

# MAINE STATE LEGISLATURE

The following document is provided by the  
**LAW AND LEGISLATIVE DIGITAL LIBRARY**  
at the Maine State Law and Legislative Reference Library  
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied  
(searchable text may contain some errors and/or omissions)

**STATE OF MAINE  
119TH LEGISLATURE**

**Final Report  
of the  
Task Force to Study  
Telecommunications Taxation**

**January 15, 1999**

**Members:**

**Senator Beverly C. Daggett, Chair  
Senator Richard J. Carey  
Senator R. Leo Kieffer  
Rep. Donald P. Berry Sr.  
Rep. Thomas M. Davidson  
Rep. Bonnie Green  
Daniel B. Breton  
Alan Brigham  
Anne J. Gregory  
Nancy A. King  
Kenneth Lefebvre  
Robert Mayer  
Peter McHugh  
Douglas Smith  
Larry Sterrs**

**Staff:**

**Julie S. Jones  
Office of Fiscal and Program Review  
5 State House Station  
Augusta, ME 04333-0005  
(207)287-1635  
julie.jones@state.me.us**



# TABLE OF CONTENTS

	<i>page</i>
<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>I. INTRODUCTION</b>	<b>3</b>
<b>II. BACKGROUND</b>	<b>4</b>
A. Reasons for creation of the Task Force	<b>4</b>
B. History of taxation of telecommunications provider in Maine	<b>6</b>
C. The telecommunications environment	<b>7</b>
<b>III. RECOMMENDATIONS</b>	<b>8</b>
<b>IV. CONCLUSION</b>	<b>16</b>
<b>APPENDICES</b>	
A. Legislation establishing the Task Force	
B. Members of Task Force	
C. State telecommunication personal property tax (36 MRSA §§457-8)	
D. Legislation to implement the recommendations of the Task Force	



## EXECUTIVE SUMMARY

The Task Force to Study Telecommunications Taxation (the Task Force) was created by Resolves 1997, chapter 121 to review the State's tax system as it applies to telecommunications businesses, identify disparities among service providers, compare the treatment of telecommunications businesses with other industries, and evaluate strategies to clarify the laws and provide for easy administrability.

The Task Force met six times and received information from members, legislative staff, staff of the Bureau of Revenue Services, the Public Utilities Commission and numerous interested parties.

The Task Force was created to address concerns that the State's tax system had not kept pace with recent technological developments in the telecommunications industry nor with the deregulation of the industry that has resulted in many new types of entrants into the field that do not fit within the traditional definitions "telecommunications" providers in the tax laws. This situation results in ambiguity in the application of the tax laws and different tax treatment of businesses that are competing to provide the same services.

The Task Force identified concerns with the state telecommunication personal property tax as well as with various aspects of the state sales tax. The Task Force makes the following recommendations. While most recommendations reflect the consensus of the Task Force, agreement was not reached on all recommendations.

**RECOMMENDATION 1: The Task Force recommends that the definition(s) of "telephone and telegraph service" under the sales tax law be revised to clarify ambiguities and to ensure that sales of unbundled network elements to other telecommunications providers are excluded from taxation.**

**RECOMMENDATION 2: The Task Force recommends that the sale of cable television converter boxes to cable television service providers be exempt from sales tax because the rental of those converter boxes is currently subject to sales tax and the imposition of the tax on the sale to the cable provider constitutes double taxation.**

**RECOMMENDATION 3: The Task Force recommends that prepaid calling arrangements be taxed at the point of sale rather than the point at which the service is actually used.**

**RECOMMENDATION 4:** The Task Force recommends that policy makers in the executive branch and the legislative branch continue to evaluate the differences in sales tax treatment of cable television services and direct satellite television services and monitor changes in these delivery methods with the goal of ensuring that the State's tax laws do not provide an avoidable competitive advantage to one delivery method over another.

**RECOMMENDATION 5:** The Task Force recommends that a sales tax exemption be enacted for the sale of machinery and equipment used to provide communications service.

**RECOMMENDATION 6:** The Task Force recommends that a sales tax exemption be enacted to cover the first \$16 monthly of each residential telephone account.

