

A Growing Burden: Taxes and Fees On Wireless Service

by Scott Mackey

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Summary

Wireless users across the United States continue to face excessive and discriminatory federal, state, and local taxes and fees on their wireless bills. After several years in which taxes and fees on wireless users stabilized and even fell slightly, the trend toward higher impositions resumed between 2009 and 2010.

Wireless users now face a combined federal, state, and local tax and fee burden of 16.3 percent, a rate two times higher than the average retail sales tax rate and the highest wireless rate since 2005. Consumers now pay wireless taxes, fees, and government charges that exceed the retail sales tax rate.

Although federal, state, and local taxes and fees all contribute to the high burden on wireless consumers, the recent increase in rates is mostly attributable to the rapid growth in the rate of the federal Universal Service Fund (USF) surcharge. Increases in the federal USF have added 0.9 percentage points to the rate since 2007, while state and local increases added about 0.2 percent, for a net increase in rates of 1.1 percentage points — from 15.2 percent to 16.3 percent. The average customer pays about \$7.84 per month in taxes, fees, and government surcharges.

Nebraska retained its designation as the state with the highest rate on wireless consumers, at 23.69 percent, while Washington retained its number two designation with a 23 percent rate. In Nebraska, the city of Lincoln added to the consumer burden by increasing its telecommunications business license tax from 5.5 percent to 6 percent in 2009. A resident of Lincoln spending the industry

average of \$48 per month on wireless service pays \$11.35 in taxes, fees, and government surcharges, almost one-fourth of the monthly bill. Rounding out the top five high-rate states are New York, Florida, and Illinois. Wireless consumers face the lowest burdens in Oregon, Nevada, Idaho, Montana, and West Virginia.

Consumers now pay wireless taxes, fees, and government charges that exceed the retail sales tax rate.

In the three years since the last report on this subject was published in *State Tax Notes*, most states, with some notable exceptions, have not increased wireless-specific rates. Most of the increased burden on wireless consumers is the result of the expansion of broad-based sales taxes that apply to wireless as well as other goods and services. Although several wireless-specific tax measures were proposed over the past few years, consumers have become more knowledgeable about the high level of taxation currently imposed on their wireless service and have voiced opposition to proposed increases or impositions of new targeted taxes.

Unfortunately, local governments in a few states have been aggressive in levying new taxes on wireless users as the recession has stressed revenue collections from property and other broad-based taxes. For example, the city of Baltimore increased its per-line tax from \$3.50 per month to \$4 per month, while Montgomery County, Md., increased its per-line tax from \$2 to \$3.50. These local per-line taxes are in addition to the state sales tax, state and county 911 fees, and the federal USF charge. These local per-line taxes are especially burdensome on low-priced “family share plans,” in which families can add additional lines for as little as \$5 per month. Interestingly, when Prince George’s County, Md., proposed increasing its local tax from 8 percent to 11

Table 1.
Wireless vs. General Business Tax Rates

	1/1/2003	4/1/2004	7/1/2005	7/1/2006	7/1/2007	7/1/2008	7/1/2009	7/1/2010
Weighted Average								
General sales/use tax	6.87%	6.93%	6.94%	7.04%	7.07%	7.11%	7.26%	7.42%
Wireless state/local tax and fee	10.20%	10.74%	10.94%	11.14%	11.00%	10.86%	10.74%	11.21%
Wireless federal tax and fee	5.07%	5.48%	5.91%	2.99%	4.19%	4.23%	4.79%	5.05%
Wireless federal/state/local tax and fee	15.27%	16.22%	16.85%	14.13%	15.19%	15.09%	15.53%	16.26%
<i>Source:</i> Method derived from Council On State Taxation, "50-State Study and Report on Telecommunications Taxation," May 2005. Updated from state statutes, FCC data, and local ordinances by Scott Mackey, KSE Partners LLP, Montpelier, Vt.								
Federal includes 3 percent federal excise tax (until May 2006) and federal Universal Service Fund (USF) 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% FCC "hold harmless" times FCC contribution factor of 8.7% = 2.48% Federal USF 7/1/2005 — 28.5% FCC "hold harmless" times FCC contribution factor of 10.2% = 2.91% Federal USF 7/1/2006 — 28.5% FCC "hold harmless" times FCC contribution factor of 10.5% = 2.99% Federal USF 7/1/2007 — 37.1% FCC "hold harmless" times FCC contribution factor of 11.3% = 4.19% Federal USF 7/1/2008 — 37.1% FCC "hold harmless" times FCC contribution factor of 11.4% = 4.23% Federal USF 7/1/2009 — 37.1% FCC "hold harmless" times FCC contribution factor of 12.9% = 4.79% Federal USF 7/1/2010 — 37.1% FCC "hold harmless" times FCC contribution factor of 13.6% = 5.05%								
<i>Source:</i> http://www.fcc.gov/omd/contribution-factor.html .								

percent in 2008 and put the proposed increase to a public vote, the increase was overwhelmingly defeated by a 3-1 ratio.

States and local governments continue to suffer from severe fiscal distress because of the effect of the recession on traditional state and local revenue sources. The risk of new wireless taxes is particularly acute as local governments consider their limited sources for tax revenue, amidst strong political opposition to raising property taxes and other broad-based taxes during a recession. With the continued success of the wireless industry, the industry and its consumers will continue to be a tempting target for additional revenue.

