State Corporation Commission
2005 Fiscal Impact Statement

1. **Bill Number** HB1804

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron** Marshall, R.G.

3. **Committee** Commerce and Labor

4. **Title** Voice-over-Internet Protocol service.

5. **Summary/Purpose:**

Voice-over-Internet Protocol (VoIP) service. Eliminates any jurisdiction of the State Corporation Commission (Commission) to regulate Voice-over-Internet Protocol service. Voice-over-Internet Protocol service is excluded from the scope of the definitions of telephone service, telecommunications service, local exchange telephone service, and interexchange telephone service.

6. Fiscal Impact Estimates are not available**.** See item 8.

7. **Budget amendment necessary:** Unknown.

8. **Fiscal implications:**

The definition of VoIP service can be interpreted to include any network which uses internet protocol, which would include, or potentially include with minimal network modifications, existing, traditional local exchange telecommunications service providers. While a detailed analysis of the fiscal implications would be necessary, we make general observations regarding the fiscal impact of this legislation as currently proposed. This analysis assumes that the State Corporation Commission's lack of jurisdiction over VoIP services would extend to taxing jurisdiction as well. For example, most VoIP providers neither collect nor remit taxes or fees.

First, the legislation could have a significant effect on the Commission's special regulatory tax assessment. This tax is used to fund the utility organizations within the Commission. Current collections from telecommunications companies certificated by the Commission exceed $10,500,000. If local exchange companies, under the auspices of this legislation, enable their networks to carry IP traffic, then approximately 50 percent ($5,250,000) of the assessment could be at risk.

Second, the collections for the Telecommunications Relay Service ("TRS") could be impacted. In fiscal year 2004, the Commission collected approximately $8,800,000 to support TRS center operations. Assuming that all of the approximately 4,500,000 TRS accessible telephone lines would be converted to IP technology, and no longer subject to TRS remittances like other unregulated VoIP providers, then all TRS support funds could be at risk.

Third, it is the Division of Communications' understanding that most unregulated VoIP providers are not collecting or remitting enhanced 911 fees to localities. According to a study used to gauge the impact of telecommunications tax reform, localities collected approximately $100,000,000 in 911 fees. Again, assuming that traditional telephony providers would take steps to convert their networks to be IP-enabled, then localities could experience the loss of current enhanced 911 remittances.

Fourth, rights-of way fees, assessed at $0.61 per line, could be negatively impacted by approximately $30,744,000 annually.

Fifth, depending upon the status of taxing authority, local governments could also experience the loss of local taxes and surcharges associated with traditional telephone service. According to the tax reform study mentioned above, localities collect $245,000,000 annually via telephone assessments. Assuming that traditional telephone lines would become IP-enabled and would no longer be subject to Commission or tax regulation, then localities could, collectively, experience the loss of approximately $245,000,000 in tax remittances.

Fiscal Summary

$ 5,250,000	Special Regulatory Tax
8,800,000	TRS
100,000,000	911
30,744,000	Rights of Way
245,000,000	Consumer Utility Tax
$ 389,794,000	Total

This analysis makes a worst case assumption regarding the fiscal implications of this legislation. Under a different set of assumptions, where only broadband VoIP connections are removed from Commission or tax jurisdiction, as is the case with most VoIP providers today, then the fiscal implications can be broadly estimated as well.

While only a small percentage of broadband customers subscribe to VoIP today, it is estimated by industry sources that some 13 percent of telephone customers will use VoIP by 2008. Assuming a more conservative 10 percent subscription rate, or 500,000 VoIP customers by 2008, the above fiscal summary would change as follows:

2008 Fiscal Summary with Broadband Modification

$ 525,000	Special Regulatory Tax
880,000	TRS
10,000,000	911
3,074,400	Right of Way
24,500,000	Consumer Utility Tax
$ 38,979,400	Total

There may be other fiscal implications associated with the Minimum vs Corporate Income Tax, Personal Property Tax, etc. In addition, the Division of Communications only evaluated the fiscal impact associated with local exchange telephone service. Interexchange telephone service could also be affected, which would require further analysis.

9. Specific agency or political subdivisions affected: State Corporation Commission and its Division of Communcations, state agencies and state government entities**,** Local Governments (counties, cities and towns), 911 Centers, Telecommunications Relay Service

10. Technical amendment necessary: No

11. Other comments: None

Date: 01/24/05 SB/WI

Cc: Secretary of Finance
Secretary of Commerce and Labor