**RECOMMENDATION 7:** The Task Force recommends that the State Tax Assessor continue a periodic review of taxation of telecommunications service to determine the extent to which Maine law is keeping pace with technological and structural changes in the telecommunications industry and federal legislative developments.

**RECOMMENDATION 8:** The Task Force recommends that the telecommunications personal property tax be phased out and telecommunications personal property be returned to standard municipal property taxation

## **I. Introduction**

### **A. Origin of the Task Force**

The Task Force to Study Telecommunications Taxation (the Task Force) was created by Resolves 1997, chapter 121. The Task Force was directed by the Resolve to:

1. Identify tax disparities within the telecommunications industry, including; rural independent telephone service providers, regional telephone companies, cellular telephone service providers, long distance service providers, cable television companies, Internet service providers, and radio paging service providers;
2. Compare the tax treatment of telecommunications businesses with other industries;
3. Evaluate strategies for ensuring that taxes on telecommunications businesses are easily administered and predictable and provide for revenue stability;
4. Clearly define the tax base and appropriate taxing jurisdiction.

The Task Force was directed to submit a report and any recommended implementing legislation to the joint standing committee of the Legislature having jurisdiction over taxation matters.

The resolve establishing the Task Force originated in the Joint Standing Committee on Taxation as a result of its consideration of the need for reform in Maine's tax laws and based on problems encountered by both the State and municipalities in administering the current laws.

### **B. Membership**

The Resolve provided for the appointment of 15 members to the Task Force:

1. Three Senators and three Representatives appointed by their respective presiding officers;
2. Two members from the executive branch representing the Department of Administrative and Financial Services and the Department of Economic and Community Development;
3. One municipal official;



4. Six representatives of telecommunications businesses including; an independent telephone company, a regional telephone company, a long distance telephone company, a cable television company, an Internet service provider and a nonwire-based telecommunications carrier.

Nonlegislative members were all appointed by the Governor. A list of members and the interests they represented is located in Appendix B.

### **C. PROCEDURE**

The Task Force met six times in Augusta. A subcommittee met one time to develop a proposal for implementation of Recommendation 8 relating to the phaseout of the state telecommunications personal property tax and the return of taxation of telecommunications personal property to the municipal property tax.

## **II. BACKGROUND**

### **A. Reasons for creation of the Task Force**

During the 118th Legislature, the Joint Standing Committee on Taxation conducted an extensive review of Maine's tax structure. One of the purposes of that review was to identify areas of Maine tax law that were in need of reform. In the course of the Committee's review, it became apparent that Maine's taxation of telecommunications services was rapidly becoming obsolete and contained language that was causing difficulty and confusion for taxpayers and for state and municipal officials charged with administering the laws. In a presentation to the Committee the State Tax Assessor identified the following issues related to telecommunications.

- **Sales tax.** The definition of taxable "telephone and telegraph service" for purposes of the sales tax is becoming functionally troublesome<sup>1</sup>. Although a

---

<sup>1</sup> Adding to the confusion, is the existence due to an apparent drafting oversight, of two definitions of "telephone and telegraph service" in the sales tax law. While one definition explicitly applies to leases entered into before October 1, 1996 and the other to leases entered into on or after that date, it is unclear what definition applies to transactions other than leases.

36 MRSA §1752, sub-§§ 18-A and 18-B define "telephone and telegraph service" as follows:

**"18-A. Telephone or telegraph service.** "Telephone or telegraph service" means all telecommunications or telegraph service, including installation or use of telecommunication or telegraphic equipment, but not including telecommunications or telegraph service originating or terminating outside this State. "Telecommunications or telegraphic equipment" means any 2-way interactive communications device, system or process for transmitting or receiving signals and capable of exchanging audio, database or textual information.

reference to “electromagnetic “ signals was deleted from the definition in 1998 during the Second Regular Session of the 118th Legislature, additional ambiguity exists concerning the meaning of “2-way interactive communication” and the application of the sales tax to nontraditional telecommunications delivery systems such as satellites, cable television infrastructure and the Internet.