However, a mounting body of evidence on the economic importance of wireless broadband networks suggests that "burdensome and discriminatory taxes deter the adoption and use of broadband, mobile, and other advanced ICT [information and communications technology] sector tools that are major drivers of growth in the information-based economy of the 21st century."¹ State and local efforts to raise revenue from the wireless industry and its customers conflict with the policy goal of increasing consumer broadband adoption.

Introduction

This is the third in a series of reports that examines taxes and fees imposed on wireless con-

sumers by federal, state, and local governments. The first report, published in *State Tax Notes* in July 2004, found that taxes, fees, and government charges on wireless consumers were excessive and rising compared with broad-based taxes imposed on other taxable goods and services. The second report, published in *State Tax Notes* in early 2008 using data from 2007, found that state and local taxes and fees on wireless consumers continued to rise but were largely offset by the elimination of the federal excise tax on wireless service to produce a net reduction in the average overall rate of wireless taxes, fees, and government charges between 2004 and 2007.²

This report, using the same method as the earlier reports, finds a reversal of the trend toward lower taxes, fees, and government charges on wireless service since 2007. With a few notable exceptions, state and local taxes, fees, and government charges remained high but were relatively stable, while the burden of the federal USF surcharge increased significantly. The average U.S. wireless consumer now faces taxes, fees, and government surcharges of 16.26 percent, the highest level since 2005 and more than double the average 7.42 percent rate imposed on other general goods and services.

¹International Chamber of Commerce (ICC), "ICC Discussion Paper on E-Business, IT and Telecoms (EBITT) and Its Task Force on Internet & Telecoms Infrastructure and Services," Paris, France: Oct. 26, 2010, p. 2.

²Scott Mackey, "The Excessive State and Local Tax Burden on Wireless Telecommunication Services," *State Tax Notes*, July 19, 2004, p. 181, *Doc 2004-13368*, or *2004 STT 138-2*; Mackey, "Excessive Taxes and Fees on Wireless Service: Recent Trends," *State Tax Notes*, Feb. 18, 2008, p. 519, *Doc 2008-1260*, or *2008 STT 34-4*.

Recent Trends in Wireless Taxes and Fees

Table 1 shows trends in national average rates on wireless service and sales taxes between 2003 and 2010. Since 2007, average state-local sales tax rates have increased from 7.07 percent to 7.42 percent, while the average imposition on wireless users has increased from 15.19 percent to 16.26 percent. In other words, wireless impositions have increased about three times faster than broad-based consumption taxes. Much of that increase on wireless consumers is attributable to increases in the federal USF charge.

The USF is the federal program that subsidizes telecommunications service for schools, libraries, hospitals, and rural telephone companies (and their customers). The rapid growth in demand for these subsidies has led the Federal Communications Commission to increase the “contribution factor” significantly, from 10.2 percent in 2005 to 13.6 percent in 2010. Wireless carriers must pay that surcharge on their interstate revenue, which the FCC deems to be 37.1 percent of the total wireless bill. Wireless carriers have the option of using that “hold harmless percentage” to determine the amount of customer surcharges to recover their USF obligations.

Table 2 (next page) shows a summary of the average federal, state, and local government taxes and fees on wireless users in each state as of July 1, 2010. Those effective rates range from a high of 23.7 percent in Nebraska to a low of 6.9 percent in Oregon, a state that does not impose a sales tax.

One way to measure the disparity between taxes and fees on wireless service and other taxable goods and services is to compare the wireless rates with the sales tax rates in each state. This information is presented in Table 3 (p. 480), ranking states from highest to lowest in terms of the disparity between impositions on wireless service and the sales tax rate. Using this metric, Nebraska has the largest disparity between the rates on wireless service and the combined state and local sales taxes. Wireless taxes and fees are almost 12 percentage points — 2.5 times — higher than the sales tax rate. Other states where wireless impositions are significantly higher than the sales tax are New York, Florida, Washington, and New Hampshire. New Hampshire makes the list because it has no general sales tax but imposes a 7 percent communications tax on wireless service. Only three states — Nevada, Idaho, and Louisiana — impose lower rates on wireless than other taxable products subject to the sales tax.

Table 4 (p. 481) shows a detailed 50-state breakdown of the types of taxes and fees imposed by states and local governments in each state. To facilitate interstate comparisons, a single estimated rate for each state is calculated by averaging the rates imposed in the most populated city and in the state’s capital city.

Several interesting issues stand out from a review of the data in this table.

Centralization vs. Decentralization. States vary greatly in terms of their willingness to allow local governments to impose wireless taxes. California is at one extreme. Although the state imposes several customer surcharges on wireless users for various programs like 911, California does not apply any state-level tax on wireless service for general governmental purposes. However, the state allows local governments (mostly cities) broad authority to levy utility user taxes on wireless service. Rates on these taxes range from a low of 2 percent to a high of 10 percent.

Other states that grant local governments broad authority to impose taxes at high rates include Washington, Florida, Illinois, Maryland, New York, Nebraska, and Missouri. Unlike California, however, all those states also impose state-level taxes on wireless service. As a result, all those states have relatively high rates on wireless service.

Some local governments have used their authority to impose burdensome taxes on wireless consumers. Baltimore, Montgomery County, and Prince Georges County in Maryland have already been mentioned. Also, Olympia, Wash., imposes a 9 percent telecommunications tax on top of the state-local combined sales tax of 8.5 percent. Chicago imposes a 7 percent excise tax on wireless service on top of the state’s 7 percent excise tax. In Missouri, numerous cities impose their own business license taxes on wireless service at rates as high as 11 percent. Those taxes are in addition to existing state and local sales taxes on wireless service. The same situation exists in Nebraska, where the local “utility” taxes can be as high 6.5 percent, in addition to the 6.5 percent combined state-local sales tax. Finally, Tucson, Ariz., increased its telecommunications license tax from 2 percent to 4 percent in 2009.

