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Testimony in Support of
House Bill 551 – Broadband Expansion Incentive Act of 2023
Ways and Means Committee
February 16, 2023

The Rural Maryland Council **supports** House Bill 551 – Broadband Expansion Incentive Act of 2023. This bill will allow a subtraction modification under the Maryland income tax for certain qualified broadband grants awarded during the taxable year for broadband deployment; provides an exemption from the sales and use tax for the sale of certain equipment related to providing internet service and deploying broadband; and generally relating to tax incentives for broadband deployment.

Passage of this bill will help expand access to broadband throughout the State. Incentives in tax policy will help to lower the overall cost of infrastructure expansion. Many telecom companies borrow to invest in new markets or expand within existing ones. The subtraction modification and the sales tax exemption will incentivize companies to take on debt capital, especially in markets and investments where there is no immediate return. Debt for financing new facilities, operational expenses (e.g., pole attachments, digging), equipment, and working capital can support more rapid deployment of rural broadband.

(<https://www.brookings.edu/blog/techtank/2017/11/06/tax-reform-can-support-rural-broadband/>)

The lack of broadband access is one of the greatest concerns in rural Maryland. Having access to fast and reliable internet has become increasingly essential over the past several years and even more so during the recent pandemic. Many children must now rely on the internet to attend class and complete schoolwork, and more adults are now working from home. Other services such as telehealth visits have also become more popular, allowing patients to have medical examinations administered from the safety of their homes when transportation options are limited. In a time of growing dependency on technology, these trends are certain to continue.

In 2017, the Maryland General Assembly created the Task Force on Rural Internet, Broadband, Wireless and Cellular Service. The Task Force considered several legislative options focused on tax and regulatory policy as suggested by task force members. The Task Force discussed a potential sales tax exemption for broadband equipment. The State could eliminate the sales tax requirement on broadband equipment. One industry-funded economic analysis shows that eliminating the sales and use tax on communications infrastructure would over three years: generate over \$689 million in new economic activity in Maryland; create 2,800 new private sector jobs paying \$138,000,000 annually in wages; and generate \$9 million in new state and local taxes. In 2018, the Task Force issued a report that included this legislative proposal. (https://rural.maryland.gov/wp-content/uploads/sites/4/2019/01/2018_MSAR11544_Task-Force-for-Rural-Internet-Broadband-Wireless-and-Cellular-Service-Report-1.pdf)

The Federal government has already allocated more than \$72 billion for broadband development and infrastructure. At the end of 2021, President Joe Biden signed into law the Infrastructure Investment and Jobs Act (“IIJA”), a major infrastructure investment that included \$65 billion allocated for broadband development, particularly in rural and underserved communities.

“A Collective Voice for Rural Maryland”

Maryland Households with No Internet Access	
County	Percentage with no internet access
Howard	3.9
Montgomery	4.8
Anne Arundel	5.6
Harford	7.6
Prince George's	7.8
Calvert	7.9
Queen Anne's	8.0
Frederick	8.2
Baltimore County	8.8
Charles	9.1
Carroll	9.5
Cecil	9.5
St. Mary's	10.10
Talbot	11.4
Worchester	12.4
Wicomico	13.2
Caroline	13.9
Washington	14.9
Somerset	17.1
Allegany	17.2
Garrett	17.3
Dorchester	17.4
Baltimore City	17.6
Kent	21.3

<https://broadbandusa.maps.arcgis.com/apps/webappviewer/index.html?id=50c64e2e028d46a58247125e4bedede8>

According to the Maryland Office of Statewide Broadband, as of December 15, 2022, the office has distributed \$23,200,000 in broadband expansion grants, \$130,100,000 in infrastructure grants and \$29,100,000 in additional broadband grants.

Providers report that existing tax obligations make many rural and underserved areas with fewer financial resources ineligible “due to their inability to meet the financial sustainability requirement” and pay taxes on the grant. (<https://www.jdsupra.com/legalnews/tax-exemption-for-federal-broadband-2322681/>)

Other States have adopted these incentives. In 2022, Virginia’s Governor signed H.B. 1155, which expands the sales tax exemption for amplification, transmission and distribution equipment to now include “network equipment” that is used to provide Internet service. In 2019, the State of Wyoming released an economic study of the potential removal of its sales and use tax exemption of equipment by a telecommunications service provider, video programming service provider, or provider of internet access used to provide broadband internet service. The study found removal of the sales tax exemption for purchases would increase the production costs for the telecommunications industry of \$1.0 million per and would result in an average annual loss of 4 jobs and a decrease in GDP of \$0.5 million per year over the period of 2022 to 2030. (<https://wyoleg.gov/InterimCommittee/2022/03-2022112104-022022BroadbandInternetProvidersReport.pdf>)

While rural Marylanders lack access to highspeed internet, they are among those who can benefit the most from it. A 2019 study by the U.S Department of Commerce reported that rural businesses could add more than \$140 billion to the U.S economy and add an

additional 360,000 full time jobs to rural communities over a three-year period by adopting more digital tools in rural areas. For this to be accomplished, rural areas must have adequate access to high-speed internet. Location or income should not determine whether an individual or business has access to an important resource such as highspeed internet. A child should not fall behind in school because of their family’s economic situation.

We ask for your favorable support of House Bill 551. Thank you.

The Rural Maryland Council (RMC) is an independent state agency governed by a nonpartisan, 40-member board that consists of inclusive representation from the federal, state, regional, county and municipal governments, as well as the for-profit and nonprofit sectors. We bring together federal, state, county and municipal government officials as well as representatives of the for-profit and nonprofit sectors to identify challenges unique to rural communities and to craft public policy, programmatic or regulatory solutions.