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Wireless Taxation in the United States 2014

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Key Findings

- Americans pay an average of 17.05 percent in combined federal, state, and local tax and fees on wireless service. This is comprised of a 5.82 percent federal rate and an average 11.23 percent state-local tax rate.
- The five states with the highest state-local rates are: Washington State (18.6 percent), Nebraska (18.48 percent), New York (17.74 percent), Florida (16.55 percent), and Illinois (15.81 percent).
- The five states with the lowest state-local rates are: Oregon (1.76 percent), Nevada (1.86 percent), Idaho (2.62 percent), Montana (6.00 percent), and West Virginia (6.15 percent).
- Four cities—Chicago, Baltimore, Omaha, and New York City—have effective tax rates in excess of 25 percent of the customer bill.
- The average rates of taxes and fees on wireless telephone services are more than two times higher than the average sales tax rates that apply to most other taxable goods and services.
- Excessive taxes on wireless consumers disproportionately impact poorer families.

Introduction

Wireless consumers continue to face excessive tax burdens when compared to the tax burden on other goods and services purchased in the competitive marketplace. The average rates of taxes and fees on wireless telephone services are more than two times higher than the average sales tax rates that apply to most other taxable goods and services. Consumers in seven states—Washington, Nebraska, New York, Florida, Illinois, Rhode Island, and Missouri—pay total taxes and fees in excess of 20 percent of their bills.

It is true that, compared to 2012, wireless fees and taxes have decreased slightly from 17.18 percent to 17.05 percent. This reduction occurred despite the fact that the national average rate of the general sales and use tax—the primary consumption tax used by states and localities—increased during the period. Overall, the disparity between wireless taxes and fees and the general sales tax declined from just over 4 percentage points to 3.7 percentage points.

Cell phones are increasingly the sole means of communication and connectivity for many Americans, particularly those struggling to overcome poverty. At the end of 2013, according to surveys by the Centers for Disease Control, over 56 percent of all poor adults had only wireless service, and nearly 40 percent of all adults were wireless only.[1] Excessive taxes and fees, especially the regressive per line taxes like those imposed in Chicago and Baltimore, impose a disproportionate burden on low-income consumers.

In September 2014, Chicago increased its 911 fee from $2.50 per month per line to $3.90 per month per line. The stated purpose of this tax increase, according to published reports, is to avoid the need for a property tax increase. Fixed per-line charges have a disproportionate impact on so-called "family share" plans, where multiple lines are billed on a single account. For example, the Chicago fee hike will increase the effective rate for consumers on some four-line plans to over 35 percent. Chicago joins Baltimore, Omaha, and New York City as cities with effective tax rates in excess of 25 percent of the customer bill.

Congress is currently considering legislation to extend the federal moratorium on state and local taxes on Internet access. The taxes described in this report are, for the most part, imposed on wireless voice and other taxable services, not wireless Internet access. Should the moratorium not be extended by Congress, the excessive wireless taxes discussed in this report could be imposed on wireless Internet access. This could add significantly to the tax burden on wireless consumers.

This is the fifth in a series of reports that examines trends in the taxes, fees, and surcharges imposed by federal, state, and local governments on wireless service. These

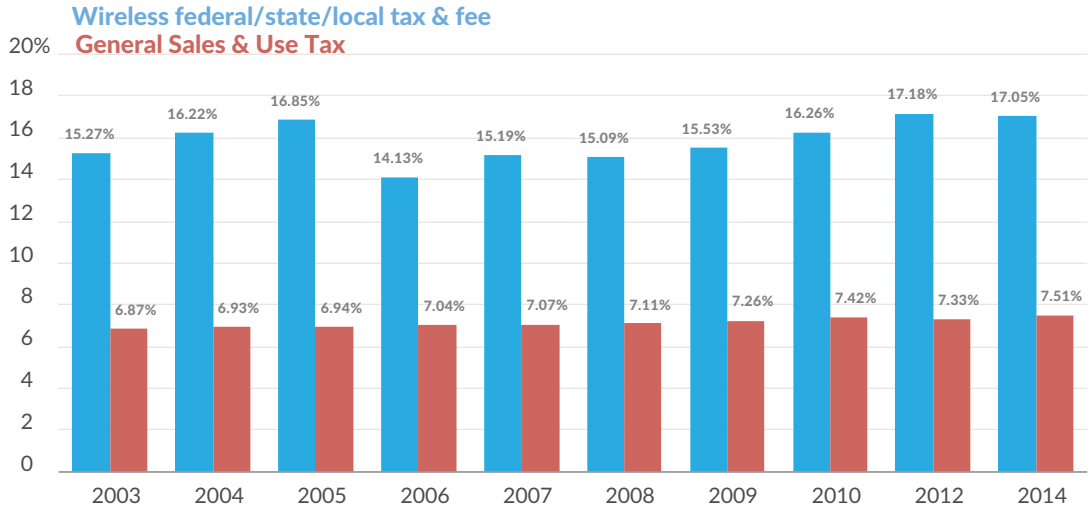
1 Stephen J. Blumberg & Julian V. Luke, *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, July–December 2013* (July 2014) at 6, http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201407.pdf.

reports—published in 2004, 2008, 2011, and 2012 in State Tax Notes[2]—use the methodology developed in 1999 by the Committee on State Taxation, now the Council on State Taxation (COST). Recognizing that it would be nearly impossible to aggregate tax rates from the over 10,000 taxing jurisdictions across the country, the COST study used an average of the most populated city and the capital city in each state as a proxy to compare tax rates across the states.[3] This methodology allows for time series comparisons of trends in wireless taxation.

Wireless Tax Burdens Dropped After 2005 but Have Since Risen to 17 Percent

Figure 1 shows national trends in state and local average tax rates on wireless service between 2003 and 2014. Between 2005 and 2006, wireless tax burdens dropped after a series of federal court decisions forced the IRS to end the imposition of the 3 percent federal excise tax on wireless service. Since then, rates climbed steadily until declining slightly in 2014.

Figure 1. Federal/State/Local Average Wireless Tax Rates vs. Sales Tax Rates



Source: Methodology derived from Council on State Taxation, *50-State Study and Report on Telecommunications Taxation* (May 2005). Updated July 2014 from state statutes, FCC data, and local ordinances by Scott Mackey, KSE Partners LLP, Montpelier, VT.

Table 1 shows the detail behind the trends highlighted in Figure 1, including state-local average rates as well as federal impositions. Between 2003 and 2014, state and local taxes, fees, and surcharges on wireless service increased by just over 1 percentage point—from 10.20 percent to 11.23 percent—while average state and local sales tax rates increased by six-tenths of a percentage point, from 6.87 percent to 7.51 percent. Federal taxes and Universal Service Fee (USF) charges increased from 5.07 percent to 5.82 percent.

