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## **What Florida Can Do to Spur Economic Growth: Modernizing Tax and Regulatory Policy in Telecommunications**

By

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Every year \$70 billion are invested in the telecommunications infrastructure of the United States. Florida can increase its share of that investment substantially if it reforms its tax structure. In this difficult recessionary time, we need to take advantage of every opportunity to encourage investment in the state and create jobs. Increased telecom investment is truly low-hanging fruit.

The tax rate for telecommunications products and services has, historically, been very high. State and national governments saw the telephone bill as an easy way to collect revenues. People paid these bills first and, because there was little competition in the phone industry, complex taxes did not unduly disrupt the market. But things have changed. Where competition once was scarce, it is now intense. The tax structure in Florida has not kept up. The communications tax, sales tax, equipment tax, as well as normal business and property taxes, all combine to place a burden on the telecommunications industry that is twice as heavy as most other businesses.

Florida telecom taxes are at a level similar to alcohol and cigarette taxes. As economists have known since the time of Adam Smith – whatever you tax, you discourage. And the high levies do not affect only communications. Telecommunications is a key enabler of health care, space sciences, energy, education, and tourism to name just a few important industries.

Poor tax policy hurts all our high tech industries. What's at stake? – Jobs, productivity, better prices and services, and solutions to some of our most difficult social problems.

While job growth has slowed in the overall economy, employment in tech, communications and computing now accounts for nearly half of all new job creation nationally. One study found that for every one percentage point increase in the broadband penetration in a state, employment will increase by 2 to 3 tenths of a percentage point annually. For the entire U.S. private no-farm economy, this could mean an increase of about 300,000 jobs annually. On the productivity side, with new ways to gather, access and use information more effectively, information technology's contribution to productivity growth has increased faster than any other industry since 2000. IT accounted for 38% of total U.S. productivity growth between 2000 and 2008.

As to consumer prices, higher productivity, along with increasing competition has led to falling prices. Prices in the overall economy rose 18% between 2000 and 2008 while telecom prices dropped by almost 6%. The ongoing investment in communications technology means networks that offer more capacity for the on-demand, high-definition content that increasingly dominates the Internet and the ability to support a new wave of productivity-enhancing applications. These networks are the most astonishing technologies the world has ever seen.

And, perhaps best of all, these new networks will facilitate solutions to some of the energy, health care, and educational challenges we're all facing. For example, the American Consumer Institute estimates that expanded use of broadband technology over the next ten years could reduce greenhouse emissions by more than 1 billion tons, which, if converted into energy saved would represent 11 percent of annual U.S. oil imports. Another study found that better use of health IT systems could save as much as \$378 per year in reduced patient stay lengths in U.S. hospitals, with a total savings of \$81 billion per year. From an education perspective, distance education gives students access to specialized courses, individualized scheduled and online tutors.

Of course, Florida's communications industry has already invested a great deal of capital in the state. Since 2004, for example, Verizon has invested well over \$1.5B in broadband technology in Tampa Bay – but there is more to be done. Unfortunately, our state's communications policies related to taxation and regulation do not reflect the economic development benefits of investment in broadband, and serve as detractors for our ongoing capital investment program. To this end, there are three things that Florida should consider in the interest of long-term economic growth for Florida:

1. One of the most concrete ways to foster broadband investment and its associated economic development benefits is to eliminate the current sales tax on the equipment communications firms purchase in order to deliver this critical service to the citizens of the state. Eliminating the sales tax on equipment ensures that taxes on business inputs are not built into the ultimate purchase price paid by the consumer, facilitating continued capital investment.
2. The State of Florida imposes one of the highest tax burdens in the country on the sale of communications services. There is a complex local communications tax rate structure, with rates that vary by city and county. This local rate structure is in addition to the state's communications services tax rate of 9.17%. Floridians who purchase wireless,

wireline, or video communications services often pay taxes and fees of 14-15% or more, depending on where they live. From a taxation perspective, Florida treats communications services as if they are something the state wants to discourage consumers from purchasing. This tax burden must be reduced to the level of normal business taxes if this critical sector of the economy is to thrive.

3. In order for the state to attract additional capital and continue progressive innovation, Florida should minimize unnecessary regulatory risk currently imposed on this investment. A strategic review and overhaul of our current regulatory system can finally position consumers, and not regulators, to be the final arbiter of success or failure in the marketplace.

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