

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 1061 (Delegate Hixson. *et al.*)

Ways and Means

Sales and Use Tax Exemption - Machinery or Equipment - Telecommunications Providers

This bill exempts from the sales and use tax “telecommunications” machinery and equipment. The sales tax does not apply if the machinery and equipment is related to the conduct of: (1) a telecommunications business; or (2) a business that offers or provides computer and telecommunications facilities, including operating software, that comprises the interconnected worldwide network of networks that employ the transmission control, protocol/internet protocol, or predecessor or successor protocols to that protocol. The exemption does not apply to the purchase of machinery or equipment by an incumbent local exchange carrier unless competition in the local market exists or to providers of telecommunications that service only a single structure, such as a hotel, an office building, or an apartment building.

The bill takes effect July 1, 1999.

Fiscal Summary

State Effect: Indeterminate but potentially significant decrease in general fund revenues (expected to exceed \$18.3 million annually). Expenditures would not be affected.

Local Effect: None.

Small Business Effect: Potential meaningful.

Fiscal Analysis

State Effect: Telecommunications providers could include a wide variety of businesses including, but not limited to, the following: telephone companies, paging service providers, internet service providers, cable television providers, cellular phone service providers, satellite television providers, “cyber cafes,” and telegraph service providers.

According to industry sources, the impact on the inter-exchange industry is estimated to be a savings of \$4 million while the savings to the wireless industry is estimated to be between \$5.5 and \$7 million. A 1996 study by the Department of Legislative Services (formerly Department of Fiscal Services) indicated that telecommunications service providers paid about \$18.3 million in sales tax on equipment in 1993. Since that time, cellular phone and internet use have increased considerably and service providers have grown accordingly. Based on the growth of these two types of providers alone, it is reasonable to assume that the impact in fiscal 2000 would exceed the estimate indicated in the 1996 report. Consequently, it is anticipated that general fund revenues as a result of the sales tax exemption on telecommunications equipment and machinery will decrease by an indeterminate but potentially significant amount.

Small Business Effect: Small businesses that are providers of telecommunications services would be positively impacted by this bill.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates),
Department of Legislative Services

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ncs/jr

Analysis by: Lina Walker

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510