2 Scott Mackey, *The Excessive State and Local Tax Burden On Wireless Telecommunications Service*, 33 State Tax Notes 181 (July 19, 2004); Scott Mackey, *Excessive Taxes and Fees On Wireless Service: Recent Trends*, 47 State Tax Notes 519 (Feb. 18, 2008); Scott Mackey, *A Growing Burden: Taxes and Fees On Wireless Service*, 59 State Tax Notes 475 (Feb. 14, 2011); Scott Mackey, *Wireless Taxes and Fees Continue Growth Trend*, 66 State Tax Notes 321 (Oct. 29, 2012).

3 Council on State Taxation, *50-State Study and Report on Telecommunications Taxation* (1999).

Table 1. U.S. Average Wireless and General Sales & Use Tax Rates

	1/1/03	4/1/04	7/1/05	7/1/06	7/1/07	7/1/08	7/1/09	7/1/10	7/1/12	7/1/14
Weighted Average										
Wireless—state/local tax & fee	10.20%	10.74%	10.94%	11.14%	11.00%	10.86%	10.74%	11.21%	11.36%	11.23%
Wireless—federal tax & fee	5.07%	5.48%	5.91%	2.99%	4.19%	4.23%	4.79%	5.05%	5.82%	5.82%
Wireless federal/state/local tax & fee	15.27%	16.22%	16.85%	14.13%	15.19%	15.09%	15.53%	16.26%	17.18%	17.05%
General Sales & Use Tax	6.87%	6.93%	6.94%	7.04%	7.07%	7.11%	7.26%	7.42%	7.33%	7.51%
Disparity between General Sales and Wireless Taxes	3.33%	3.81%	4.00%	4.09%	3.93%	3.75%	3.48%	3.79%	4.03%	3.72%

Source: Methodology derived from Council on State Taxation, *50-State Study and Report on Telecommunications Taxation* (May 2005). Updated July 2014 from state statutes, FCC data, and local ordinances by Scott Mackey, KSE Partners LLP, Montpelier, VT.

Federal includes 3% federal excise tax (until 5/2006) and federal Universal Service Fund charge, which is set by the FCC and varies quarterly:

Federal USF 1/1/2003 -- 28.5% FCC "hold harmless" times FCC contribution factor of 7.3% = 2.07%

Federal USF 4/1/2004 -- 28.5% x 8.7% = 2.48%

Federal USF 7/1/2005 -- 28.5% x 10.2% = 2.91%

Federal USF 7/1/2006 -- 28.5% x 10.5% = 2.99%

Federal USF 7/1/2007 -- 37.1% x 11.3% = 4.19%

Federal USF 7/1/2008 -- 37.1% x 11.4% = 4.23%

Federal USF 7/1/2009 -- 37.1% x 12.9% = 4.79%

Federal USF 7/1/2010 -- 37.1% x 13.6% = 5.05%

Federal USF 7/1/2012 -- 37.1% x 15.7% = 5.82%

Federal USF 7/1/2014 -- 37.1% x 15.7% = 5.82%

Source: Federal Communications Commission, *Contribution Factor & Quarterly Filings - Universal Service Fund (USF) Management Support*, http://www.fcc.gov/encyclopedia/contribution-factor-quarterly-filings-universal-service-fund-usf-management-support.

The combined federal, state, and local burden on wireless consumers increased from 15.27 percent to 17.05 percent, or nearly 2 percentage points. Overall tax burdens on wireless consumers grew about three times faster than general sales taxes on other taxable goods and services.

The causes of the growth in the wireless tax burden differ markedly depending upon the time period considered. State and local impositions grew rapidly between 2003 and 2006, leveled off between 2007 and 2009, increased again from 2010 to 2012, and leveled off again between 2012 and 2014. On the other hand, federal impositions dropped dramatically in 2006 when the Internal Revenue Service concluded that the 3 percent federal excise tax no longer applied to wireless service. Between 2007 and 2012, the federal USF rate grew rapidly before leveling off in 2014.

The federal USF is administered by the FCC with open-ended authority from Congress. The program subsidizes telecommunications services for schools, libraries, hospitals, and rural telephone companies operating in high cost areas. The USF is assessed on a provider's interstate revenues, which the FCC deems to be 37.1 percent of the wireless bill for customers purchasing calling plans that do not distinguish between interstate and intrastate calls.[4] The notes at the bottom of Table 1 show the significant growth in the USF contribution rate from 7.3 percent in 2003 to 15.7 percent in 2014.

4 FCC rules allow wireless providers to multiply this 37.1 percent "safe harbor" by the quarterly contribution percentage rate to determine the federal USF surcharge rate imposed on monthly contract plans that do not distinguish between interstate and intrastate calls. The FCC also allows carriers to use "traffic studies" showing the actual, network-wide percentage of interstate and intrastate calls as an alternative method for determining the federal USF contribution amounts and related surcharge rate. For the purposes of this study, the rates are calculated using the "safe harbor" method.