Several states that do not permit local governments to impose their own wireless taxes nonetheless have high taxes on wireless consumers because they impose two separate state taxes on wireless service. Kentucky, Indiana, Rhode Island, Pennsylvania, South Dakota, and North Dakota all impose both a sales tax and a state gross receipts tax on wireless service. Although the rates are relatively low in some of those states, the imposition of double taxes bumps Pennsylvania and Rhode Island into the top 10 list.

State Universal Service Funds. Some states have their own universal service funds that are used to subsidize landline service primarily to rural and high-cost areas. Twenty-one states have a USF or similar type of mechanism that is funded by an imposition on wireless users. In most of those states, the amount of the surcharge is relatively modest. However, several states have USF impositions that significantly add to the burden on wireless service.

Table 2.
Taxes and Fees on Wireless Service, July 2010

Rank	State	State-Local Wireless Rate	State-Local Sales Tax Rate	Federal USF Rate	Combined Federal-State- Local Rate
1	Nebraska	18.64%	7.00%	5.05%	23.69%
2	Washington	17.95%	9.00%	5.05%	23.00%
3	New York	17.78%	8.25%	5.05%	22.83%
4	Florida	16.57%	7.25%	5.05%	21.62%
5	Illinois	15.85%	9.00%	5.05%	20.90%
6	Rhode Island	14.62%	7.00%	5.05%	19.67%
7	Missouri	14.23%	7.23%	5.05%	19.28%
8	Pennsylvania	14.08%	7.00%	5.05%	19.13%
9	Kansas	13.34%	8.13%	5.05%	18.39%
10	Texas	12.43%	8.25%	5.05%	17.48%
11	Maryland	12.23%	6.00%	5.05%	17.28%
12	Utah	12.16%	6.80%	5.05%	17.21%
13	South Dakota	12.02%	5.96%	5.05%	17.07%
14	Arizona	11.97%	7.20%	5.05%	17.02%
15	D.C.	11.58%	5.75%	5.05%	16.63%
16	Tennessee	11.58%	9.25%	5.05%	16.63%
17	Arkansas	11.07%	8.38%	5.05%	16.12%
18	Oklahoma	10.74%	8.45%	5.05%	15.79%
19	North Dakota	10.68%	6.00%	5.05%	15.73%
20	California	10.67%	9.25%	5.05%	15.72%
21	New Mexico	10.52%	7.60%	5.05%	15.57%
22	Kentucky	10.42%	6.00%	5.05%	15.47%
23	Colorado	10.40%	7.56%	5.05%	15.45%
24	Indiana	9.84%	7.00%	5.05%	14.89%
25	South Carolina	9.52%	7.25%	5.05%	14.57%
26	North Carolina	9.43%	7.75%	5.05%	14.48%
27	Minnesota	9.38%	7.71%	5.05%	14.43%
28	Mississippi	9.08%	7.00%	5.05%	14.13%
29	New Jersey	8.87%	7.00%	5.05%	13.92%
30	Georgia	8.57%	7.50%	5.05%	13.62%
31	Vermont	8.50%	6.50%	5.05%	13.55%
32	Wisconsin	8.34%	5.55%	5.05%	13.39%
33	New Hampshire	8.18%	0.00%	5.05%	13.23%
34	Ohio	7.95%	7.13%	5.05%	13.00%
35	Wyoming	7.94%	5.50%	5.05%	12.99%
36	Iowa	7.91%	6.50%	5.05%	12.96%
37	Massachusetts	7.81%	6.25%	5.05%	12.86%
38	Hawaii	7.75%	4.00%	5.05%	12.80%
39	Alabama	7.45%	7.25%	5.05%	12.50%
40	Michigan	7.27%	6.00%	5.05%	12.32%
41	Maine	7.16%	5.00%	5.05%	12.21%
42	Connecticut	6.96%	6.00%	5.05%	12.01%
43	Alaska	6.69%	2.50%	5.05%	11.74%
44	Virginia	6.56%	5.00%	5.05%	11.61%
45	Louisiana	6.28%	9.00%	5.05%	11.33%
46	Delaware	6.25%	0.00%	5.05%	11.30%
47	West Virginia	6.23%	6.00%	5.05%	11.28%
48	Montana	6.03%	0.00%	5.05%	11.08%
49	Idaho	2.20%	6.00%	5.05%	7.25%
50	Nevada	2.08%	7.91%	5.05%	7.13%
51	Oregon	1.81%	0.00%	5.05%	6.86%
U.S. Simple Average		9.87%	6.38%	5.05%	14.92%
U.S. Weighted Average		11.21%	7.42%	5.05%	16.26%
Federal USF 7/1/2010 — 37.1 percent FCC “hold harmless” times contribution factor of 13.6 percent = 5.05 percent. For flat monthly taxes and fees, average monthly bill is estimated at \$48.16 per month per CTIA — The Wireless Association. <i>Source:</i> Method from COST, “50-State Study and Report on Telecommunications Taxation,” May 2005. Updated July 2010 using state statutes and regulations.					

As shown in Table 4, USF impositions in Nebraska and Kansas exceed 4 percent of the wireless bill. In those two states, the USF imposition is a major reason why both rank in the top 10 for impositions on wireless users.