- **Telecommunications personal property tax.** Definitional concerns also form the basis for issues presented by the state telecommunications personal property tax. While the definition is somewhat more inclusive than the sales tax definition, questions still remain regarding the application of the tax to nontraditional and multipurpose delivery systems. Definitional issues regarding the telecommunications personal property tax take on an extra dimension because of the bifurcation of taxing authority between the state which has jurisdiction over “telecommunications personal property” of a “telecommunications business” and municipalities which have jurisdiction over other personal property.
- **Electronic commerce.** The development of electronic technologies for the conduct of business transactions raises questions about the ability of the State to tax electronic transactions with ambiguous locations (nexus), the ability of the State to identify and track taxable electronic transactions, and whether a transaction that consists of the transfer of digital information is taxable as Maine’s sales tax laws are currently written. The implications of these questions extend beyond the sales tax and telecommunications personal property tax areas and have an impact on virtually every aspect of State taxation.<sup>2</sup>

---

“Telecommunications service” does not include access services provided by a local exchange carrier to an interstate or intrastate interexchange carrier.  
“Telephone or telegraph service” does not include directory advertising service.  
This subsection applies to leases entered into prior to October 1, 1996.

**18-B. Telephone or telegraph service.** “Telephone or telegraph service” means all telecommunications or telegraph service, including installation of telecommunication or telegraphic equipment, but not including telecommunications or telegraph service originating or terminating outside this State. “Telecommunications and telegraph equipment” means any 2-way interactive communications device, system or process for transmitting or receiving signals and capable of exchanging audio, database or textual information. “Telecommunications and telegraph equipment” does not include computers, except those components of a computer used primarily and directly as a 2-way interactive communications device capable of exchanging audio, database or textual information. “Telephone or telegraph service” does not include directory advertising service. This subsection applies to leases entered into on or after October 1, 1996.”

<sup>2</sup> A separate study group was set up by the President of the Senate and the Speaker of the House to study issues relating to the taxation of financial services. The Special Commission on Financial Service Taxation

## **B. History of taxation of telecommunications providers in Maine**

**1. Telephone industry tax.** Some form of special industry tax on telephone companies has existed for more than 100 years. While the first tax on telephone companies, enacted in 1883,<sup>3</sup> was based on the value of telephone lines and company personal property, for most of the 20th century, the tax took the form of a gross receipts tax.<sup>4</sup> In 1987, the gross receipts tax on telecommunications service was repealed, and the current telecommunications personal property tax was phased in over the next two years. This change was the result of deregulation of long distance telecommunications on the federal level, changes in the treatment of state gross receipts taxes in federal long distance rate-setting and the desire to place telecommunications companies providing long distance services on an equal competitive “playing field.”

The current telecommunications personal property tax is a tax of 27 mills on telecommunications personal property owned or leased by a telecommunications business (“a person engaged in the activity of providing 2-way interactive communication services for compensation”). The tax is determined and assessed based on the status of property on April 1st annually. Payment is made in a bifurcated payment system that is left over from 1980s attempts to adjust the fiscal year in which funds accrue to the state. Currently, telecommunications businesses are required to submit payment on June 1, annually. The payment represents 1/2 of the amount estimated to be due for the subsequent year and the difference between the estimate paid for the previous year and the amount actually assessed for that year.

**2. Sales tax.** The sales tax in Maine was enacted in 1952. “Telephone and telegraph service” was added to the list of taxable services in 1965.<sup>5</sup> Sales tax on telecommunications service is assessed at the general rate of 5.5%. Sales tax is imposed on all telecommunications service, including installation of telecommunications equipment but not including calls originating or terminating outside of the State of Maine.

**3. Standard property tax.** Prior to 1987, when telecommunications companies were subject to an industry gross receipts tax, that tax was imposed in lieu of property taxes on personal property, including “...poles, wires, conduits, booths, central office equipment, and other machinery and

---

considered the implications of electronic transactions on taxes affecting financial services businesses. A similar advisory group was also appointed to study financial services taxation.

