state sales tax of 6 percent, is increasingly attractive to Floridians. There are also internet video services that may not be

<sup>3</sup> Tax Foundation. “Wireless Taxation in the United States 2014”. October 2014. <http://taxfoundation.org/article/wireless-taxation-united-states-2014>

<sup>4</sup> Such as a cell phone contract user. Internet is exempt from taxation by federal law, and pre-paid calling services (if only limited to telephone service) is subject to sales tax in lieu of CST.

<sup>5</sup> Centers for Disease Control and Prevention. “Wireless Substitution: Early Releases of Estimates from the National Health Interview Survey, January-June 2014.” <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201412.pdf>

<sup>6</sup> Tax Foundation. “Wireless Taxation in the United States 2014”. October 2014. <http://taxfoundation.org/article/wireless-taxation-united-states-2014>

taxed at all. This shows that the CST is not neutral, as it causes individuals and firms to alter their economic choices, as recommended in a Florida TaxWatch *Briefing* in 2013.<sup>7</sup>

## MORE COMPETITIVE PRICES HELP BOOST INVESTMENTS

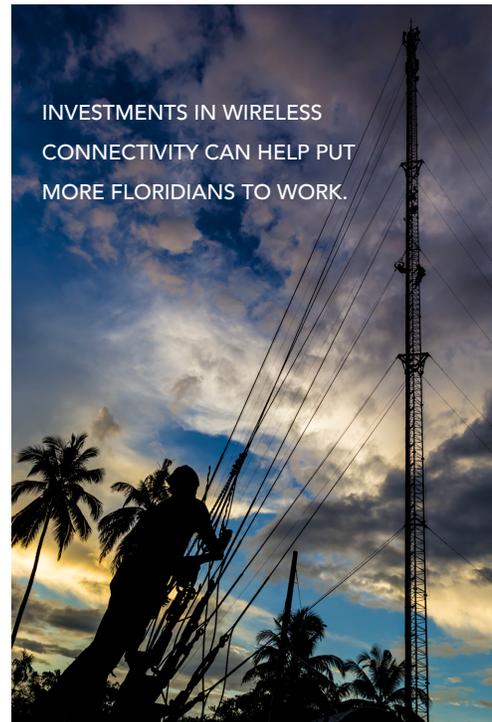
One possible side effect of the high CST in Florida is that the tax may be slowing down investment in wireless infrastructure and broadband networks.<sup>8</sup> A more competitive price for wireless services would increase demand, all else constant, and would therefore increase subscriber revenue. These revenues drive investment decisions in network modernization,<sup>9</sup> which then boost the economy.

According to the Tax Foundation, there is a vast amount of literature showing that investments in wireless networks provide benefits to the economy, as many sectors use wireless networks to boost productivity and efficiency.<sup>10</sup> Such investments would also put more Floridians to work.

In addition, multiplier effects for telecommunications infrastructure have been found to be higher than those of other industries, as they help improve business processes overall,<sup>11</sup> and enhance the competitiveness of the Sunshine State.

## CONCLUSION

With Florida's Regular Session right around the corner, legislators will once again have the opportunity to provide financial relief to Florida families, especially those of low income. A reduction in the CST will impact the vast majority of Floridians and businesses. While a reduction of the CST represents millions in foregone state revenue, it also has the potential of attracting more investments in telecommunications infrastructure, improving current business processes, creating jobs for Floridians, and helping grow the information-based economy.



7 Florida TaxWatch Briefing. "Legislature should Reduce Florida's High Communications Services Tax". <http://floridatxwatch.org/resources/pdf/CSTBriefingFINAL.pdf>

8 *Ibid.*

9 Tax Foundation. "Wireless Taxation in the United States 2014". October 2014. <http://taxfoundation.org/article/wireless-taxation-united-states-2014>

10 *Ibid.*

11 *Ibid.*

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