State and Local 911 Taxes and Fees. Most states impose a 911 tax or fee on wireless consumers to support the emergency communications systems. Those fees average about 75 cents per month per line. The wireless industry and wireless consumers have generally supported those fees, but they have expressed concerns about efforts in some states to use the revenue for other purposes. According to the FCC, more than \$100 million in 911 funds was diverted for other purposes in 2009.³ As a result of that state activity, which has occurred over multiple years, Congress passed legislation to help prevent further diversions. The ENHANCE 911 Act of 2004 (P.L. 108-494) made clear that a state is ineligible for federal 911 grant money if the state has allocated 911 fees for unintended purposes. In 2008 Congress also passed the Net 911 Improvement Act, which highlights the need to keep 911 fees protected for the purposes intended. The Net 911 law also requires the FCC to monitor the practice of state implementation, collection, and use of 911 fees and report its findings to the U.S. Congress.

Fees Unrelated to Wireless Service. A few states impose fees on wireless users that are completely unrelated to wireless service. In 2009 Wisconsin imposed a police and fire protection fee of 75 cents per month per line on all wireless subscribers. Although the measure stated it was established to fund a grant program for local police and fire departments, the money goes into the state's general fund and can be used for any governmental purpose. Utah funds its poison control centers using a fee on wireless and wireline phone customers.

Why Should Policymakers Care?

The rising popularity of wireless service, and the explosive growth in the wireless subscriber base, has led some policymakers to question whether wireless taxes are detrimental to the industry. However, there are three primary reasons why policymakers should be cautious about expanding narrowly based wireless taxes, fees, and charges. First, discriminatory taxes may impede investment in wireless infrastructure, which in turn reduces economic growth and job creation. Second, many discriminatory taxes have a disproportionately large effect on low- and moderate-income wireless Ameri-

cans, reducing consumer access to and adoption of wireless services. Third, if there is a national policy consensus around encouraging deployment and adoption of broadband services, excessive and discriminatory taxes on wireless and other communications services run directly counter to that goal.

Economic Impact of Wireless Taxes. 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 the price of wireless service reduces consumer demand for wireless service by about 1.2 percent.⁴ Using this estimate, the 9 percentage point disparity between wireless taxes, fees, and government charges and other taxable goods and services would suppress demand for wireless service by about 10 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 recent growth in the prepaid wireless segment suggests that consumers are indeed sensitive to price when purchasing wireless service. The average monthly revenue per wireless subscriber is significantly lower from prepaid customers than traditional postpaid customers on contract plans. The rapid growth in the number of prepaid subscribers, from roughly 16 percent of the market in 2007 to about 20.5 percent in 2010, suggests strongly that many consumers are price sensitive.⁵

Wireless carriers invested about \$25 billion in their wireless networks in 2008, or roughly 17 percent of their gross revenues.⁶ If wireless service were subject to the same tax treatment as other taxable goods and services, carriers would have had up to \$2.5 billion more available to invest in network improvements.

Network investment is important not only to consumers and businesses that use those networks, but to the entire American economy. A recent report by the International Chamber of Commerce in Paris surveyed the evidence not only from the United States and Europe but from the developing world as

(Text continued on p. 486.)

⁴Allan T. Ingraham and J. Gregory Sidak, "Do States Tax Wireless Services Inefficiently? Evidence on the Price Elasticity of Demand," *Virginia Tax Review*, Fall 2004, pp. 249-261.

⁵Robert F. Roche, "Prepaid Wireless in the United States: A Snapshot From CTIA Based on CTIA's Semi-Annual Wireless Industry Survey Results," Washington: CTIA, November 2010, p. 5.

⁶U.S. Census Bureau, Annual Capital Expenditures Survey, Table 4a (NAICS code 5172), available at <http://www.census.gov/econ/aces/xls/2008/Full%20Report.htm>.

³Federal Communications Commission, Second Annual Report to Congress on State Collection and Distribution of 911 and Enhanced 911 Fees and Charges, Aug. 13, 2010, available at http://hraunfoss.fcc.gov/edocs_public/attachmateh/OC-300946A1.pdf.

Table 3.
Taxes and Fees on Wireless Service, July 2010 Compared With General Sales Tax Rate

