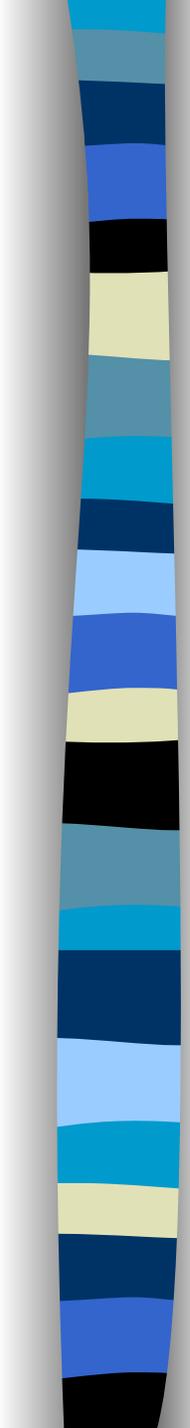


Communications Industry Taxation

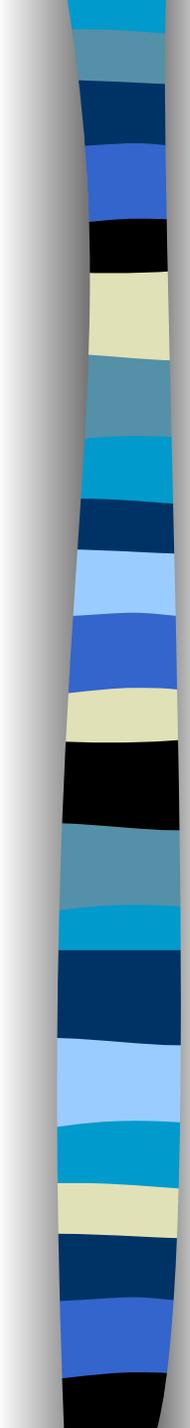
House Joint Resolution 651

September 25, 2003



Taxes Collected by Segments of the Communications Industry

- BPOL (Portion above .5%, where applicable)
- Local Consumer Utility Tax
- 911
- Rights-of-Way
- Relay Center
- Franchise (On cable and where applicable on telecommunications)
- State Tax

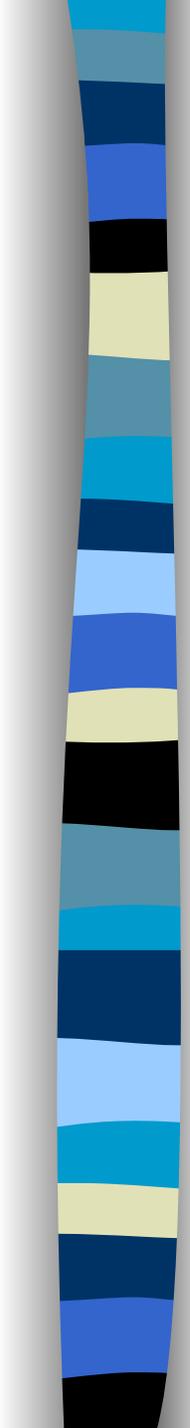


How Virginia Ranks Nationally

(Highest to Lowest)

- Tax Rate on Telecommunications 1st
- Tax Rates that must be maintained 3rd
- # of Telecommunications Tax Returns 7th

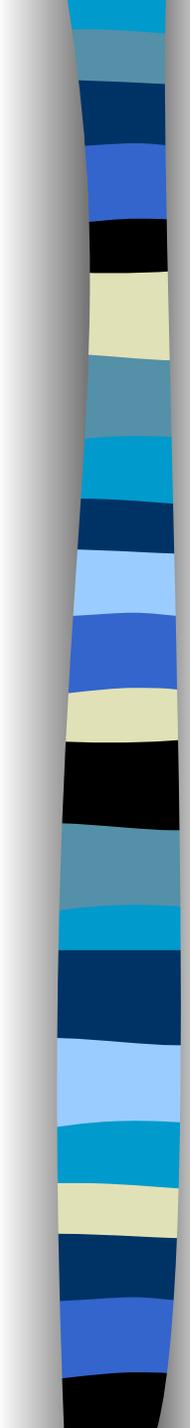
Source: Committee On State Taxation 2001



