

**DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement**

1. **Patron** L. Preston Bryant, Jr.
3. **Committee** Passed House and Senate

2. **Bill Number** HB 1174
House of Origin:
 Introduced
 Substitute
 Engrossed

4. **Title** Telecommunications Taxation;
Section 1 Bill

- Second House:**
 In Committee
 Substitute
 X **Enrolled**

5. Summary/Purpose:

This bill would provide a framework for restructuring the state and local telecommunications taxes by declaring the intent of the General Assembly to enact legislation in the 2005 Session replacing the current state and local telecommunications taxes and fees with a centrally administered tax on all retail telecommunications services and a uniform statewide 911 tax and fee.

The telecommunications tax restructuring would be effective July 1, 2005.

6. **No Fiscal Impact.** (See Line 8.)
7. **Budget amendment necessary:** No.
8. **Fiscal implications:**

This bill would have no impact on state and local revenues as it only sets out the intent of the General Assembly to proceed with a restructuring of telecommunications taxes and fees.

9. Specific agency or political subdivisions affected:

Counties, cities and towns.

10. Technical amendment necessary: No.

11. Other comments:

Background on Telecommunications Taxes

Telecommunications services are currently subject to the following state and local taxes and fees:

- The local Consumer Utility Tax on Telephone and Telegraph Companies;

- The portion of local Business, Professional, and Occupational License (BPOL) tax exceeding .5% currently billed to customers in some grandfathered localities;
- The Virginia Relay Center Assessment for the costs of a telephone relay service for the hearing impaired.
- The state and local 911 taxes and fees.

Proposal

This bill would declare the intent of the General Assembly to enact legislation in the 2005 Session to restructure the state and local taxation of retail telecommunications services, effective July 1, 2005.

The current telecommunications taxes and fees would be replaced with a yet-to-be-named tax on all retail telecommunications services and a uniform statewide 911 tax and fee on all lines. The new taxes and fees would appear as line items on customers' bills. With the exception of the wireless 911 revenues, which would be distributed to the Wireless E-911 Services Board, the new taxes and fees would be remitted by service providers to an unnamed central authority.

The new telecommunications tax would be imposed at a rate approximating the combined state and local sales tax rate and the new 911 tax and fee would not exceed \$0.75 per line. The new tax rates and fees would be set at a level to replace all revenues from the repealed taxes and fees. The 2005 legislation would set forth a distribution methodology for these revenues so that the state and local governments would receive at least as much revenues as they did in FY 2004.

The Auditor of Public Accounts would be required to determine the revenues received by the Commonwealth and its localities from the current taxes and fees during FY 2004 and determine whether the intended tax rates would be sufficient to replace revenues from the repealed taxes. In the event that revenues from the new taxes and fees would not be sufficient to replace the current taxes and fees, the General Assembly would not proceed with telecommunications tax restructuring legislation in the 2005 Session.

The 2005 legislation would also subject prepaid calling cards to the state sales tax.

This bill is a recommendation of the Joint Subcommittee Studying the State and Local Taxation of the Telecommunications Industry and its Customers Pursuant to HJR 651 (2003).

Other Legislation

House Bill 246 would subject prepaid calling cards to the retail sales and use tax, effective July 1, 2004.