Rank	State	State-Local Wireless Rate	State-Local Sales Tax Rate	Wireless Over/(Under) General Rate
1	Nebraska	18.64%	7.00%	11.64%
2	New York	17.78%	8.25%	9.53%
3	Florida	16.57%	7.25%	9.32%
4	Washington	17.95%	9.00%	8.95%
5	New Hampshire	8.18%	0.00%	8.18%
6	Rhode Island	14.62%	7.00%	7.62%
7	Pennsylvania	14.08%	7.00%	7.08%
8	Missouri	14.23%	7.23%	7.00%
9	Illinois	15.85%	9.00%	6.85%
10	Delaware	6.25%	0.00%	6.25%
11	Maryland	12.23%	6.00%	6.23%
12	South Dakota	12.02%	5.96%	6.06%
13	Montana	6.03%	0.00%	6.03%
14	District of Columbia	11.58%	5.75%	5.83%
15	Utah	12.16%	6.80%	5.36%
16	Kansas	13.34%	8.13%	5.21%
17	Arizona	11.97%	7.20%	4.77%
18	North Dakota	10.68%	6.00%	4.68%
19	Kentucky	10.42%	6.00%	4.42%
20	Alaska	6.69%	2.50%	4.19%
21	Texas	12.43%	8.25%	4.18%
22	Hawaii	7.75%	4.00%	3.75%
23	New Mexico	10.52%	7.60%	2.92%
24	Indiana	9.84%	7.00%	2.84%
25	Colorado	10.40%	7.56%	2.84%
26	Wisconsin	8.34%	5.55%	2.79%
27	Arkansas	11.07%	8.38%	2.69%
28	Wyoming	7.94%	5.50%	2.44%
29	Tennessee	11.58%	9.25%	2.33%
30	Oklahoma	10.74%	8.45%	2.29%
31	South Carolina	9.52%	7.25%	2.27%
32	Maine	7.16%	5.00%	2.16%
33	Mississippi	9.08%	7.00%	2.08%
34	Vermont	8.50%	6.50%	2.00%
35	New Jersey	8.87%	7.00%	1.87%
36	Oregon	1.81%	0.00%	1.81%
37	North Carolina	9.43%	7.75%	1.68%
38	Minnesota	9.38%	7.71%	1.67%
39	Massachusetts	7.81%	6.25%	1.56%
40	Virginia	6.56%	5.00%	1.56%
41	California	10.67%	9.25%	1.42%
42	Iowa	7.91%	6.50%	1.41%
43	Michigan	7.27%	6.00%	1.27%
44	Georgia	8.57%	7.50%	1.07%
45	Connecticut	6.96%	6.00%	0.96%
46	Ohio	7.95%	7.13%	0.82%
47	West Virginia	6.23%	6.00%	0.23%
48	Alabama	7.45%	7.25%	0.20%
49	Louisiana	6.28%	9.00%	-2.72%
50	Idaho	2.20%	6.00%	-3.80%
51	Nevada	2.08%	7.91%	-5.83%
U.S. Simple Average		9.87%	6.38%	3.49%
U.S. Weighted Average		11.21%	7.42%	3.80%
For flat monthly taxes and fees, average monthly consumer bill is estimated at \$48.16 per month per CTIA — The Wireless Association.				
Source: Method from COST, "50-State Study and Report on Telecommunications Taxation," May 2005. Updated July 2010 using state statutes and regulations.				

Table 4.
State and Local Transaction Taxes, Fees, and Government Charges on Wireless Service
July 1, 2010

State	Type of Tax	Rate	Comments
Alabama	Ala. cell service tax	6.00%	Access, interstate and intrastate
	E911	1.45%	70 cents per month
	Total Transaction Tax	7.45%	
Alaska	Local sales tax	2.50%	Average of Juneau (5%) and Anchorage (0%)
	Local E911	3.53%	Anchorage — \$1.50; Juneau — \$1.90
	State USF	0.66%	1.05% times FCC safe harbor
	Total Transaction Tax	6.69%	
Arizona	State sales (transaction priv.)	6.60%	intrastate telecommunications service
	County sales (transaction priv.)	0.60%	Phoenix (Maricopa County) = 0.7%; Tucson (Pima County) = 0.5%
	City telecommunications	4.35%	Average Phoenix (4.7%) & Tucson (4%)
	911	0.42%	20 cents per month
	Total Transaction Tax	11.97%	
Arkansas	State sales tax	6.00%	6% effective 3/1/2004
	Local sales taxes	2.38%	Average Little Rock (1.5%) and Fayetteville (3.25%)
	State High Cost Fund	1.26%	2.0% times FCC safe harbor
	Wireless 911	1.35%	65 cents / month statewide.
	TRS	0.08%	4 cents per line per month
	Total Transaction Tax	11.07%	
California	Local utility user tax	8.00%	Average of Los Angeles (9%) and Sacramento (7%)
	State 911	0.50%	intrastate
	PUC fee	0.18%	intrastate
	ULTS (lifeline)	1.15%	intrastate
	Deaf/CRS	0.20%	intrastate
	High Cost funds A and B	0.56%	intrastate
	Teleconnect Fund	0.08%	intrastate
	CASF — advanced services fund	0.00%	
	Total Transaction Tax	10.67%	
	Colorado	State sales tax	2.90%
Local sales tax — city/county		3.56%	Average of Denver (3.62%) and Colorado Springs (3.5%)
Local sales tax — RTD, CD, BS		1.10%	Denver (1.2%) / Colorado Springs (1%)
911		1.45%	Denver (70 cents) / Colorado Springs (70 cents)
USF		1.38%	2.2% times FCC safe harbor
Total Transaction Tax		10.40%	
Connecticut	State sales tax	6.00%	Access, interstate and intrastate
	911	0.96%	47 cents per line
	Total Transaction Tax	6.96%	
Delaware	Public utility gross receipts tax	5.00%	Access and intrastate
	Local 911 tax	1.25%	60 cents per month
	Total Transaction Tax	6.25%	
District of Columbia	Telecommunication privilege tax	10.00%	Monthly gross charge; 11% for nonresidential
	911	1.58%	76 cents per month
	Total Transaction Tax	11.58%	
Florida	State communications services	9.17%	Access, interstate and intrastate
	Local communications services	6.36%	Jacksonville 5.82%; Tallahassee 6.9%

Table 4.
State and Local Transaction Taxes, Fees, and Government Charges on Wireless Service
July 1, 2010
(continued)

