BRIEFING

Session Spotlight

Reducing the Communications Services Tax Would Provide Relief to Virtually All Florida Families and Businesses; Florida's High Tax Rate is Punitive, Distortionary, and Non-Competitive

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SINCE THE ENACTMENT OF THE COMMUNICATIONS SERVICES TAX (CST) Simplification Act in 2001, Florida TaxWatch has released several reports recommending that the Legislature reduce this burdensome and highly regressive tax on consumers. Florida's CST is very high, relative to both other states and the sales tax on the purchase of other goods. This high rate makes the tax punitive and distortionary, and makes the state less competitive than other states, including the potential for reducing investment in broadband network infrastructure.

The Legislature reduced the tax in 2015, but Florida's rate is still among the highest in the nation. There is currently legislation moving in both chambers (SB 1000 and HB 693) to reduce the rate by one percentage point.

Florida's CST is levied on cell and landline phone services, cable and satellite television, video and music streaming, landline phone service, and other services. There is a partial exemption for residential household landline phone service. There are state and local option components to the CST, so tax rates vary across the state. The state CST rate is comprised of both a sales tax (4.92 percent) and a gross receipts tax (2.52 percent). Local taxes vary among jurisdictions, ranging from 0.3 percent to 7.6 percent, with median rate of 5.72 percent.[1]

This puts the top CST rate in Florida at more than 15 percent and the median rate at 13.16 percent, nearly twice as high as the median combined state and local sales tax rate (7 percent) in Florida. When the federal Universal Service Fund (USF) charge of 6.44 percent charged on wireless phone service is included, the tax applied to Floridians' cell phone bill can exceed 21 percent.[2]

The Tax Foundation annually tracks tax rates on wireless phone services across the country. Its latest report[3] shows that Florida still has one of the highest tax rates in the country. According to the report, Florida's average wireless tax rate (combined state, local and federal) of 21.44 percent ranks 9th highest in the nation (see table on next page).

The Impacts of High Communications Services Tax Rates

Florida's high CST raises questions about fairness, economic neutrality, its effect on the competitiveness of Florida businesses, and the attractiveness of Florida's economic climate.

Fairness is certainly called into question when consumers are asked to pay a tax rate that often exceeds double the general sales tax rate, particularly for services most people would consider a necessity. The variation in tax rates between services and geographic locations also raises questions of equality.

1 Florida Department of Revenue, "Local Communications Services Tax Rate Table with Historical Data", http://floridarevenue.com/taxes/Documents/cst_rate_table.xlsx, accessed January 24, 2019.

2 Satellite television is taxed at the uniform rate of 11.44 percent. There is no separate local tax rate, but 55.9 percent of satellite tax revenues are shared with local governments.

3 Tax Foundation, "Wireless Taxes and Fees Climb Again in 2018," December 2018.

State and Local Wireless Phone Service Tax Rates

as of July, 2018

1	Illinois	20.91%	28	Kentucky	10.92%
2	Alaska	19.49%	29	Minnesota	10.54%
3	Washington	19.41%	30	Alabama	10.53%
4	Nebraska	18.84%	31	Louisiana	10.50%
5	New York	18.56%	32	Mississippi	9.59%
6	Pennsylvania	16.27%	33	Iowa	9.16%
7	Rhode Island	15.26%	34	Wisconsin	8.99%
8	Arkansas	15.22%	35	New Jersey	8.95%
9	**Florida**	**14.83%**	36	New Hampshire	8.94%
10	Missouri	14.79%	37	Maine	8.93%
11	Utah	14.70%	38	North Carolina	8.89%
12	Kansas	14.59%	39	Massachusetts	8.84%
13	South Dakota	14.22%	40	Wyoming	8.74%
14	North Dakota	14.13%	41	West Virginia	8.64%
15	Maryland	13.89%	42	Ohio	8.55%
16	Puerto Rico	13.67%	43	Vermont	8.50%
17	New Mexico	13.49%	44	Michigan	8.35%
18	California	13.23%	45	Connecticut	7.82%
19	Arizona	12.57%	46	Hawaii	7.75%
20	South Carolina	12.56%	47	Virginia	6.94%
21	Tennessee	12.50%	48	Montana	6.60%
22	Colorado	12.34%	49	Delaware	6.55%
23	District of Columbia	11.97%	50	Nevada	3.27%
24	Indiana	11.79%	51	Idaho	2.59%
25	Texas	11.77%	52	Oregon	2.10%
26	Georgia	11.53%		**Weighted Avg.**	**12.46%**
27	Oklahoma	11.27%		**Simple Avg.**	**11.44%**