<sup>3</sup> Public Laws 1880, chapter 246.

<sup>4</sup> Originally enacted in 1901, Public Laws 1901, chapter 201.

<sup>5</sup> Public laws 1965, chapter 362 extending the sales tax to telephone and telegraph service contained an emergency preamble identifying the need for additional revenue to carry out the functions of government including the payment of school subsidies.

equipment involved in the business of a telegraph or telephone company.” Land, buildings, microwave and similar towers owned by a telephone or telegraph company were subject to standard municipal property taxation as real estate. The shift in 1987 from a state gross receipts tax to a state telecommunications personal property tax maintained standard municipal property taxation of real estate. Municipal property tax rates are determined locally based on the budgeted needs of the municipality and are assessed against the just value of taxable property.

**4. Income tax.** Businesses providing telecommunications services have been subject to the state income tax in the same manner as other businesses since the state income tax was first enacted in 1969. The corporate income tax is based on federal taxable income with Maine adjustments. The tax is imposed as follows:

<u>Maine net income</u>	<u>Tax</u>
Up to \$25,000	3.5%
\$25,000 up to \$75,000	7.93%
\$75,000 up to \$250,000	8.33%
\$250,000 or over	8.93%

### **C. The telecommunications environment**

This Task Force was established in response to rapidly changing developments in the telecommunications industry. These changes are the result of both technological advances in the delivery of telecommunications service and legal developments in the way the way telecommunications is regulated and the resulting structural changes in the way telecommunications industry is organized.

**1. Technological developments.** Telecommunications has come a long way from the days of talking over the dial phone. Telecommunications now involves the long distance transmission of all kinds of information over a variety of transmission modes. Voice, video, and data transmissions are carried over land lines, fiberoptic cable, microwave and satellite relays. People not only talk to one another, they buy and sell goods and services, download computer programs, music, and video. They bank, transfer money and conduct sophisticated financial transactions. Telecommunications services may be provided by the “telephone company,” a provider of wireless transmissions, an Internet service provider, a cable television company, an electric or gas utility. Mergers involving telecommunications providers are making it increasingly difficult to label the industry participants.

**2. Legal and structural context.** The break up of the Bell Telephone system in the 1980s began the deregulation of the telecommunications

industry with the creation of regional Bell operating companies and competition in the provision of inter-region long distance telephone service. The federal Telecommunications Act of 1996 opens up all areas of telecommunications to competition including the provision of traditional local telephone service. Although competition still remains subject to limited regulatory oversight, market forces can be expected to predominate in the future development of the telecommunications industry.

### **III. RECOMMENDATIONS**

The Task Force reviewed in detail the way in which Maine's tax system effects the telecommunications industry and the ways in which changing technology and deregulation are resulting in disparities in the tax treatment of businesses that are competing to provide the same types of telecommunications service. The Task Force makes the following recommendations aimed at eliminating or relieving disparate treatment and providing a tax system that is easily administered and predictable for both taxpayers and government. At the same time, the Task Force recognizes that telecommunications is a rapidly changing business sector and encourages state policy makers to continue monitoring industry developments to ensure that the State's tax system keeps pace. While most recommendations reflect the consensus agreement of the Task Force, a consensus was not reached on all recommendations. Where there was disagreement, it is noted in the descriptive materials following each recommendation.

**RECOMMENDATION 1: The Task Force recommends that the definition(s) of "telephone and telegraph service" under the sales tax law be revised to clarify ambiguities and to ensure that sales of unbundled network elements to other telecommunications providers are excluded from taxation.**

The definition of "telephone and telegraph service" that is subject to sales tax has, through amendment, over the course of time, become confused and disorganized. Adding to the confusion, through an apparent drafting oversight, there are currently two definitions of "telephone and telegraph service" in the sales tax law. While the definitions are similar, they are not identical and the intended application is not clear.