State	Type of Tax	Rate	Comments
Florida (continued)	911	1.04%	50 cents per month statewide
	Total Transaction Tax	16.57%	
Georgia	State sales tax	2.91%	4% of "access charge" — assume \$35
	Local sales tax	2.54%	Average rate of Atlanta (4%) and Augusta (3%)
	Local 911	3.11%	Atlanta — \$1.50/line; Augusta — \$1.50/line
	Total Transaction Tax	8.57%	
Hawaii	Public service co. tax	4.00%	
	General excise tax	1.88%	
	PUC fee	0.50%	0.5% of intrastate
	Wireless 911	1.37%	66 cents per month
	Total Transaction Tax	7.75%	
Idaho	Telephone service asst. program	0.12%	Set annually by PUC — currently 6 cents per mo
	Statewide wireless 911	2.08%	Boise = increased from 75 cents per month to \$1.00 per month
	Total Transaction Tax	2.20%	
Illinois	State telecom excise tax	7.00%	Access, interstate and intrastate
	Simplified municipal tax	5.50%	Average of Chicago (7%) and Springfield (4%)
	Wireless 911	3.35%	Chicago up from \$1.25 to \$2.50 month; others 73 cents per month
	Total Transaction Tax	15.85%	
Indiana	State sales tax	7.00%	Access and intrastate
	Utility receipts tax	1.40%	Same base as sales tax
	Wireless 911	1.04%	50 cents per month
	State USF	0.25%	0.4% times FCC safe harbor
	PUC fee	0.15%	
	Total Transaction Tax	9.84%	
Iowa	State sales tax	6.00%	
	Local option sales taxes	0.50%	Average of Cedar Rapids (1%) and Des Moines (0%)
	Wireless 911	1.35%	65 cents per month
	Dual party relay service fee	0.06%	3 cents per month
	Total Transaction Tax	7.91%	
Kansas	State sales tax	6.30%	intrastate and interstate
	Local option sales taxes	1.83%	Average of Wichita (1.0%) and Topeka (2.65%)
	USF	4.18%	6.64% times FCC safe harbor
	Wireless 911	1.04%	25 cents per state and \$.25/mo. county
	Total Transaction Tax	13.34%	
Kentucky	State sales tax	6.00%	Access, interstate and intrastate
	School utility gross receipts	1.50%	Average Frankfort (3%) and Louisville (0%)
	Lifeline support charge	0.17%	8 cents per month
	Wireless 911	1.45%	70 cents per month
	Communications gross receipts tax	1.30%	1.3% effective Jan. 1, 2006
	Total Transaction Tax	10.42%	
Louisiana	State sales tax	3.00%	Intrastate rate
	Wireless 911	1.76%	New Orleans 85 cents per month; Baton Rouge 85 cents per month
	State USF	1.52%	May vary by carrier based on ARPU

Table 4.
State and Local Transaction Taxes, Fees, and Government Charges on Wireless Service
July 1, 2010
(continued)

State	Type of Tax	Rate	Comments
Louisiana (continued)	Total Transaction Tax	6.28%	
Maine	State service provider tax	5.00%	Intrastate
	911 tax	0.93%	Increased from 37 cents to 45 cents on 7/1/2010
	Maine USF	0.85%	1.35% times FCC safe harbor
	MTEAF	0.38%	0.6% times FCC safe harbor
	Total Transaction Tax	7.16%	
Maryland	State sales tax	6.00%	"Mobile telecommunications service"
	Local telecom excise	4.15%	\$4 per month in Baltimore; no tax in Annapolis
	State 911	0.52%	25 cents per month
	County 911	1.56%	Baltimore 75 cents per month; Annapolis 75 cents per month
	Total Transaction Tax	12.23%	
Massachusetts	State sales tax	6.25%	Interstate and intrastate
	Wireless 911	1.56%	Increased from 30 cents to 75 cents per month 9/1/08
	Total Transaction Tax	7.81%	
Michigan	State sales tax	6.00%	interstate and intrastate
	State wireless 911	0.39%	19 cents per month
	County wireless 911	0.87%	Average of Detroit (42 cents per month) and Lansing (42 cents per month)
	Total Transaction Tax	7.27%	
Minnesota	State sales tax	6.88%	Interstate and intrastate
	Local sales tax	0.83%	Minneapolis (0.9%) and St. Paul (0.75%)
	911	1.56%	Increased from 65 cents to 75 cents July 1, 2009
	Telecom access Minn. fund	0.12%	Set by PUC — currently 6 cents per month
	Total Transaction Tax	9.38%	
Mississippi	State sales tax	7.00%	Access, interstate and intrastate
	Wireless 911	2.08%	\$1 per month per line
	Total Transaction Tax	9.08%	
Missouri	State sales tax	4.23%	Access and intrastate
	Local sales taxes	3.50%	Average Jefferson City (3.5%) and Kansas City (3.5%)
	Local business license tax	6.50%	Jefferson City (7%); Kansas City (6% residential, 10% business)
	Total Transaction Tax	14.23%	
Montana	Telecom excise tax	3.75%	Access, interstate and intrastate
	911 and E911 tax	2.08%	\$1 per number per month
	TDD tax	0.21%	10 cents per number per month
	Total Transaction Tax	6.03%	
Nebraska	State sales tax	5.50%	Access and intrastate
	Local sales tax	1.50%	Lincoln (1.5%) and Omaha (1.5%)
	City business and occupation tax	6.13%	Average of Omaha (6.25%) and Lincoln (6.0%); access and intrastate
	State USF	4.37%	6.95% times FCC safe harbor
	Wireless 911	1.04%	Up to 70 cents per month effective July 1, 2006; currently 50 cents
	TRS	0.10%	5 cents per month effective July 1, 2007
	Total Transaction Tax	18.64%	
Nevada	Local franchise / gross receipts	1.56%	5% of first \$15 intrastate revenues