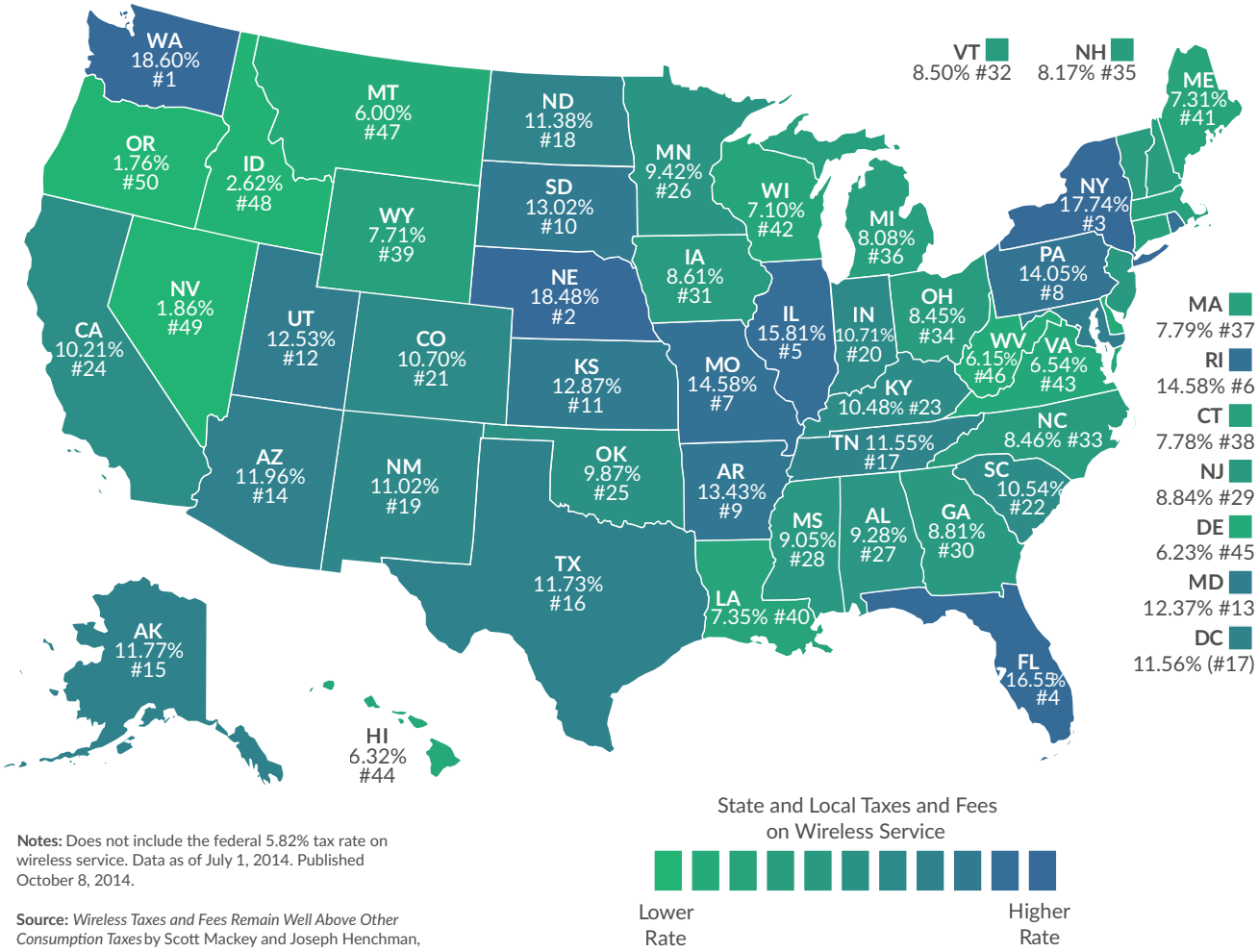
Washington State Wireless Consumers Face a Combined Tax Bill of 24 Percent

Table 2, on the next page, provides a snapshot of wireless tax, fee, and surcharge burdens by state as of July 2012. Column 1 shows the state and local tax burden in each state, while column 3 shows the total tax, fee, and surcharge burden including the federal USF surcharge. Washington State has now edged out Nebraska as the state with the highest average wireless consumer burden in the country, with a combined rate of 24.42 percent. Nebraska lowered its 911 fee from $0.50 per month to $0.45 per month, which dropped it from the top rank to second highest. In Seattle, a typical single-line wireless consumer pays over $11 in taxes, fees, and surcharges on an average $49 monthly bill.

Figure 2 shows the states by average combined state and local rates, without including federal impositions. Consumers in five states pay rates in excess of 15 percent, and in another 20 states, the rate is between 10 percent and 15 percent. Of the remaining 26 states with rates below 10 percent, only three—Idaho, Nevada, and Oregon—have rates

Figure 2. Cell Phone Taxes in 2014

State & Local Taxes & Fees on Wireless Service



Notes: Does not include the federal 5.82% tax rate on wireless service. Data as of July 1, 2014. Published October 8, 2014.

Source: *Wireless Taxes and Fees Remain Well Above Other Consumption Taxes* by Scott Mackey and Joseph Henchman, Tax Foundation

Table 2. Taxes, Fees, and Government Charges on Wireless Service, July 2014

Rank		Wireless State-Local Rate	Federal USF Rate	Combined Federal/State/ Local Rate
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%
4	Florida	16.55%	5.82%	22.38%
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%
11	Kansas	12.87%	5.82%	18.69%
12	Utah	12.53%	5.82%	18.35%
13	Maryland	12.37%	5.82%	18.20%
14	Arizona	11.96%	5.82%	17.78%
15	Alaska	11.77%	5.82%	17.60%
16	Texas	11.73%	5.82%	17.55%
17	District of Columbia	11.56%	5.82%	17.38%
18	Tennessee	11.55%	5.82%	17.37%
19	North Dakota	11.38%	5.82%	17.21%
20	New Mexico	11.02%	5.82%	16.84%
21	Indiana	10.71%	5.82%	16.53%
22	Colorado	10.70%	5.82%	16.52%
23	South Carolina	10.54%	5.82%	16.37%
24	Kentucky	10.48%	5.82%	16.31%
25	California	10.21%	5.82%	16.04%
26	Oklahoma	9.87%	5.82%	15.70%
27	Minnesota	9.42%	5.82%	15.25%
28	Alabama	9.28%	5.82%	15.10%
29	Mississippi	9.05%	5.82%	14.87%
30	New Jersey	8.84%	5.82%	14.67%
31	Georgia	8.81%	5.82%	14.64%
32	Iowa	8.61%	5.82%	14.44%
33	Vermont	8.50%	5.82%	14.32%
34	North Carolina	8.46%	5.82%	14.28%
35	Ohio	8.45%	5.82%	14.28%
36	New Hampshire	8.17%	5.82%	13.99%
37	Michigan	8.08%	5.82%	13.91%
38	Massachusetts	7.79%	5.82%	13.61%
39	Connecticut	7.78%	5.82%	13.61%
40	Wyoming	7.71%	5.82%	13.53%
41	Louisiana	7.35%	5.82%	13.17%
42	Maine	7.31%	5.82%	13.14%
43	Wisconsin	7.10%	5.82%	12.93%
44	Virginia	6.54%	5.82%	12.36%
45	Hawaii	6.32%	5.82%	12.14%
46	Delaware	6.23%	5.82%	12.05%
47	West Virginia	6.15%	5.82%	11.97%
48	Montana	6.00%	5.82%	11.83%
49	Idaho	2.62%	5.82%	8.45%
50	Nevada	1.86%	5.82%	7.69%
51	Oregon	1.76%	5.82%	7.59%
	Weighted Average	11.23%	5.82%	17.05%
	Simple Average	10.12%	5.60%	15.72%

Source: Methodology from COST, *50-State Study and Report on Telecommunications Taxation* (May 2005). Updated July 2014 using state statutes, FCC data, and local ordinances.

