The Truth About Telecom Taxes and Reform: The Real Effect on Local Government
Major Findings from Local Government Perspective on Telecommunications Taxes,
A Response to Industry’s 2004 COST Study

In 2004, several telecommunications giants* funded a research study assessing the way its industry was taxed. A consortium of local government organizations reviewed the study, referenced here as the 2004 COST Study, and found several errors in its conclusions. The following are highlights of the report, prepared by the coalition, which includes the National League of Cities, the National Association of Counties, US Conference of Mayors, the National Association of Telecommunications Officers and Advisors and the Government Finance Officers Association.

Overall Findings and Concerns:
In any reform of telecommunications regulations or taxation, local governments are seeking:
• Fairness for any technology involved in the delivery of telecommunications
• Regardless of the provider, the same treatment of specific services; no favoritism to any one competitor
• Ability of cities and towns to tax or impose fees on telecommunications services, just as they tax or impose fees on other businesses within their community depending on the needs of their community
• Simplification – not restrictions of administration of local and state taxes

The industry’s COST Study has major flaws and its findings should not be used by policy makers at any government level, including Congress.

The true tax share for the telecommunications industry
• COST Study mixes taxes--which apply to a broad range of businesses--with user fees. User fees are levied by local governments for:
  1) Use of the public rights-of-way (streets, sidewalks, etc) and are levied on any private user, including telecommunications companies and utilities (water and sewer, electrical and gas); and
  2) 9-1-1 fees for emergency communications.
• COST Study is wrong in its finding that the average rate of state and local transaction (read “telecommunication”) taxes is 14.7% compared to 6.12% for general business. It inaccurately combines various sales taxes and user fees, and then compares them strictly to general business taxation.
• Telecommunications companies pay significantly lower corporate income taxes than other businesses, because of special tax breaks provided to them by Congress.
  o For example, in 2004, Verizon reported that its state and local tax burdens amounted to 2.29%.
• Telecommunications companies pay almost the same effective tax rate on real property (2.26%) as do other businesses (2.19%).

Cost to local government is significant, even according to the telecommunications industry
• Changes to tax policy could cost local government more than $8 billion in tax revenue, an amount equal to the combined salaries of 150,000 teachers, police and firefighters.
• Given that new technology will become an ever-increasing portion of the economic sector, any prohibitions on state and/or local governments to levy taxes or fees will have serious and negative long-term economic impacts.

Local governments should be able to levy taxes or fees from telecommunications providers for the work they do in the public rights of way, just as they do for any other business using the rights of way. Telecommunications providers should not be given a free ride.
• Telecommunications companies use public streets to install new services or enhance existing services; cutting open sections of street pavements often leads to potholes, requiring additional public highway maintenance.
• Street cuts also cause congestion and traffic problems and disrupt private businesses.
• Serious accidents and damage to water mains, power lines, gas lines, phone lines, sewers, etc, can occur.

As telecommunications companies change their tax burdens, other businesses or consumers will be taxed higher, or local governments will be forced to cut services.

* 2004 COST Study was funded by ALL TEL Corporation, AT&T Corporation, BellSouth Corporation, Cingular Wireless LLC, Level 3 Communications, Nextel Communications, Qwest Communications, SBC Communications, Sprint Corporation, Telephone and Data Systems, Inc., T-Mobile USA, Verizon Communications, and Verizon Wireless.