Table 4.
State and Local Transaction Taxes, Fees, and Government Charges on Wireless Service
July 1, 2010
(continued)

State	Type of Tax	Rate	Comments
Nevada (continued)	Local 911 tax	0.52%	Up to 25 cents per month — imposed by counties
	State deaf relay charge	0.06%	3 cents per month
	Nevada USF	0.10%	0.155% times FCC safe harbor
	Total Transaction Tax	2.08%	
New Hampshire	Communication services tax	7.00%	Access, interstate and intrastate
	911 tax	1.18%	Reduced from 64 cents to 57 cents
	Total Transaction Tax	8.18%	
New Jersey	State sales tax	7.00%	Increased to 7% effective July 15, 2006
	Wireless 911	1.87%	90 cents per month effective June 1, 2004
	Total Transaction Tax	8.87%	
New Mexico	State gross receipts (sales) tax	5.13%	5% intrastate; 4.25% interstate
	City and county gross receipts tax	2.47%	Average of Santa Fe (3.0625%) and Albuquerque (1.875%)
	Wireless 911	1.06%	51 cents per month per subscriber
	TRS surcharge	0.33%	Intrastate charges
	State USF	1.54%	2.45% times FCC safe harbor
	Total Transaction Tax	10.52%	
New York	State sales tax	4.00%	Intrastate and monthly access
	Local sales taxes	4.25%	NYC (4.5%); Albany (4%)
	MCTD sales tax	0.19%	NYC — 0.375%; Albany 0%
	State excise tax (186e)	2.50%	Mobile telecom service — includes interstate
	MCTD excise/surcharge (186e)	0.30%	NYC and surrounding counties — 0.6%; Albany 0%
	Local utility gross receipts tax	1.49%	NYC — 84% of 2.35%; Albany 1%
	State wireless 911	2.49%	\$1.20 per month
	Local wireless 911	0.62%	30 cents per month — NYC and most counties
	MCTD surcharge (184)	0.07%	NYC 0.13%; Albany — no tax
	N.Y. franchise tax (184)	0.38%	
	School district utility tax	1.50%	Albany 3%, NYC no tax
Total Transaction Tax	17.78%		
North Carolina	State sales tax	8.00%	Access, interstate and intrastate
	Wireless 911	1.25%	Reduced from 70 cents to 60 cents on July 1, 2010
	TRS Charge	0.19%	9 cents per month
	Total Transaction Tax	9.43%	
North Dakota	State sales tax	5.00%	Access and intrastate
	Local sales taxes	1.00%	Average of Fargo (1%) and Bismarck (1%)
	State gross receipts tax	2.50%	Interstate and intrastate
	Local 911 tax	2.08%	\$1 in Bismarck and Fargo
	TRS	0.10%	Up to 11 cents per month — currently 5 cents
	Total Transaction Tax	10.68%	
Ohio	State sales tax	5.50%	Access, interstate and intrastate
	Local sales taxes	1.75%	Columbus (1.25%) and Cleveland (2.25%)
	Regulatory fee	0.12%	Intrastate gross revenues
	State/local wireless 911	0.58%	Reduced from 32 cents to 28 cents per month effective Jan. 1, 2009
Total Transaction Tax	7.95%		
Oklahoma	State sales tax	4.50%	Access, interstate and intrastate

Table 4.
State and Local Transaction Taxes, Fees, and Government Charges on Wireless Service
July 1, 2010
(continued)

State	Type of Tax	Rate	Comments
Oklahoma (continued)	Local sales taxes	3.95%	Average of Oklahoma City (3.875%) and Tulsa (4.017%)
	Local 911	1.04%	50 cents per month in Oklahoma City and Tulsa
	USF	1.25%	1.99% times FCC safe harbor
	Total Transaction Tax	10.74%	
Oregon	Local utility tax	0.00%	No tax on wireless in Portland or Salem
	911 tax	1.56%	75 cents per month
	RSPF surcharge	0.25%	12 cents per month
	Total Transaction Tax	1.81%	
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%	Philadelphia 2%; Harrisburg 0%
	Statewide wireless 911	2.08%	\$1 per month
	Total Transaction Tax	14.08%	
Rhode Island	State sales tax	7.00%	Access, interstate and intrastate
	Gross receipts tax	5.00%	Access, interstate and intrastate
	911 fee	2.08%	\$1 per month
	Additional wireless 911 fee	0.54%	26 cents per month
	Total Transaction Tax	14.62%	
South Carolina	State sales tax	6.00%	Access, interstate and intrastate
	Local sales tax	1.25%	Average of Charleston (1.5%) and Columbia (1%)
	Municipal license tax	1.00%	Charleston (1%) and Columbia (1.0%)
	911 tax	1.27%	61 cents per month
	Total Transaction Tax	9.52%	
South Dakota	State sales tax	4.00%	Access, interstate and intrastate
	State gross receipts tax	4.00%	Wireless only effective July 1, 2003
	Local option sales tax	2.00%	Average of Pierre (2%) and Sioux Falls (2%)
	911 excise	1.56%	Up to 75 cents per month
	TRS fee	0.31%	15 cents per month
	PUC fee	0.15%	Intrastate receipts
	Total Transaction Tax	12.02%	
Tennessee	State sales tax	7.00%	Access, interstate and intrastate
	Local sales tax	2.50%	Statewide local rate for intrastate
	911 tax	2.08%	\$1 per month
	Total Transaction Tax	11.58%	
Texas	State sales tax	6.25%	Access, interstate and intrastate
	Local sales tax	2.00%	Austin (2%) and Houston (2%)
	Telecom Infrastructure Fund	0.00%	Repealed effective Oct. 1, 2008
	Wireless 911 tax	1.04%	50 cents per month
	Texas USF	2.14%	3.4% times FCC safe harbor
	911 equalization surcharge	1.00%	Intrastate long distance
	Total Transaction Tax	12.43%	
Utah	State sales tax	4.70%	Access and intrastate
	Local sales taxes	2.10%	Average of Salt Lake City (2.15%) and Provo (2.05%)
	Local utility wireless	3.50%	Levied at 3.5% max. in SLC and Provo
	Local 911	1.27%	61 cents per month