Table 3. Disparity Between Wireless Tax & Fee Rate and Sales Tax Rate, July 2014

Rank		Sales Tax Rate	Wireless Tax Rate	Wireless Over/ Under Sales Tax Rate
1	Nebraska	7.00%	18.48%	11.48%
2	Washington	9.15%	18.60%	9.45%
3	Florida	7.25%	16.55%	9.30%
4	New York	8.44%	17.74%	9.30%
5	Alaska	2.50%	11.77%	9.27%
6	New Hampshire	0.00%	8.17%	8.17%
7	Rhode Island	7.00%	14.58%	7.58%
8	Pennsylvania	7.00%	14.05%	7.05%
9	South Dakota	6.00%	13.02%	7.02%
10	Illinois	8.88%	15.81%	6.94%
11	Missouri	8.08%	14.58%	6.50%
12	Maryland	6.00%	12.37%	6.37%
13	Delaware	0.00%	6.23%	6.23%
14	Montana	0.00%	6.00%	6.00%
15	District of Columbia	5.75%	11.56%	5.81%
16	Utah	6.80%	12.53%	5.73%
17	Kansas	7.98%	12.87%	4.89%
18	North Dakota	6.75%	11.38%	4.63%
19	Kentucky	6.00%	10.48%	4.48%
20	Arkansas	9.38%	13.43%	4.05%
21	Arizona	8.20%	11.96%	3.76%
22	Indiana	7.00%	10.71%	3.71%
23	Texas	8.25%	11.73%	3.48%
24	New Mexico	7.60%	11.02%	3.42%
25	Colorado	7.63%	10.70%	3.07%
26	Hawaii	4.00%	6.32%	2.32%
27	Tennessee	9.25%	11.55%	2.30%
28	South Carolina	8.25%	10.54%	2.29%
29	Wyoming	5.50%	7.71%	2.21%
30	Iowa	6.50%	8.61%	2.11%
31	Michigan	6.00%	8.08%	2.08%
32	Mississippi	7.00%	9.05%	2.05%
33	Vermont	6.50%	8.50%	2.00%
34	New Jersey	7.00%	8.84%	1.84%
35	Oregon	0.00%	1.76%	1.76%
36	Minnesota	7.70%	9.42%	1.72%
37	Wisconsin	5.55%	7.10%	1.55%
38	Massachusetts	6.25%	7.79%	1.54%
39	California	8.75%	10.21%	1.46%
40	North Carolina	7.00%	8.46%	1.46%
41	Connecticut	6.35%	7.78%	1.43%
42	Oklahoma	8.45%	9.87%	1.42%
43	Maine	6.00%	7.31%	1.31%
44	Virginia	5.65%	6.54%	0.89%
45	Georgia	8.00%	8.81%	0.81%
46	Ohio	7.75%	8.45%	0.70%
47	Alabama	9.50%	9.28%	-0.22%
48	West Virginia	6.75%	6.15%	-0.60%
49	Louisiana	9.00%	7.35%	-1.65%
50	Idaho	6.00%	2.62%	-3.38%
51	Nevada	7.79%	1.86%	-5.93%
	US Weighted Average	7.51%	11.23%	3.72%

Source: Methodology from COST, *50-State Study and Report on Telecommunications Taxation* (May 2005). Updated July 2014 using state statutes, FCC data, and local ordinances.

below 5 percent. Oregon consumers face the lowest combined state and local rates in the country at just 1.76 percent.

One of the longstanding arguments for reform of wireless taxation is the disparity in the tax burdens on wireless service as compared to the tax burdens on other goods and services subject to state sales and use taxes. Table 3, on previous page, ranks the states by measuring the disparity in state and local tax rates between the wireless tax rate and the general sales and use rate. Nebraska is the only state that has a disparity of greater than 10 percentage points between its wireless rate and the general sales tax rate. Other states with large disparities include Washington State, Florida, New York, and Alaska. New Hampshire ranks 6th in the disparity between wireless taxes and sales taxes, despite having a relatively low rate on wireless service. This is because although New Hampshire does not have a sales tax, it imposes a 7 percent communications tax and a $0.57 monthly 911 fee on wireless service. Two other states that impose taxes on wireless service but do not have sales taxes—Delaware and Montana—also rank relatively high on this disparity scale despite their low wireless rates.

Five states have lower rates on wireless service than the general sales tax rate. These states are Alabama, West Virginia, Louisiana, Idaho, and Nevada.

Appendix A provides a detailed breakdown of the types of taxes, fees, and surcharges imposed in each state and their relative rates. To facilitate interstate comparisons, local rates imposed in the most populated city and the capital city of each state are averaged into a single local rate. In states or localities where taxes, fees, or surcharges are imposed on a flat per-line basis (for example, $1.00 per month per line), the imposition is converted into a percentage by dividing the flat amount by the industry's average revenue per line of $48.73 per month.

Trends Since 2012

911 Fees. Most states impose 911 fees to fund capital expenses for the 911 system, and in some cases, the fees fund 911 operations as well. Wireless 911 fees vary greatly by state, from a low of zero in Missouri to a high of $3.00 per line per month in West Virginia. Most states made only minor changes to their 911 fees. Two exceptions are Alabama and California. Alabama passed legislation in 2013 that delegated the authority to increase wireless 911 fees to an appointed 911 board, with no limits on rates. The board promptly increased the monthly wireless 911 fee from $0.70 to $1.60 per line per month. The fee will increase again, to $1.70 per month, on October 1, 2014. In California, the Public Utility Commission raised the 911 fee from 0.5 percent to 0.75 percent of monthly intrastate charges. Even with this increase, California's 911 fee is relatively low compared to other states'—about 37 cents per month for the typical customer as compared to the national average of about 75 cents per month.

State Universal Service Funds. Some states have their own Universal Service Funds (USF) that provide subsidies for many of the same purposes as the federal USF. State USF surcharges are imposed on revenues from intrastate telecommunications services,

while the federal USF applies to revenues from interstate services. In states like Alaska, Kansas, and Nebraska, state USF surcharge rates add significantly to the overall burden on wireless consumers. Between 2012 and 2014, most states made only minor changes in their USF rates.

State-level Wireless Taxes. In addition to 911 fees and state USF charges, a total of 13 states impose taxes on wireless service at the state level that are imposed either in addition to sales taxes or in lieu of sales taxes but at a higher rate than the state sales tax. Table 4 shows these states.

Table 4. State Wireless Taxes by Type

State Gross Receipts Tax in Addition to Sales Tax	Higher State Tax Rate in Lieu of Sales Tax	Wireless Tax but No State Sales Tax
Indiana	District of Columbia	Delaware
Kentucky	Florida	Montana
New York	Illinois	New Hampshire
North Dakota		
Pennsylvania		
Rhode Island		
South Dakota		

The Impact of Local Taxes on Wireless Service

Local governments also impose discriminatory taxes on wireless consumers. Many of these are legacy taxes established during the regulated telephone monopoly era that existed prior to the 1980s. Local governments in some states have had longstanding authority to impose right-of-way fees on telephone companies for placing poles, wires, and other landline infrastructure on public property. In other states, local governments had the authority to impose franchise fees on telephone companies in exchange for an exclusive franchise agreement to provide service within that municipality.

