

**DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement**

1. **Patron** Kathy J. Byron

2. **Bill Number** HB 874

3. **Committee** House Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Retail Sales and Use Tax: Exemption for
Telecommunications Companies

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would restore the exemption from the retail sales and use tax for purchases of tangible personal property for use directly in rendition of their public service by certain telephone and telecommunications companies.

The effective date of this bill is not specified.

6. Fiscal Impact Estimates are: Preliminary. (See Line 8.)

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	(\$32.6 million)	GF
	(\$4.8 million)	TTF
	(\$9.5 million)	Local
2007-08	(\$35.5 million)	GF
	(\$5.2 million)	TTF
	(\$10.4 million)	Local
2008-09	(\$35.5 million)	GF
	(\$5.2 million)	TTF
	(\$10.4 million)	Local
2009-10	(\$35.5 million)	GF
	(\$5.2 million)	TTF
	(\$10.4 million)	Local
2010-11	(\$35.5 million)	GF
	(\$5.2 million)	TTF
	(\$10.4 million)	Local

2011-12	(\$35.5 million)	GF
	(\$5.2 million)	TTF
	(\$10.4 million)	Local

7. Budget amendment necessary: Yes.

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8. Fiscal implications:

Administrative Costs Impact

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as “routine,” and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not “routine.” Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Revenue Impact

If this bill were enacted, it would have a negative impact on state and local revenues. There would be a total revenue loss of \$46.9 million in FY 2007 (11 month estimate due to one month filing delay), and \$51.1 million in FY 2008 through FY 2012. The estimate does not include purchases by mutual telephone companies that are included in this bill; however, these purchases are expected to have minimal impact.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Former Law

Prior to legislation enacted in 2004, public service corporations had an exemption for the purchase of all tangible personal property used directly in the rendition of their public service. Direct usage refers to those activities that are an integral part of the rendition of a public utility service, including all steps of a utility's production, generation or initiation process as well as a utility's transmission or distribution process, but not including incidental public utility functions such as administration and management. This exemption was enjoyed by i) public service corporations subject to state franchise or license tax on

gross receipts, ii) telecommunications companies and certain telephone companies, and iii) common carriers of property or passengers by motor vehicle or railway.

2004 Law Change

With the exception of common carriers by railway, the 2004 tax reform (House Bill 5018, Chapter 3, 2004 Acts of Special Session I) repealed all the exemptions for public service corporations. These included all public service corporations subject to the state franchise and license tax on gross receipts, telecommunications and certain telephone companies, and motor vehicle common carriers. The new law that repealed these exemptions also allowed those entities that lost the exemption, with the exception of motor vehicle common carriers, to impose a separate line item surcharge on customer's bills to recoup the taxes paid resulting from the repeal of the exemption.

Proposed Changes In This Bill

This bill would reinstate the retail sales and use tax exemption for telecommunication companies and certain telephone companies, however, it does not reinstate the exemption for the other public service corporations that lost the exemption in 2004.

Similar Bills

House Bill 1462 would reinstate the sales and use tax exemption for all public service corporations that lost the exemption in 2004.

cc : Secretary of Finance

Date: 01/29/2006 WBS
HB0874F161