In addition to inherent language inconsistencies, the application of the definition(s) has been complicated by developments in the deregulation of telecommunications services that have resulted in sales of services between telecommunications providers that were not previously contemplated. A general principle of sales tax law maintains that sales should only be taxed once and that sales of property (or service) that are resold to a final consumer should be excluded from taxation if they are taxed on the final sale. Under evolving federal law, telecommunications services are becoming increasingly deregulated. Competition in the provision of services has spread from interstate telephone service to include local service. New companies have formed to take advantage of the opportunity to compete with the formerly regulated "phone company."

New technologies are expanding the media by which telecommunications can be provided (microwave, cellular, cable, satellite etc.) and the types of information that are carried (audio, video, data). Federal law currently requires the traditional land-based carriers to sell “unbundled network elements” to other persons interested in providing telecommunications service. While the Bureau of Revenue Services appears to interpret the sales tax law in a way that excludes these sales from taxation, the Task Force believes that the law should be clarified to ensure that this treatment is authorized and continued.

The Task Force recommends that the definition(s) of “telephone and telegraph service” be repealed and replaced with a definition of “telecommunications service” to accomplish the following:

- Resolve the differences between the two current definitions of “telephone and telegraph service”
- Establish a separate definition of “telecommunications equipment”
- Clarify the application of the sales tax to 2-way service
- Clarify the exclusion from sales tax of the sale of “unbundled network elements” to another provider of telecommunications service.

The Task Force intends these changes to clarify the current application of the law. It is not anticipated that the changes will result in any change in the application of the law to sales of telecommunications service.

**RECOMMENDATION 2: The Task Force recommends that the sale of cable television converter boxes to cable television service providers be exempt from sales tax because the rental of those converter boxes is currently subject to sales tax and the imposition of the tax on the sale to the cable provider constitutes double taxation.**

Currently, sales of cable television converter boxes to providers of cable television service are subject to a sales tax. When the cable television provider rents the box to a consumer of services, that transaction is also subject to sales tax as “extended cable television service.” When the rental of other equipment (e.g. automobiles, video equipment) is subject to a sales tax as a taxable service, the sale to the provider of the service is not considered a taxable retail sale. The Task Force recommends that the sale of cable converter equipment for subsequent rental also be excluded from the definition of a taxable retail sale.

**RECOMMENDATION 3: The Task Force recommends that prepaid calling arrangements be taxed at the point of sale rather than the point at which the service is actually used.**

Prepaid calling cards have been available for several years. These cards usually contain an identification code that entitles the holder of the card to telecommunications services through a telecommunications provider that is the issuer of the card. The cards may be sold through any number of retail outlets or given away as incentives for other purchases or for other reasons. Some cards are sold as collectibles. Prepaid calling arrangements are also now available where the customer receives only the access number and authorization code; no card is provided to represent the transaction. More recently prepaid arrangements cover wireless telecommunications services.

Under current Maine law, the sale of a prepaid calling card or arrangement is not considered a taxable sale.<sup>6</sup> Sales tax liability is determined at the time that service is provided. Sales tax must be calculated by the provider if the service provided is a taxable transaction. Sales tax is not due if the service is not taxable (interstate calling, exempt taxpayer, minutes not used and not purchased as a collectible). Determining the proper tax base, and sourcing the transactions are an onerous burden. Determining customer exempt from sales tax is impossible. According to information the Task Force received from the International Telecard Association, a small percentage of card issuers do not account for or remit usage taxes. The Association believes that switching the tax treatment to point-of-retail sale will increase compliance. In addition, the change will improve public policy because these noncompliant firms, who often are the same ones who stick customers with worthless cards, may find it no longer economical to offer calling cards without the ability to profit from failure to remit taxes.

Twenty-one states and the District of Columbia impose sales tax at the point-of-retail sale. Imposing the sales tax at the point of sale of a prepaid calling card increases the administrability of the sales tax for both the State and the telecommunications provider. Ultimately consumers should benefit from reduced prices for telecommunications service.