In the late 1990s and early 2000s, when wireless service began to displace landline service, some localities sought to extend these legacy impositions to wireless services and providers, even though wireless providers did not receive the same benefits for which the fees were established. A wireless provider does not receive the ability to access the public rights of way for infrastructure placement. Instead, they must negotiate a rental agreement for any use of public property similar to the agreements they negotiate for use of private property. In addition, Congress determined that wireless service should develop competitively in the United States, eliminating the need for exclusive franchise agreements with local governments.

Local governments in 12 states currently impose some type of local tax or fee on wireless consumers. With the exception of California, which does not impose a sales tax on

wireless service, these local taxes are in addition to any applicable state-level tax on wireless service. Table 5 provides a breakdown of these local taxes.

Table 5. Local Wireless Taxes by Type

Privilege, License, or User Taxes	State-Authorized Telecom Taxes	School District & Other Special District Taxes
Arizona	Florida	Kentucky
California	Illinois	New York
Maryland	Maryland	
Missouri	New York	
Nebraska	Utah	
Nevada		
South Carolina		
Washington		

Local government taxes have a significant impact on the overall tax burden on wireless consumers in many of the states that have high wireless taxes and fees. In all five states shown on Table 2 with the highest wireless tax rank, local taxes play a prominent role. Washington State allows municipal governments to impose utility franchise taxes with rates as high as 9 percent. Nebraska allows local business license taxes with rates as high as 6.25 percent. New York allows New York City, other selected cities, school districts, and certain transit districts to levy various wireless taxes in addition to county 911 fees. Finally, Florida and Illinois have special state communications taxes with a local add-on that result in rates typically two times higher than the sales tax.

In 2014, the Illinois General Assembly passed legislation that permits the city of Chicago to increase the already regressive and excessive 911 fee on wireless consumers from $2.50 to $3.90 per month. This increase is not reflected in the 2014 rankings because it took effect on September 1, 2014. Chicago doubled its 911 fee from $1.25 per month to $2.50 per month in 2008 to pay for potential security upgrades to support the city's bid to host the Olympics. The Olympic bid failed, but the tax remained. This year, the stated purpose of the hike in the 911 fee is to avoid a property tax increase. The use of 911 fees for purposes unrelated to direct expenditures on the 911 system breaks faith with wireless consumers.

In addition, excessive per-line taxes impose a disproportionate burden on low-income individuals and especially families. Most wireless providers have structured multi-line or "family share" plans that charge as little as $5 or $10 for additional lines added to the primary consumer's account. With the new Chicago fee, the tax on the additional line could be nearly as expensive as the line itself. For a family share plan with four lines, the Chicago fee hike will increase the effective rate for consumers on some four-line family share plans to over 35 percent.

Table 6 illustrates the impact of taxes and fees on consumers in selected large cities around the country. Taxes in Chicago and Baltimore, which imposes a $4 per line tax for general revenue purposes, are particularly egregious. Wireless service is increasingly becoming the sole means of communication and connectivity for many Americans, particularly those struggling to overcome poverty. At the end of 2013, over 56 percent of

all low-income adults had only wireless service, and nearly 40 percent of all adults were wireless only.[5] Excessive taxes and fees, especially the regressive per-line taxes like those imposed in Chicago and Baltimore, impose a disproportionate burden on low-income consumers.

Table 6. Wireless Taxes and Fees on Multi-Line Plans in Selected Cities, July 2014

City	Tax Rate	Tax on 4-line Plan at $100 per Month
Chicago, IL*	35.42%	$35.42
Baltimore, MD	32.05%	$32.05
Omaha, NE	27.36%	$27.36
New York, NY	25.80%	$25.80
Seattle, WA	25.12%	$25.12
Tallahassee, FL	23.89%	$23.89
Providence, RI	22.86%	$22.86
Philadelphia, PA	22.82%	$22.82
Kansas City, MO	20.25%	$20.25
Los Angeles, CA	17.03%	$17.03

*Chicago rate includes September 1, 2014 increase in 911 fee.

The Negative Effects of Burdensome and Discriminatory Wireless Taxes

The rising popularity of wireless service, and the explosive growth in the number of wireless subscribers, has led some to question whether wireless taxes matter to wireless consumers and the wireless industry. However, there are two compelling reasons why policymakers should be cautious about expanding wireless taxes, fees, and surcharges.

First, as discussed above, wireless taxes and fees are regressive and have a disproportionate impact on poorer citizens. Excessive taxes and fees may reduce low-income consumers' access to wireless service at a time when such access is critical to economic success.

Second, discriminatory taxes may slow investment in wireless infrastructure. Ample evidence exists that investments in wireless networks provide economic benefits to the broader economy, because so many sectors—transportation, health care, energy, education, and even government—use wireless networks to boost productivity and efficiency.

Consumer demand for wireless service is price sensitive. According to the most recent study on the price elasticity of demand for wireless service, each 1 percent increase in

5 Stephen J. Blumberg & Julian V. Luke, *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, July–December 2013* (July 2014) at 6, http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201407.pdf.

the price of wireless service reduces consumer demand for wireless service by about 1.2 percent.[6] Using this estimate, the 10 percentage point disparity between rates on wireless service and other taxable goods and services would suppress demand for wireless service by almost 12 percent below what it would be if the tax and fee burden on wireless was equivalent to that imposed on other taxable goods and services. The reduced demand impacts network investment, because subscriber revenues ultimately determine how much carriers can afford to invest in network modernization.

Network investment is important not only to consumers and businesses that use these networks, but also to the entire American economy. A report by the International Chamber of Commerce surveyed the evidence both from the United States and Europe and from the developing world.[7] Economists that have examined the link between investments in communications and information technology infrastructure and economic growth have consistently found a strong link. Simply put, wireless infrastructure investment enables an entire entrepreneurial culture to focus on creating applications and devices to make businesses more productive and to improve the lives of consumers. When businesses more productive, they are profitable, and when they are profitable, they can create new jobs that generate economic activity and tax revenues for governments.

While most infrastructure investments create these types of multiplier effects, the multiplier effects for telecommunications infrastructure are higher than other industries, because communications and information technology are deeply embedded in business processes. These infrastructure investments also benefit the government and nonprofit sectors in ways that do not necessarily show up directly in economic statistics but nonetheless make these sectors more efficient and enable them to lower the cost of providing government services.

As noted in the ICC report, "Remedying the discriminatory tax treatment of telecom goods and services may reduce tax receipts in the short-term, but the longer-term increase in the use of advanced capability devices, service demand, and network deployment resulting from these tax reductions is likely to counteract this loss of revenue over time."[8] Policymakers need to weigh the tradeoffs between the short-term revenue benefits of excessive wireless taxes versus the long term economic impact on the state from reduced infrastructure investment.

