

Statistical Review of Telecommunication Industry Taxes and Phone Rates

The Legislature's Revenue Committee recently held a hearing on House Bill 2408, An Act Relative to the Taxation of Telecommunications property. A number of questions were raised during the debate, including:

- How do the taxes currently paid by telecommunication companies compare to other states?
- How have these taxes changed over recent years?
- Does the level of taxes on telecommunications firms impact the phone rates paid by consumers?

The Federal Communications Commission requires that incumbent local exchange carriers (ILECs) annually file key financial and operating data as part of the Automated Reporting Management Information System, or ARMIS. The ARMIS database provides a standardized dataset that allows for comparisons over time and across states. As a result, this data provides an excellent vehicle to address the questions posed above.

State and Local Telecommunications Tax Data

Table 1 summarizes total state and local taxes as a percentage of the total operating revenue of telecommunications carriers in each state for 2000 through 2004.¹ The table also ranks each states level of taxes from highest to lowest based on the 2004 data. Highlights of this analysis include:

- Verizon's state and local taxes in Massachusetts declined significantly over the past 5 years:
 - o The total tax bill declined by over \$50 million, or 53%, from \$95.4 in 2000 to \$44.5 million in 2004.
 - o In 2000, state and local taxes accounted for 3.24% of Verizon's total revenue. In 2004, Verizon paid 1.84% of its revenue in state and local taxes, a reduction of 43%, the 7th largest reduction in the country.
- Massachusetts ranked **46th** out of the **50** states studied, in telecommunications state and local taxes as a percentage of total operating revenue.

¹ The ARMIS database does not contain a separate breakout of property tax revenues. Nevertheless, the use of the broader total state and local tax measure provides a more comprehensive view of state taxation policy and its impact on the industry. In fact, this broader view was encouraged by many industry representatives in their testimony before the Revenue Committee on this legislation.

Comparison of Telecommunications Tax Rates and Phone Bills

Table 2 provides a comparison between the state and local tax ranking and a ranking based on the average monthly residential telephone bill.² Significant findings from these datasets include:

- Between 2000 and 2004, the average monthly bill in Massachusetts was raised 27.4%. During that same period, Verizon's Massachusetts state and local taxes declined by over \$50 million, or 53%.
- Massachusetts has the 5th highest monthly bill (among the 39 largest markets tracked by the FCC in each state). Yet Massachusetts has the 4th lowest state and total tax burden for telecommunications companies among the states.
- Stated another way, the monthly bill in Massachusetts is 23% above the national average, while Verizon's Massachusetts state and local tax bill is 60% below the national average.
- Among the 39 states with tax and phone rate data, there is little correlation between a state's ranking in state and local telecommunications taxes and phone rates. For example, of the 10 states with the lowest tax rates, only 2 have phone rates less than the national average. 4 of these low tax states rank among the top ten highest phone rates.
- A statistical analysis provided in Addendum 1 found virtually no correlation between a state's phone rates and state and local taxes on telecommunications companies. In fact, a random ranking based on an alphabetized listing of the states had a higher measured correlation with a state's phone rates than the level of state and local taxes.
- 25 states have a ranking differential (Phone Rate Rank minus Tax Rate Rank) over 10. More than a quarter of the states (11) have a ranking differential over 20. The average differential is nearly 14. Specific examples of this differential:
 - o Massachusetts has the dubious distinction of having the greatest differential, with the 4th lowest tax rank and the 5th highest phone rate.
 - o The District of Columbia has the 3rd highest tax ranking, but has the 10th lowest telephone rate. Similarly, Missouri has the 7th highest tax rating, and the 5th lowest phone rate.
 - o Iowa has the 11th highest tax ranking, but the 4th lowest phone rate. In adjacent Nebraska the opposite is true; Nebraska has the 7th lowest tax ranking but the 8th highest phone rate.
 - o Similar to Massachusetts, Georgia, Michigan and Alabama have the 5th, 3rd and 1st lowest tax rates, respectively, but have corresponding phone rate rankings of 6th, 12th, and 14th.

² The ARMIS data only included comparative monthly rate data for residential consumers in 40 states.

Verizon Claims of H2408's Impact on Rates

Verizon has repeatedly claimed that passage of the bill would result in an estimated 15% increase in its rates. Table 3 provides a brief analysis of this issue. A 15% increase would yield an additional \$363.9 million in revenue for Verizon. Verizon's taxes, however, are only estimated to increase by \$59.9 million under the legislation. As a result, a 15% increase in rates would yield Verizon an additional \$304 million, or 6 times more than the increase in its taxes.