The Virginia Tax Picture

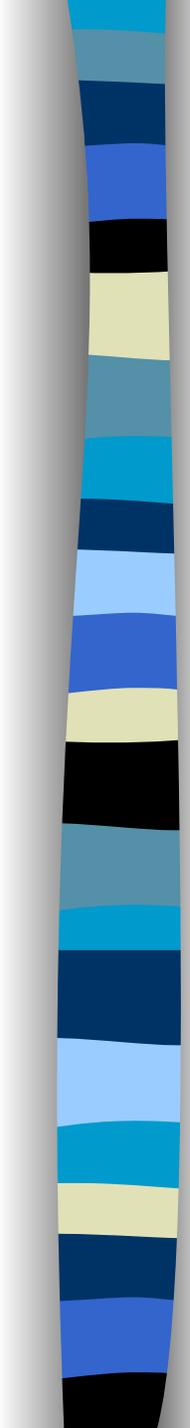
	General <u>Business</u>	<u>Telco</u>
• Avg. Effective Tax Rate	4.5%	35.7%
• # of Returns Filed Per Yr.	12	4,341
• # of Taxes to Administer	96	527

Sources: Committee On State Taxation 2001
Progress and Freedom Foundation



Tax Collection Burden Inequity

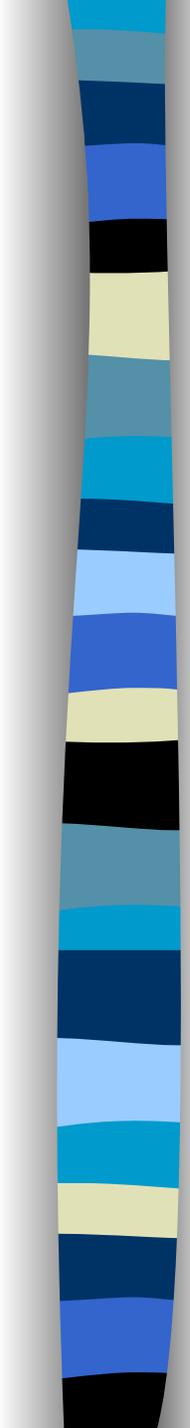
- Three Industry Sectors Collect Taxes:
 - Local Exchange Providers
 - Wireless
 - Cable
- Four Industry Sectors Don't Collect Taxes:
 - Inter-Exchange Providers
 - Paging
 - Satellite TV
 - Phone Cards



HOUSE JOINT RESOLUTION 651

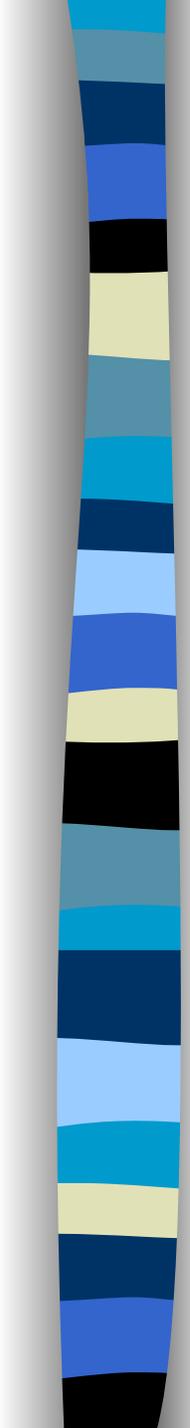
Objectives:

- Reduce / Simplify Tax Administration
- Lower Overall Consumer Communication Tax
- Maintain Level of Tax Revenues to State and Local Governments
- Establish Tax Equity Among Industry Providers



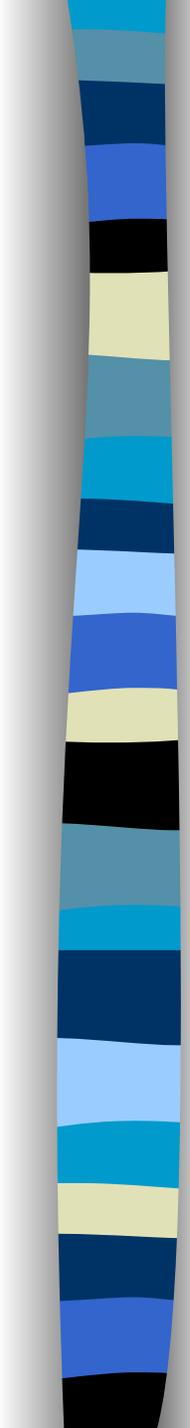
Six Goals

- Consolidate taxes into fewer line items
- Make taxes uniform statewide
- Remit tax collections to one point of administration
- Make taxes “competitively neutral”
- Preserve state and local government revenues now and into the future
- Reduce tax rate on consumers