6 Allan T. Ingraham and J. Gregory Sidak, *Do States Tax Wireless Services Inefficiently? Evidence on the Price Elasticity of Demand*, 24 Virginia Tax Review 249 (2004).

7 International Chamber of Commerce, *ICC Discussion Paper on the Adverse Effects of Discriminatory Taxes on Telecommunications Service* (Oct. 26, 2010), http://www.iccindiaonline.org/downloads/disscusstion-paper-28-oct.pdf.

8 *Id.* at 2.

Conclusion

Wireless consumers continue to be burdened with excessive taxes, fees, and surcharges in many states and localities across the United States. With state and local governments continuing to face revenue challenges, the wireless industry and its customers continue to be at risk as an attractive target for raising new revenues as demonstrated by the targeting of wireless customers by the city of Chicago in 2014.

Excessive taxes on wireless consumers disproportionately impacts poorer families and may have ramifications for long-term state economic development and growth. Higher taxes on wireless service, coupled with increased taxes on wireless investments, may lead to slower deployment of wireless network infrastructure, including 4G wireless broadband technologies that our increasingly mobile workforce relies upon for economic success.

States should study their existing communications tax structure and consider policies that transition their tax systems away from narrowly based wireless taxes toward broad-based tax sources that do not distort consumer purchasing decisions and do not slow investment in critical infrastructure like wireless broadband. The Florida Communications Tax Reform working group made such a recommendation in 2013, but unfortunately no action has been taken on the report. Reform of communications taxes in states with excessive tax rates would position those states to attract additional wireless infrastructure investments that generate overall economic growth through the new jobs and revenue growth they produce while helping provide relief to low-income wireless users.

Appendix A
State and Local Transaction Taxes, Fees, and Government Charges on Wireless Service, as of July 1, 2014

STATE	TYPE OF TAX	RATE	COMMENTS
Alabama			
	AL Cell Service Tax	6.00%	Access, interstate and intrastate
	E911	3.28%	$1.60/month
	TOTAL TRANSACTION TAX	**9.28%**	
Alaska			
	Local Sales Tax	2.50%	Avg. of Juneau (5%) & Anchorage (0%)
	Local E911	3.48%	Anchorage ($1.50); Juneau ($1.90)
	State USF	5.79%	9.2% times FCC safe harbor
	TOTAL TRANSACTION TAX	**11.77%**	
Arizona			
	State sales (transaction priv.)	5.60%	Intrastate telecommunications service
	County sales (transaction priv.)	0.60%	Maricopa County (0.7%); Pima County (0.5%)
	City telecommunications	5.35%	Avg. of Phoenix (4.7%) & Tucson (6.0%)
	911	0.41%	$0.20/month
	TOTAL TRANSACTION TAX	**11.96%**	
Arkansas			
	State sales tax	6.50%	6.5% (effective 7/1/2013)
	Local sales taxes	2.88%	Avg. of Little Rock (2.5%) & Fayetteville (3.25%)
	State High Cost Fund	2.64%	4.2% times FCC safe harbor
	Wireless 911	1.33%	$0.65/month statewide
	TRS service & TRS equipment	0.08%	$0.04 per line per month
	TOTAL TRANSACTION TAX	**13.43%**	
California			
	Local Utility User Tax	8.00%	Avg. of Los Angeles (9%) and Sacramento (7%)
	State 911	0.47%	Intrastate
	PUC fee	0.11%	Intrastate
	ULTS (lifeline)	0.72%	Intrastate
	Deaf/CRS	0.13%	Intrastate
	High Cost Funds A & B	0.11%	Intrastate
	Teleconnect Fund	0.37%	Intrastate
	CASF—advanced services fund	0.29%	Intrastate
	TOTAL TRANSACTION TAX	**10.21%**	
Colorado			
	State Sales Tax	2.90%	Access and intrastate
	Local Sales Tax—City/County	3.68%	Avg. of Denver (3.62%) & Colorado Springs (3.73%)
	Local Sales Tax—RTD, CD, BS	1.05%	Avg. of Denver (1.1%) & Colorado Springs (1%)
	911	1.43%	Denver ($0.70)/Colorado Springs ($0.70)
	USF	1.64%	2.6% times FCC safe harbor
	TOTAL TRANSACTION TAX	**10.70%**	
Connecticut			
	State sales tax	6.35%	Access, interstate and intrastate
	911	1.43%	$0.70/line
	TOTAL TRANSACTION TAX	**7.78%**	

Delaware			
	Public Utility Gross Receipts Tax	5.00%	Access and intrastate
	Local 911 tax	1.23%	$0.60/month
	TOTAL TRANSACTION TAX	**6.23%**	
District of Columbia			
	Telecommunication Privilege Tax	10.00%	Monthly gross charge
	911	1.56%	$0.76/month
	TOTAL TRANSACTION TAX	**11.56%**	
Florida			
	State Communications services	9.17%	Access, interstate and intrastate
	Local Communications services	6.36%	Avg. of Jacksonville (5.82%) & Tallahassee (6.9%)
	911	1.02%	$0.50/month statewide
	TOTAL TRANSACTION TAX	**16.55%**	
Georgia			
	State sales tax	2.87%	4% of "access charge"—assume $35
	Local sales tax	2.87%	Avg. rate Atlanta (4%) & Augusta (4%)
	Local 911	3.07%	Altanta ($1.50/line); Augusta ($1.50/line)
	TOTAL TRANSACTION TAX	**8.81%**	
Hawaii			
	Public service co. tax	4.17%	
	Additional county tax	0.55%	Honolulu (0.55%)
	PUC Fee	0.25%	0.25% of intrastate
	Wireless 911	1.35%	$0.66/month
	TOTAL TRANSACTION TAX	**6.32%**	
Idaho			
	Telephone service assistance program	0.06%	Set annually by PUC, currently $0.03/month
	Statewide wireless 911	2.56%	Boise ($1.25/month)
	TOTAL TRANSACTION TAX	**2.62%**	
Illinois			
	State telecom excise tax	7.00%	Access, interstate and intrastate
	Simplified municipal tax	5.50%	Avg. of Chicago (7%) & Springfield (4%)
	Wireless 911	3.31%	Chicago ($3.90/month); others $0.73/month
	TOTAL TRANSACTION TAX	**15.81%**	
Indiana			
	State sales tax	7.00%	Access and intrastate
	Utility receipts tax	1.40%	Same base as sales tax
	Wireless 911	1.84%	$0.90/month
	State USF	0.34%	0.54% times FCC safe harbor
	PUC fee	0.12%	Statutory max of 0.15%
	TOTAL TRANSACTION TAX	**10.71%**	
Iowa			
	State sales tax	6.00%	
	Local option sales taxes	0.50%	Avg. of Cedar Rapids (1%) & Des Moines (0%)
	Wireless 911	2.05%	$1.00/month (effective 7/1/2013)
	Dual Party Relay Service fee	0.06%	$0.03/month
	TOTAL TRANSACTION TAX	**8.61%**	