Table 4.
State and Local Transaction Taxes, Fees, and Government Charges on Wireless Service
July 1, 2010
(continued)

State	Type of Tax	Rate	Comments
Utah (continued)	State 911	0.17%	8 cents per month
	Poison Control	0.15%	7 cents month
	State USF	0.28%	0.45% rate times FCC safe harbor
	Total Transaction Tax	12.16%	
Vermont	State sales tax	6.00%	Access, interstate and intrastate
	Local sales tax	0.50%	Average of Montpelier (0%) and Burlington (1%)
	State USF (also funds 911)	2.00%	Increased from 1.7% to 2% effective Sept. 1, 2009 through Sept. 1, 2010
	Total Transaction Tax	8.50%	
Virginia	State communications sales tax	5.00%	
	Wireless 911	1.56%	75 cents per month
	Total Transaction Tax	6.56%	
Washington	State sales tax	6.50%	Access, interstate and intrastate
	Local sales taxes	2.50%	Average Olympia (2.0%) and Seattle (3.0%)
	B&O / Utility Franchise — local	7.50%	Average of Olympia (9%) and Seattle (6%)
	911 — state	0.42%	20 cents month
	911 — local	1.04%	50 cents month;
	Total Transaction Tax	17.95%	95%
	West Virginia	Wireless 911	6.23%
	Total Transaction Tax	6.23%	
Wisconsin	State sales tax	5.00%	Access, intrastate and interstate
	Local sales tax	0.55%	Average of Milwaukee (0.6%) and Madison (0.5%)
	Wireless 911	0.00%	Reduced from 92 cents per month to \$0 eff Sept. 1, 2008
	Police and Fire Protection Fee	1.56%	75 cents per month effective Sept. 1, 2009
	State USF	1.23%	1.96% times FCC safe harbor
	Total Transaction Tax	8.34%	
	Wyoming	State sales tax	4.00%
	Local sales tax	1.50%	Average of Cheyenne (2%) and Casper (1%)
	TRS	0.12%	Up to 25 cents month — 6 cents currently
	USF	0.75%	1.2% times FCC safe harbor
	911 tax	1.56%	75 cents per month — levied locally
	Total Transaction Tax	7.94%	

Sources: Methodology: Committee on State Taxation, “50-State Study and Report on Telecommunications Taxation,” May 2005. Updated July 2010 by Scott Mackey, KSE Partners LLP, using state statutes and regulations. Average Revenue Per Unit (ARPU): \$48.16 per CTIA — The Wireless Association, June 2010.

well.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. These tools in turn make businesses more productive and profitable so that they can create new jobs that generate economic activity and tax revenues for governments.

Although most infrastructure investments create these types of multiplier effects, the multiplier effects for telecommunications infrastructure are

⁷ICC discussion paper.

higher than other industries because communications and information technology are so deeply embedded in business processes. Those infrastructure investments also benefit the government and non-profit 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 International Chamber of Commerce 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 have to weigh the trade-offs between the short-term revenue benefits of excessive wireless taxes versus the long-term economic impact on the state from reduced infrastructure investment.

Wireless Taxes are Regressive. Excessive and discriminatory taxes on wireless service are unfair to consumers, especially low-income consumers who rely on wireless service much more heavily than higher-income consumers. Studies by the Pew Foundation and federal agencies surveying households about wireless use reveal that low-income populations rely much more heavily on wireless service for voice service as well as access to the Internet.⁹ Low-income families spend much more of their dis-

posable incomes on wireless service than do middle- and high-income families, so tax policies that place excessive burdens on wireless consumers are regressive and punitive on poorer Americans. Increasingly, both in America and abroad, wireless services are recognized as a critical tool in allowing consumers and businesses to participate in, and gain success in, the 21st century economy.

Conclusion

Wireless consumers continue to be burdened with excessive and discriminatory taxes, fees, and charges 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.

Targeting wireless consumers, however, disproportionately effects 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 an increasingly mobile workforce relies on for economic success.

States and local governments should study their existing tax systems and consider policies that transition their tax systems away from narrowly based wireless taxes and toward broad-based tax sources that do not distort consumer purchasing decisions and do not slow investment in critical infrastructure like wireless broadband. Those changes would position states to attract additional wireless infrastructure investments that generate economic growth through the new jobs and revenue growth they produce. ☆

⁸ICC discussion paper, p. 2.

⁹Steven J. Blumberg et al., “Wireless Substitution: Early Release Estimates From the National Health Interview Survey, July — December 2009,” Atlanta: Centers for Disease Control, May 12, 2010, available at <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201005.pdf>.