

DEPARTMENT OF TAXATION

2020 Fiscal Impact Statement

1. **Patron** Mark J. Peake

3. **Committee** House Finance

4. **Title** Sales and Use Tax Exemption for
Broadband Service Providers

2. **Bill Number** SB 919

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would establish an exemption from the Retail Sales and Use Tax for equipment purchased by a broadband service provider to be directly used to provide broadband internet access on existing utility infrastructure.

Under current law, equipment purchased by broadband service providers, including equipment to be directly used to provide broadband internet access on existing utility infrastructure, is subject to the Retail Sales and Use Tax.

If enacted during the 2020 Regular Session of the General Assembly, this bill would become effective July 1, 2020. However, this bill would not become effective unless the revenue impact of the bill is accounted for in the Appropriation Act enacted by the General Assembly in 2020.

6. **Budget amendment necessary:** Yes.

Page 1: Revenue Estimates

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2020-21	(\$34.0 million)	GF
2021-22	(\$37.6 million)	GF
2022-23	(\$37.9 million)	GF
2023-24	(\$38.3 million)	GF
2024-25	(\$38.8 million)	GF
2025-26	(\$39.1 million)	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill to be routine and does not require additional funding.

Revenue Impact

This bill would result in an estimated negative impact to total state and local retail sales and use tax revenues \$57.1 million in Fiscal Year 2021, \$62.9 million in Fiscal Year 2022, \$63.6 million in Fiscal Year 2023, \$64.3 million in Fiscal Year 2024, \$65.0 million in Fiscal Year 2025, and \$65.7 million in Fiscal Year 2026. Such impact would include a reduction in General Fund revenues of \$34 million in Fiscal Year 2021, \$37.6 million in Fiscal Year 2022, \$37.9 million in Fiscal Year 2023, \$38.3 million in Fiscal Year 2024, \$38.8 million in Fiscal Year 2025, and \$39.1 million in Fiscal Year 2026. The estimated impact is based on Virginia's estimated share of federal data regarding capital investment by broadband providers. See the table below for a breakdown by fund.

SB 919 - Exempts Sales and Use Tax on Equipment Purchased by Broadband Providers							
Assumed Effective Date: July 1, 2020							
(\$ Millions)							
<u>Fund</u>		<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State Sales and Use Tax (5.3%)	5.280%	\$ (53.2)	\$ (58.6)	\$ (59.3)	\$ (59.9)	\$ (60.5)	\$ (61.2)
GF - Unrestricted	2.265%	\$ (22.8)	\$ (25.2)	\$ (25.4)	\$ (25.7)	\$ (26.0)	\$ (26.2)
GF - Restricted	1.115%	\$ (11.2)	\$ (12.4)	\$ (12.5)	\$ (12.6)	\$ (12.8)	\$ (12.9)
Transportation	0.800%	\$ (8.1)	\$ (8.9)	\$ (9.0)	\$ (9.1)	\$ (9.2)	\$ (9.3)
Local Option	1.000%	\$ (10.1)	\$ (11.1)	\$ (11.2)	\$ (11.3)	\$ (11.5)	\$ (11.6)
HMOF (GF transfer)	0.100%	\$ (1.0)	\$ (1.1)	\$ (1.1)	\$ (1.1)	\$ (1.1)	\$ (1.2)
Regional	0.387%	\$ (3.9)	\$ (4.3)	\$ (4.3)	\$ (4.4)	\$ (4.4)	\$ (4.5)
Hampton Roads (0.7%)	0.112%	\$ (1.1)	\$ (1.2)	\$ (1.3)	\$ (1.3)	\$ (1.3)	\$ (1.3)
Northern Virginia (0.7%)	0.240%	\$ (2.4)	\$ (2.7)	\$ (2.7)	\$ (2.7)	\$ (2.7)	\$ (2.8)
Historic Triangle (1.7%)	0.035%	\$ (0.4)	\$ (0.4)	\$ (0.4)	\$ (0.4)	\$ (0.4)	\$ (0.4)
Total Sales and Use Tax	5.667%	\$ (57.1)	\$ (62.9)	\$ (63.6)	\$ (64.3)	\$ (65.0)	\$ (65.7)

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Proposal

This bill would establish an exemption from the Retail Sales and Use Tax for equipment purchased by a broadband service provider to be directly used to provide broadband internet access on existing utility infrastructure. The bill would define "equipment" eligible for exemption as amplifiers, cable, fiber, modems, nodes, routers, repeaters, wire, construction-related equipment, and any other technology to be directly used to provide broadband internet access on existing utility infrastructure.

"Broadband" would be defined as Internet access at speeds of at least 25 MBps download speed and at least three MBps upload speed; however, if the fixed speed benchmark for high-speed broadband services, as published by the Federal Communications Commission in its most recent Broadband Deployment Report or successor publication, exceeds either one of such thresholds, then the thresholds shall be as provided in the most recent Broadband Deployment Report or successor publication.

"Broadband provider" would be defined as a business that provides broadband Internet access.

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cc : Secretary of Finance

Date: 2/12/2020 VB
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