SB 161

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 161 (Senator Hoffman)
Budget and Taxation

Telecommunications - Taxation

This bill exempts from the sales and use tax the sale to or use by telecommunications providers of any machinery or equipment, if the equipment or machinery is related to the conduct of: (i) a telecommunications business; or (ii) a business that offers or provides the use of the computer and telecommunications facilities, including equipment and operating software, that comprise the interconnected worldwide network of networks that employ the transmission control protocol/Internet protocol, or any predecessor or successor protocols to that protocol.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: General fund revenues from the sales and use tax could decline by at least $20 million in fiscal 2001, with the revenue loss increasing at the rate of 6% thereafter based on economic assumptions.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	($20.0)	($21.2)	($22.5)	($23.8)	($25.2)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($20.0)	($21.2)	($22.5)	($23.8)	($25.2)

Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The exemption covers purchases of computer software by the telecommunications providers but excludes office furniture, standard office equipment, or motor vehicles.

The exemption does not apply to upgrades to a system that was not originally designed to provide telecommunications, including a cable television system or an electric power distribution system, unless the primary purpose of the upgrade is to allow the system to provide telecommunications or to modify the telecommunications functions of the system.

Current Law: This machinery and equipment is currently subject to the 5% sales tax.

Background: Telecommunication providers, as defined under the bill, could include a wide variety of businesses including, but not limited to the following:

telephone companies
cellular phone service providers
paging service providers
custom calling service providers
“900"-type telecommunications services
Internet service providers
telegraph service providers
cable television providers
pay-per-view television service providers
satellite television providers
“cyber cafes”
mail/parcel delivery services

Other states that currently provide such an exemption from the sales tax include: Virginia (enacted last year), Pennsylvania, New York, New Jersey, and North Carolina.

Telecommunications services in Maryland are subject to either the franchise tax (for land line phone services subject to regulation by the Public Service Commission) or the sales tax (for cellular services and land line customer calling features).

State Revenues: The lost revenue for the machinery and equipment that would be exempt under this bill has been estimated by industry officials at $20 million. Future year revenue losses are estimated to grow at the rate of 6%, based on forecasts by the Bureau of Revenue Estimates. (It should be noted that growth in fiscal 1999 and 2000 was considerably higher than 6%; industry officials, however, state that most of the growth over the past few years has been in cellular communications rather than in the purchase of equipment that would be subject to the bill.)

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.

Small Business Effect: This bill would have a significant impact on small businesses that are providers of telecommunications services that are eligible for the exclusion. In addition, the exclusion from the tax may result in a reduction in the costs of telecommunications for small businesses.

Additional Information

Prior Introductions: HB 1061 of 1999, a substantially similar bill that excluded an incumbent local exchange carrier from the exemption, was withdrawn.

Cross File: HB 132 (Delegate Hixson, *et al.*) - Ways and Means.

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

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