Kansas			
	State sales tax	6.15%	Intrastate and interstate
	Local option sales taxes	1.83%	Avg. of Wichita (1.0%) & Topeka (2.65%)
	USF	3.81%	6.05% times FCC safe harbor
	Wireless 911	1.09%	$0.53 per line per month
	TOTAL TRANSACTION TAX	**12.87%**	
Kentucky			
	State sales tax	6.00%	Access, interstate and intrastate
	School utility gross receipts	1.50%	Avg. of Frankfort (3%) & Louisville (0%)
	Kentucky USF	0.16%	$0.08/month
	Kentucky TAP & TRS	0.08%	$0.04/month
	Wireless 911	1.43%	$0.70/month
	Communications gross receipts tax	1.30%	Access, interstate and intrastate
	TOTAL TRANSACTION TAX	**10.48%**	
Louisiana			
	State sales tax	3.00%	Intrastate rate
	Wireless 911	1.74%	New Orleans ($0.85/month); Baton Rouge ($0.85/month)
	State USF	2.60%	May vary by carrier
	TOTAL TRANSACTION TAX	**7.35%**	
Maine			
	State service provider tax	5.00%	Intrastate
	911 tax	0.92%	$0.45/month
	Maine USF	0.95%	1.51% times FCC safe harbor
	MTEAF	0.44%	0.7% times FCC safe harbor
	TOTAL TRANSACTION TAX	**7.31%**	
Maryland			
	State sales tax	6.00%	Applies to "mobile telecommunications service"
	Local telecom excise	4.10%	$4.00/month in Baltimore; no tax in Annapolis
	State 911	0.51%	$0.25/month
	County 911	1.54%	$0.75/month in all counties
	State USF	0.23%	$0.11/month
	TOTAL TRANSACTION TAX	**12.37%**	
Massachusetts			
	State sales tax	6.25%	Interstate and intrastate
	Wireless 911	1.54%	$0.75/month
	TOTAL TRANSACTION TAX	**7.79%**	
Michigan			
	State sales tax	6.00%	Interstate and intrastate
	State wireless 911	0.39%	$0.19/month
	County wireless 911	1.35%	Detroit ($0.70); Lansing ($0.62)
	Intrastate toll assessment	0.34%	0.32% of intrastate charges
	TOTAL TRANSACTION TAX	**8.08%**	
Minnesota			
	State sales tax	6.88%	Interstate and intrastate
	Local sales tax	0.83%	Avg. of Minneapolis (0.9%) & St. Paul (0.75%)
	911	1.60%	$0.78/month
	Telecom access MN fund	0.12%	Set by PUC, currently $0.06/month
	TOTAL TRANSACTION TAX	**9.42%**	
Mississippi			
	State sales tax	7.00%	Access, interstate and intrastate
	Wireless 911	2.05%	$1.00 per line per month
	TOTAL TRANSACTION TAX	**9.05%**	

Missouri			
	State sales tax	4.23%	Access and intrastate
	Local sales taxes	3.85%	Avg. of Jefferson City (3.5%) & Kansas City (4.2%)
	Local business license tax	6.50%	Jefferson City (7%); Kansas City (6% residential)
	TOTAL TRANSACTION TAX	**14.58%**	
Montana			
	Telecom excise tax	3.75%	Access, interstate and intrastate
	911 & E911 tax	2.05%	$1.00 per number per month
	TDD tax	0.20%	$0.10 per number per month
	TOTAL TRANSACTION TAX	**6.00%**	
Nebraska			
	State sales tax	5.50%	Access and intrastate
	Local sales tax	1.50%	Avg. of Lincoln (1.5%) & Omaha (1.5%)
	City business and occupation tax	6.13%	Avg. of Lincoln (6.0%) & Omaha (6.25%)
	State USF	4.37%	6.95% times FCC safe harbor
	Wireless 911	0.92%	$0.45/month
	TRS	0.06%	$0.03/month
	TOTAL TRANSACTION TAX	**18.48%**	
Nevada			
	Local franchise/gross receipts	1.54%	5% of first $15 of intrastate revenues
	Local 911 tax	0.26%	Washoe County ($0.25/month); Clark County (no fee)
	State deaf relay charge	0.06%	$0.03/month
	Nevada USF	0.01%	0.01% times FCC safe harbor
	TOTAL TRANSACTION TAX	**1.86%**	
New Hampshire			
	Communication services tax	7.00%	Access, interstate and intrastate
	911 tax	1.17%	$0.57/month
	TOTAL TRANSACTION TAX	**8.17%**	
New Jersey			
	State sales tax	7.00%	Increased to 7% (effective 7/15/2006)
	Wireless 911	1.84%	$0.90/month (effective 7/1/2004)
	TOTAL TRANSACTION TAX	**8.84%**	
New Mexico			
	State gross receipts (sales) tax	5.13%	5.125% intrastate; 4.25% interstate
	City and county gross receipts tax	2.47%	Avg. Santa Fe (3.0625%) & Albuquerque (1.875%)
	Wireless 911	1.05%	$0.51 per month per subscriber
	TRS surcharge	0.21%	0.33% times FCC safe harbor
	State USF	2.17%	3.45% times FCC safe harbor
	TOTAL TRANSACTION TAX	**11.02%**	
New York			
	State sales tax	4.00%	Intrastate and monthly access
	Local sales taxes	4.25%	Avg. of NYC (4.5%) & Albany (4%)
	MCTD sales tax	0.19%	Avg. of NYC (0.375%) & Albany (0%)
	State excise tax (186e)	2.50%	Mobile telecom service, includes interstate
	MCTD excise/surcharge (186e)	0.30%	Avg. of NYC & surrounding counties (0.6%) & Albany (0%)
	Local utility gross receipts tax	1.49%	NYC (84% of 2.35%); Albany (1%)
	State wireless 911	2.46%	$1.20/month
	Local wireless 911	0.61%	NYC & most counties ($0.30/month)
	MCTD surcharge (184)	0.07%	Avg. of NYC (0.13%) & Albany (no tax)
	NY franchise tax (184)	0.38%	
	School district utility sales tax	1.50%	Avg. of NYC (no tax) & Albany (3%)
	TOTAL TRANSACTION TAX	**17.74%**	