Source: Tax Foundation. Methodology from COST, "50-State Study and Report on Telecommunications Taxation," May 2005. Updated July 2018 using state statutes, FCC data, and local ordinances.

The high rate of Florida's CST also increases the regressivity of the tax. This is especially true for wireless service. Low income populations rely heavily on wireless for voice service and internet access. Wireless service is increasingly the sole means of telephone service and internet access for many Americans, particularly young people and those with lower incomes. In 2017, 68 percent of all poor adults lived in wireless-only households and 53 percent of all adults of all incomes lived in wireless-only households.[4]

Since wireless services takes up a larger portion of the disposable income of low-income families, high taxes are regressive and punitive. The partial exemption for residential landlines helps the overall regressivity of the CST somewhat; but the exemption does not apply to wireless or other communications services.

In addition, when a tax can be as high as 15 percent, alternative products which may not be subject to the CST, such as prepaid calling arrangements, become even more desirable. Taxes should be neutral to the extent possible, meaning taxes should not cause individuals or firms to alter their economic choices, such as choosing products.

4 Stephen J. Blumberg and Julian V. Luke, "Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, July–December 2017," National Center for Health Statistics, June 2018, 1-3, https://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201806.pdf.

High taxes on wireless and other communication services can impede the growth of wireless infrastructure and broadband networks which can in turn impede economic development and job growth.[5]

Moreover, when Florida businesses are required to pay higher taxes than most other states on the communications services they consume, they are put at a competitive disadvantage with other states and the attractiveness of Florida as a place to do business is compromised.

Conclusion

Lawmakers would be hard pressed to find a more justifiable way to provide broad-based state tax relief than a reduction in the CST. There is no discernible public policy justification for what amounts to discriminatory taxes on Floridians' communications services. The average total tax rate paid on these services approximately double the state and local sales tax rate that applies to most other retail purposes. The high tax rate relative to other states also raises economic development and competitiveness concerns.

The CST paid by many Floridians is getting even higher. Taxpayers in seven Florida counties will see a higher local CST rate in 2019.[6]

The tax can hit consumers multiple times. It is common for a family to have multiple cell phones, a landline, cable or satellite television and multiple streaming services. The CST is applied to all those bills.

It must be remembered that the CST is a tax on consumers, not communications services providers. The 1 percent tax reduction proposed in SB 1000 and HB 693 would save consumers and businesses $128 million annually. Reducing the regressive CST would benefit a wide range of Floridians, affecting virtually all individuals and businesses.

5 International Chamber of Commerce, "ICC Discussion Paper on the Adverse Effects of Discriminatory Taxes on Telecommunications Service," Oct. 26, 2010,

6 Florida Department of Revenue, "Local Communications Services Tax Rate Table with Historical Data", http://floridarevenue.com/taxes/Documents/cst_rate_table.xlsx, accessed January 24, 2019.

ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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The Florida TaxWatch *Session Spotlight* is done under the direction of Dominic M. Calabro, President, CEO & Publisher; and Robert Weissert, Executive Vice President & General Counsel.

106 N. Bronough St.
Tallahassee, FL 32301
o: 850.222.5052
f: 850.222.7476