SB 701

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 701 (Senator Lawlah, *et al.*)
Budget and Taxation

Sales and Use Tax - Exemption for Digital Telecommunications Machinery and Equipment

This bill exempts from the sales and use tax digital telecommunications machinery or equipment that enables a television or radio station to originate and broadcast, or receive and broadcast, digital signals and that has been purchased to comply with the federal Telecommunications Act of 1996. The exemption applies to all sales from January 1, 2000 to January 1, 2008.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: State sales and use tax revenues (general funds) will decline as a result of exempting this telecommunications equipment from the tax. The precise amount of such decrease will depend on the volume of sales of the equipment, but could total approximately $1.7 million spread over six fiscal years beginning in FY 2000.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Background: The federal Telecommunications Act of 1996 adopted rules for the implementation of Digital Television (DTV) in the United States. All existing television stations are required to broadcast digital signals by a specified time. Four Baltimore television broadcasting stations are required to provide some on-air digital television by

November 1, 1999. Of the remaining stations, six commercial stations are required to broadcast digital signals by May 2002 and the six Maryland Public Television (MPT) stations are required to simulcast digital television by May 2003. Full use of the digital spectrum is to be implemented by 2006. In total, 16 Maryland television stations are required, pursuant to the Telecommunications Act, to purchase equipment and machinery that would enable them to receive or broadcast digital signals. Radio stations are not subject to the provisions of the Telecommunications Act.

Of surrounding states, Pennsylvania, West Virginia, and Virginia exempt this equipment, and Delaware has no sales tax (but does impose a gross receipts tax). New Jersey and South Carolina also exempt the purchase of this equipment.

State Revenues: Digital conversion for Maryland's six public television stations is projected to cost $40 million over a six-year period (these public television stations are not subject to the sales tax). These costs include production equipment as well as modification of existing towers and replacement of others. According to the Maryland D.C. Delaware Broadcasters' Association, the ten commercial television stations in Maryland are projected to spend about $52 million over a six-year period on equipment and machinery in order to broadcast and receive digital signals, with the cost declining from $16 million in calendar 1999 to $4 million in calendar 2004. Each station expects to spend between $2 million and $8 million for new equipment purchases. Some of these expenditures took place prior to January 1, 2000 and hence would not be subject to the exemption. If the industry's estimates reflect actual expenditures, the State would experience a reduction in sales and use tax revenues of about $1.7 million over six fiscal years as a result of this bill.

The estimate above is predicated on the following assumptions:

1. New towers would not have to be constructed to bear the load of the new digital equipment - existing towers could be modified or space on other towers could be leased. If new towers have to be constructed, the cost of equipment purchase would increase. New towers with new antennas could cost between $3 million and $4 million. The industry, however, notes that five of the six Baltimore television stations have converted to digital programming without replacing towers. It is therefore assumed that no towers would be replaced by the remaining stations.

2. Digital conversion for the larger stations began in calendar 1998. Industry sources advise that the conversion will be phased in through calendar 2004. Should stations accelerate the scheduled conversions, the costs in the earlier years could increase with a corresponding decrease in the out-years.

3. During the period for which the exemption is allowed (from 2000 to 2008), some television stations may choose to continue to offer standard-definition rather than high-definition digital programming; thus existing studio equipment could be used and would not be replaced. (High-definition programming offers higher resolution images; however, the cost of programming is also higher since new studio equipment would have to be purchased.) If market forces compel a station to produce high-definition programming, digital conversion costs for a single station could increase significantly because existing studio equipment would have to be replaced.

4. The cost of this equipment will remain flat or decline over the six-year period. In fact, the industry advises that equipment costs have already declined and will continue to do so, resulting in potentially reduced sales tax revenue losses.

Finally, although the federal Act does not require radio stations to offer digital programming, some radio stations will be affected, although indirectly, by the Act. This is because some radio stations currently share their analog equipment with television stations. If these television stations convert to digital signals, the radio stations would be displaced and would have to purchase new analog equipment. Five of the six Baltimore television stations have already converted their towers without displacing any radio stations; therefore it is assumed that there will be little or no cost from this portion of the exemption.

Given the uncertainties associated with any new product or technology and for the reasons discussed above, it is estimated that general fund revenues as a result of the sales tax exemption would decrease by approximately $1.7 million over a six-year period (fiscal 2000 to 2005), based on industry information. However, market pressures and technological changes could result in general fund revenue losses of significantly more or less than $1.7 million.

As noted above, revenue losses are estimated at approximately $1.7 million in total over the period. While the timing of such spending on this equipment cannot be precisely estimated, industry sources provide the following estimated timeline:

SB 701: Equipment Sales Qualified for the Exemption						
	CY 2000	**CY 2001**	**CY 2002**	**CY 2003**	**CY 2004**	
Total Exempted Sales	$9.1	$7.2	$9.2	$4.2	$3.8	

$ in millions						
Sales Tax Revenue Loss	($453,000)	($358,500)	($458,500)	($208,500)	($190,000)	
	FY 2000	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**
Impact by fiscal year	($37,700)	($594,400)	($408,500)	($333,500)	($199,200)	($95,000)

Five months of taxes paid in calendar 2000 will have already been remitted and would be refunded, and that revenue loss would be reflected in fiscal 2001. The June 2000 payment will not be due until after the bill's effective date and would simply not be paid. That month of lost revenue would therefore be incurred in fiscal 2000.

Additional Information

Prior Introductions: HB 1131 of 1999, a substantially similar bill, passed the House of Delegates with amendments but was not reported on by the Senate Budget and Taxation Committee.

Cross File: HB 794 (Delegate Finifter, *et al.*) - Ways and Means.

Information Source(s): Federal Communications Commission, Maryland D.C. Delaware Broadcasters' Association, Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2000
cm/jr Revised - Senate Third Reader - April 3, 2000

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