North Carolina			
	State sales tax	7.00%	Access, interstate and intrastate
	Wireless 911	1.23%	Reduced from $0.70 to $0.60 on 7/1/10
	TRS Charge	0.23%	$0.11/month
	TOTAL TRANSACTION TAX	**8.46%**	
North Dakota			
	State sales tax	5.00%	Access and intrastate
	Local sales taxes	1.75%	Avg. of Fargo (2.5%) & Bismarck (1%)
	State gross receipts tax	2.50%	Interstate and intrastate
	Local 911 tax	2.05%	$1.00 in Bismarck & Fargo
	TRS	0.08%	Up to $0.11/mo—currently $0.04
	TOTAL TRANSACTION TAX	**11.38%**	
Ohio			
	State sales tax	5.75%	Access, interstate and intrastate
	Local sales taxes	2.00%	Avg. of Columbus (1.75%) & Cleveland (2.25%)
	Regulatory fee	0.13%	Intrastate gross revenues
	State/local wireless 911	0.57%	$0.25/month
	TOTAL TRANSACTION TAX	**8.45%**	
Oklahoma			
	State sales tax	4.50%	Access, interstate and intrastate
	Local sales taxes	3.95%	Avg. of Oklahoma City (3.875%) & Tulsa (4.017%)
	Local 911	1.02%	$0.50/month in Oklahoma City & Tulsa
	USF	0.40%	0.64% times FCC safe harbor
	TOTAL TRANSACTION TAX	**9.87%**	
Oregon			
	Local utililty tax	0.00%	No tax on wireless in Portland or Salem
	911 tax	1.54%	$0.75/month
	RSPF Surcharge	0.23%	$0.11/month
	TOTAL TRANSACTION TAX	**1.76%**	
Pennsylvania			
	State sales tax	6.00%	Access, interstate and intrastate
	State gross receipts tax	5.00%	Access, interstate and intrastate
	Local sales tax	1.00%	Avg. of Philadephia (2%) & Harrisburg (0%)
	Statewide wireless 911	2.05%	$1.00/month
	TOTAL TRANSACTION TAX	**14.05%**	
Rhode Island			
	State sales tax	7.00%	Access, interstate and intrastate
	Gross receipts tax	5.00%	Access, interstate and intrastate
	911 fee	2.05%	$1.00/month
	Additional wireless 911 fee	0.53%	$0.26/month
	TOTAL TRANSACTION TAX	**14.58%**	
South Carolina			
	State sales tax	6.00%	Access, interstate and intrastate
	Local sales tax	2.25%	Avg. of Charleston (2.5%) & Columbia (2%)
	Municipal license tax	1.00%	Avg. of Charleston (1.0%) & Columbia (1.0%)
	911 tax	1.29%	$0.63/month
	TOTAL TRANSACTION TAX	**10.54%**	
South Dakota			
	State sales tax	4.00%	Access, interstate and intrastate
	State gross receipts tax	4.00%	Wireless only (effective 7/1/03)
	local option sales tax	2.00%	Avg. of Pierre (2.0%) & Sioux Falls (2.0%)
	911 excise	2.56%	Statewide $1.25 (effective 7/1/2012)
	TRS fee	0.31%	$0.15/month
	PUC fee	0.15%	Intrastate receipts
	TOTAL TRANSACTION TAX	**13.02%**	

Tennessee			
	State sales tax	7.00%	Access, interstate and intrastate
	Local sales tax	2.50%	Statewide local rate for intrastate
	911 tax	2.05%	$1.00/month
	TOTAL TRANSACTION TAX	**11.55%**	
Texas			
	State sales tax	6.25%	Access, interstate and intrastate
	Local sales tax	2.00%	Avg. of Austin (2.0%) & Houston (2.0%)
	Wireless 911 tax	1.02%	$0.50 per line per month
	Texas USF	2.33%	3.7% times FCC safe harbor
	911 Equalization surcharge	0.12%	$0.06/line
	TOTAL TRANSACTION TAX	**11.73%**	
Utah			
	State sales tax	4.70%	Access and intrastate
	Local sales taxes	2.10%	Avg. of Salt Lake City (2.15%) & Provo (2.05%)
	Local utility wireless	3.50%	Levied at 3.5% max. in Salt Lake City & Provo
	Local 911	1.25%	$0.61/month
	State 911	0.16%	$0.08/month
	Poison Control	0.14%	$0.07/month
	State USF	0.63%	1.0% times FCC safe harbor
	State TRS	0.04%	$0.02/line
	TOTAL TRANSACTION TAX	**12.53%**	
Vermont			
	State sales tax	6.00%	Access, interstate and intrastate
	Local sales tax	0.50%	Avg. of Montpelier (0%) & Burlington (1%)
	State USF (also funds 911)	2.00%	
	TOTAL TRANSACTION TAX	**8.50%**	
Virginia			
	State communications sales tax	5.00%	CST
	Wireless 911	1.54%	$0.75/month
	TOTAL TRANSACTION TAX	**6.54%**	
Washington			
	State sales tax	6.50%	Access, interstate and intrastate
	Local sales taxes	2.65%	Avg. of Olympia (2.3%) & Seattle (3.0%)
	B&O/Utility Franchise—local	7.50%	Avg. of Olympia (9%) & Seattle (6%) avg.
	911—state	0.51%	$0.25/month
	911—local	1.43%	$0.70/month
	TOTAL TRANSACTION TAX	**18.60%**	
West Virginia			
	Wireless 911	6.15%	$3.00/month
	TOTAL TRANSACTION TAX	**6.15%**	
Wisconsin			
	State sales tax	5.00%	Access, intrastate and interstate
	Local sales tax	0.55%	Avg. of Milwaukee (0.6%) & Madison (0.5%)
	Police and Fire Protection Fee	1.54%	$0.75/month
	State USF	0.02%	0.026% times FCC safe harbor
	TOTAL TRANSACTION TAX	**7.10%**	
Wyoming			
	State sales tax	4.00%	Access and intrastate
	Local sales tax	1.50%	Avg. of Cheyenne (2%) & Casper (1%)
	TRS	0.04%	Up to $0.25/month—$0.02 currently
	USF	0.63%	1% times FCC safe harbor
	911 tax	1.54%	$0.75/month, levied locally at uniform rate
	TOTAL TRANSACTION TAX	**7.71%**	

ARPU= $48.79
FCC Safe Harbor= 62.9%

Sources: Methodology: Council on State Taxation, *50-State Study and Report on Telecommunications Taxation* (May 2005). Updated July 2013 by Scott Mackey, KSE Partners LLP, using state statutes and regulations. Average Revenue Per Unit (ARPU): $48.79 per Cellular Telephone and Internet Association (July 2014).
Notes: Some calculated rates rounded up to nearest hundredth. Original data set available on Tax Foundation website.

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