

**Department of Legislative Services**  
 Maryland General Assembly  
 2002 Session

**FISCAL NOTE**  
**Revised**

House Bill 380 (Delegate Hixson, *et al.*)  
 Ways and Means

**900-Type Telecommunications Service - Taxation**

This bill exempts from the gross receipts tax paid by telecommunications providers those gross charges from the sale of 900-type telecommunications services. The bill also exempts from the sales and use tax: (1) the charges for one-time service establishment; (2) collection services provided by the telecommunications provider to the subscriber; and (3) a service or product sold by the subscriber to the subscriber's customer.

The bill takes effect July 1, 2002.

**Fiscal Summary**

**State Effect:** General fund revenues could decline by approximately \$1.0 million in FY 2003 due to the exemption, based on the Comptroller's audit experience. To the extent that actual current taxable revenues are higher, then the revenues loss associated with the bill could be higher. Future year losses are based on projected growth in sales. Expenditures would not be affected.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	(\$1.0)	(\$1.1)	(\$1.1)	(\$1.2)	(\$1.2)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$1.0)	(\$1.1)	(\$1.1)	(\$1.2)	(\$1.2)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The bill also defines “900-type telecommunications service” as an inbound toll telecommunications service purchased by the subscriber that allows the subscriber’s customers to call in to the subscriber’s prerecorded announcement or live service. (The “subscriber” is the firm that offers and advertises the 900-type service by contracting with the phone company.)

**Current Law:** “900,” “976,” “915,” and other “900” telecommunications services are subject to the sales tax. As interpreted by the Comptroller, the service establishment and collections services charges imposed by the telecommunications vendor on the subscriber and services or products sold by the subscriber to the subscriber’s customer are considered taxable telecommunications services. These service charges are also included in the gross receipts tax paid by land - line telecommunications providers.

**State Revenues:** Based on estimates and audits of the four largest telecommunications providers in the State, in calendar 2001 the State received approximately \$801,000 in sales tax collections from 900-type services, based on approximately \$16 million in charges. The Comptroller’s Office advises that of the current sales tax revenue, approximately 88% is attributable to items that would be covered by the exemptions. In particular, exempting the service or product sold by the subscriber would have the effect of eliminating a substantial portion of 900-type charges from the taxable revenue base. Approximately 12% is attributable to actually transmitting the call (or transport revenue) and would remain subject to the tax. Based on these assumptions, sales tax revenue in fiscal 2003 would decline by \$705,000, leaving \$96,000 in collectible tax revenues.

In addition, the bill exempts 900-type service from taxable operating revenues of phone companies subject to the gross receipts tax. The Department of Assessments and Taxation cannot estimate the amount of revenue losses from exempting this service from taxable operating revenues because it does not require the companies to itemize its taxable revenues. Based on the audit data above, however, and adjusting for the 2% gross receipts tax rate, Legislative Services estimates that gross receipts taxes will decline by approximately \$320,000 in fiscal 2003.

In total, general fund revenues would decline by \$1,025,000 in fiscal 2003, with the revenue loss increasing by approximately 5% per year, reflecting growth in this service category.

**Additional Comments:** The Comptroller’s Office advises that technical amendments may be necessary to distinguish 900-type service from toll-free (or 800-type) service.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Assessments and Taxation, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - February 7, 2002  
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