**RECOMMENDATION 4: A majority of the Task Force recommends that policy makers in the executive branch and the legislative branch continue to evaluate the differences in sales tax treatment of cable television services and direct satellite television services and monitor changes in these delivery methods with the goal of ensuring that the State's tax laws do not provide an avoidable competitive advantage to one delivery method over another.**

Under current sales tax law, sales of basic cable television services are not subject to the sales tax; however, sales of "extended cable television services" are subject to tax. Sales of direct satellite television services are not subject to sales tax. While there are many similarities between cable television service and direct satellite television services that would indicate the desirability of similar sales tax

---

<sup>6</sup> Some persons presenting information to the Task Force hypothesized that there may be confusion in the retail community regarding the taxability of prepaid calling cards and that some retailers may be incorrectly collecting sales tax on those cards; however, the Task Force received no direct evidence of this occurrence.

treatment, the Task Force does not recommend the extension of the sales tax to additional television service at this time because it recognizes that there are still considerable differences. Although the Task Force recommends no change in the taxation of remote television services at the present time, it recommends that policy makers continue to monitor developments in the delivery of television services with the goal of ensuring that the State's tax laws do not provide an avoidable competitive advantage to one delivery method over another.

While the majority of the Task Force supports this recommendation, some members disagreed and a consensus was not reached.

**RECOMMENDATION 5: The Task Force recommends that a sales tax exemption be enacted for the sale of machinery and equipment used to provide communications service.**

Currently, machinery and equipment purchased by a business is generally taxable. An exemption is provided, however, for machinery and equipment used by the purchaser directly and primarily in the production of tangible personal property which is intended to be sold or leased for final consumption. The policy behind this exemption is the avoidance of a kind of "double taxation" in that, without the exemption, a sales tax would be imposed both on the final product and on the means of production. The Task Force believes that machinery and equipment sold to a provider of communications services for final sale ought to be exempt from the sales tax for the same reasons that apply to machinery and equipment used to produce taxable tangible personal property.

**RECOMMENDATION 6: The Task Force recommends that a sales tax exemption be enacted to cover the first \$16 monthly of each residential telephone account.**

The Task Force believes that access to basic telecommunications service has become a necessity. Maine sales tax law currently exempts such necessities as grocery staples, fuel for heating, prescription drugs and the first 750 kilowatt hours of residential electricity per month. The Task Force recommends that basic residential telecommunications service also be exempt from sales tax. For ease of administration the Task Force recommends following the pattern established for residential electricity and exempting a flat amount of monthly service. Because telecommunications service is generally not measured by volume, the exemption should be based on value. An exemption of \$16 per month would cover the bulk of most residential phone service. Only one monthly exemption per household should be permitted, and the exemption should apply to local exchange service only.

This recommendation is forwarded to the Legislature for further consideration. There are serious reservations among members of the Task Force regarding the details of working out a residential exemption and there is some "modest dissent."



**RECOMMENDATION 7: The Task Force recommends that the State Tax Assessor continue a periodic review of taxation of telecommunications service to determine the extent to which Maine law is keeping pace with technological and structural changes in the telecommunications industry and federal legislative developments.**

The Task Force recognizes that changes in the telecommunications industry are developing at a rapid pace. The Task Force believes that it is critical for the state to keep pace with those developments to ensure that the State's tax laws maintain competitive neutrality between competing modes of service delivery and do not act as a disincentive to the expansion and location of telecommunications businesses in the State.

As part of the federal Internet Tax Freedom Act (ITFA) enacted by Congress in October 1998 a federal Advisory Commission on Electronic Commerce composed of industry and governmental representatives is being appointed. While the primary focus of the advisory commission will be electronic commerce and transactions using the Internet, it is also directed to examine "... ways to simplify Federal and State and local taxes imposed on the provision of telecommunications service." The advisory commission is directed to transmit its recommendations and findings to Congress 18 months after enactment of ITFA (i.e. April 2000). In parallel activity, the National Tax Association, earlier in 1998, formed the Communications and Electronic Tax Project with government and industry representatives to review the same kinds of questions.

The Task Force believes that it is important for the State to monitor the developments of the two national level groups studying electronic commerce and telecommunications tax issues and report those developments to the Legislature with any recommendations regarding changes consistent with maintaining competitive neutrality and avoiding tax disincentives for development of telecommunications businesses in the State. In conducting this review the State Tax Assessor should consider comments from other government agencies with expertise in telecommunications service and representatives of industry groups and consumers.