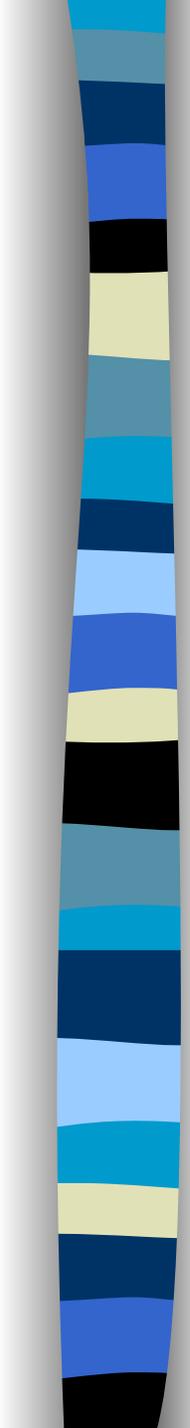
Principles For Change

- **Apply State Sales and Use Tax to Communication and Video Services on competitively neutral basis**
 - Local Exchange
 - Inter-Exchange
 - Wireless
 - Paging
 - Cable
 - Satellite
 - Phone Cards
- **Apply a “911 Fee” to each wireless number and a “911 Tax” to each local exchange line (Rate not to exceed \$.75)**



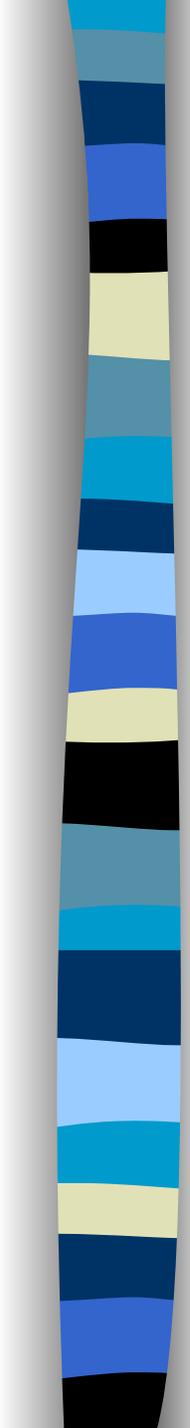
Principles For Change

- **Sales and Use Tax, 911 Fee and 911 Tax replace:**
 - Local Consumer Utility Tax
 - Local Gross Receipts Tax (Where Applicable)
 - E-911
 - Virginia Relay Fee
 - Cable Franchise Fee



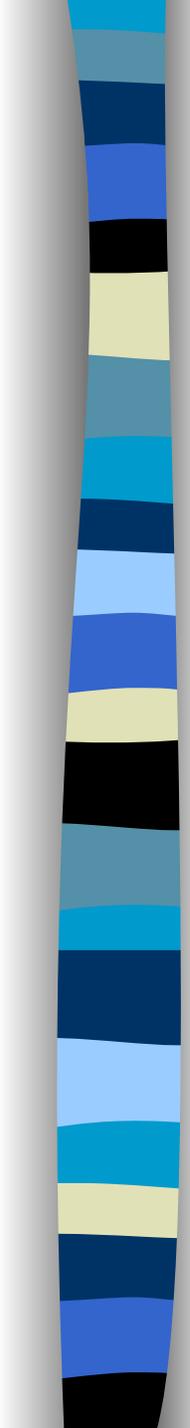
Principles For Change

- A statewide competitively neutral Rights-of-Way Use Fee will be applied to all cable TV service lines -- same as on local telephone lines



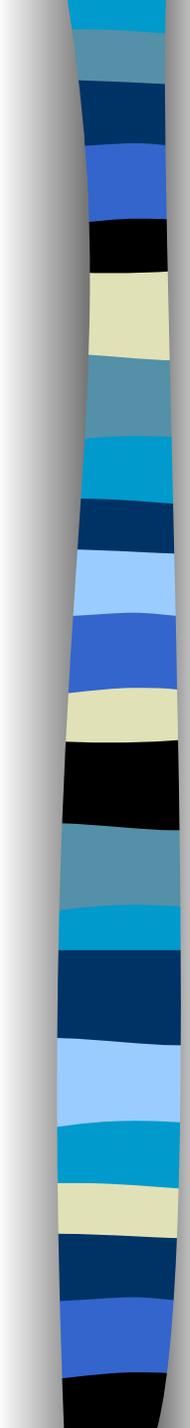
Principles For Change

- Sales and 911 tax collections will be remitted to one point of administration for redistribution
- Wireless 911 fees will be remitted directly to the Wireless 911 Board
- Redistribution of sales and use tax combined with 911 taxes and fees to be revenue neutral to localities and Wireless 911 Board.



Outstanding Issues

- Video
 - Satellite – seeking exemption or alternative approach
- Local Government Concerns – Control
 - Cable Franchise Fees – view as part of local authority
 - Opportunity loss for localities not at the maximum rate on existing taxes
 - Fear of state intrusion into distribution fund



Next Steps:

- Industry and Local Governments Meeting to Address Outstanding Issues
- Subcommittee to Reconvene and Review Final Plan
- Legislation to be developed for 2004 Introduction