**RECOMMENDATION 8: The Task Force recommends that the telecommunications personal property tax be phased out and telecommunications personal property be returned to standard municipal property taxation**

**A. Rationale**

Special taxation of the telecommunications industry originated at a time when the provision of telecommunications services was a regulated monopoly. Companies

were ensured an exclusive market area with no competition. Telephone rates were regulated by state utility commissions, and companies were permitted to recover the cost of any taxes as well to make a reasonable rate of return on their investments.

That world no longer exists. The breakup of the Bell Telephone Company in 1984 as a result of federal legal action began the deregulation of the telecommunications industry by splitting the nationwide Bell telephone system into regional operating companies with jurisdiction over local exchange service and local long distance service. Long range, long distance service and rates were deregulated, and competition was encouraged. Since 1984, further deregulation has continued through the federal Telecommunications Act of 1996 which sets a process for the deregulation of local service and local long distance service. Throughout the period, technological developments have rapidly expanded alternative telecommunications service options, and the price and availability of those options is making them increasingly attractive.

As technologies and 2-way capabilities expand coverage, the justification for considering services such as cable television and internet service as part of the municipal tax base diminishes. To the extent that technological and industry changes are resulting in similarly situated persons being taxed differently for the provision of the same types of service the State risks constitutional challenges to its taxing scheme.

The Task Force concluded that the justification for a special telecommunications industry tax is no longer compelling. In an environment where types of services and providers are changing rapidly, devising an industry tax that treats similarly situated providers equally is challenging. The state telecommunications personal property tax presents the following problems:

- **Rate.** The state telecommunications personal property tax is assessed at the rate of 27 mills. This rate exceeds the rate imposed in most municipalities for standard local property tax. The average mill rate statewide is 17 mills. Companies paying the telecommunications personal property tax are at a disadvantage when they must compete with providers who are subject to local rates rather than the state rate. The state rate serves as a disincentive to the development or expansion of telecommunications services within the State. The Task Force heard from several of its members that they were reticent about developing or expanding new services for consumers for fear of being considered a “telecommunications business” and subjecting all of their personal property to the 27 mill rate.
- **Jurisdiction.** Advances in technological capabilities and business structuring have already created considerable uncertainty with regard to whether the state or municipalities has taxing jurisdiction over certain types of property or businesses. This creates confusion about

the appropriate taxing jurisdiction, not only for taxpayers, but for state and local tax assessors as well. The potential for migration of property from local to state jurisdiction creates administrative difficulties as well as potential loss of revenue to municipal government.

## **B. Considerations**

**1. Revenues.** The Task Force recognizes that repealing the state telecommunications personal property tax will not be an easy step for the state to take. The tax generates approximately \$28-29 million annually for the State's General Fund.<sup>7</sup> The Task Force carefully considered ways to repeal the state tax that would:

- Provide the easiest adjustment for the State General Fund
- Provide taxpayers with lead in time necessary to identify the correct local taxing jurisdiction of telecommunications personal property and
- Provide municipalities with time to develop appropriate methodologies for assessing telecommunications property

**2. Tax increment financing.** The Task Force recommends a clarification of the tax increment financing law to ensure that the additional valuation acquired by a municipality through the repeal of state telecommunications personal property tax may not be considered as captured assessed value for purposes of the tax increment financing laws.

## **C. Proposal**

The Task Force recommendation for phase out of the state telecommunications personal property tax contains the following elements.

**1. Transfer taxation of telecommunications personal property from the State to municipalities beginning with April 1, 2001 tax year.** The Task Force recommends making the transfer of taxing jurisdiction in 2001 in order to allow time both taxpayers and taxing jurisdictions to prepare. Taxpayers will need to identify telecommunications personal property by municipality, a task that was not necessary with state jurisdiction. Municipalities will need to prepare to include telecommunications personal property in their tax base. The State will need to prepare for a loss of General Fund revenue.

---

<sup>7</sup> The December 1998 report of the Revenue Forecasting Committee projects revenues from the telecommunications personal property tax at \$28,300,000 in fiscal year 1998-99, \$28,725,000 in fiscal year 1999-00 and \$29,000,000 thereafter.

Because of the bifurcated payment schedule for payment of the state telecommunications personal property tax, the fiscal impact of making this change is complicated. The following chart depicts the timing of the fiscal impact of repealing the state telecommunications personal property tax effective April 1, 2001

State fiscal year	Tax payments under current law	Tax payments with repeal effective 4/1/01	Accrual of revenue to the General Fund repeal effective 4/1/01 <sup>8</sup>	Loss of Revenue to General Fund <sup>9</sup>
1998-99	1/2 estimated 2000 assessment plus balance of 1998 assessment	1/2 estimated 2000 assessment plus balance of 1998 assessment	1/2 estimated 2000 assessment plus balance of 1999 assessment	- 0 -
1999-00	1/2 estimated 2001 assessment plus balance of 1999 assessment	balance of 1999 assessment	balance of 2000 assessment	\$14,500,000
2000-01	1/2 estimated 2002 assessment plus balance of 2000 assessment	balance of 2000 assessment		\$29,000,000

**2. Managing the revenue loss to the State.** The bifurcated payment schedule for the state telecommunications property tax coupled with a repeal of tax effective for the April 1, 2001 property tax year means that under the current payment schedule the State will receive approximately a one-half year payment in June, 2000 and a one-half year payment in June, 2001. The Task Force considered the advisability of moving the June 2001 payment up to June 2000. This would even out payments for taxpayers and provide revenues at an earlier date to the State. After extended discussion the Task Force concluded that due to the complexity of the payment schedule and the method by which state revenues are "booked" that the resolution of this issue was best left to the Legislature. The members of the Task Force will individually continue to explore options for relieving the potential stress on revenues that would result from repeal of the state tax.

**3. Assistance to municipalities.** Telecommunications property can be difficult to identify and assess. The implementation date of 2001 was chosen partially to give municipalities time to prepare for the shift in taxing jurisdiction. The Task Force understands that some municipalities

<sup>8</sup> Due to practices of the State Controllers Office, the accrual of revenues to the General Fund occurs on a different schedule from the schedule for actual payments. The Task Force encountered confusion surrounding the method of accrual of telecommunications tax revenues that requires more research than was possible before the deadline for the Task Force report.

<sup>9</sup> Based on December 1998 report of the Revenue Forecasting Committee.

may have little experience with valuing this type of property and recommends that the Bureau of Revenue Services develop nonmandatory guidelines to assist municipalities in assessing telecommunications personal property.

The Task Force asked the Bureau of Revenue Services to estimate the impact of the recommendations of the Task Force on revenues. The Bureau provided the following preliminary estimates; however, the Task Force is aware that official estimates will require additional work and the figures provided by the bureau cannot be considered final. Estimates were not received with regard to recommendations not listed below.

<b>Recommendation</b>	<b>Revenue Loss</b>
Recommendation 2: Exempt cable converter boxes from sales tax	\$ 125,125
Recommendation 5: Exempt machinery and equipment used to provide telecommunications service from sales tax	\$ 6,066,335
Recommendation 6: Exempt "basic residential telecommunications" from sales tax	\$ 5,808,000
Recommendation 8: Repeal state telecommunications personal property tax	\$29,000,000

## **IV. CONCLUSION**

The Task Force to Study Telecommunications Taxation believes that the recommendations contained in this report will go a long way toward eliminating disparities of tax treatment among competitors in the telecommunications industry and place the telecommunications industry on an equal footing with other types of business in the State. These recommendations will improve the fairness and clarity of the State's tax system, make that system easier to administer and make the State a much more attractive site for the location or expansion of telecommunications providers or businesses that depend heavily upon the availability of high quality telecommunications services.

## APPENDIX A



STATE OF MAINE

IN THE YEAR OF OUR LORD  
NINETEEN HUNDRED AND NINETY-EIGHT

H.P. 1681 - L.D. 2298

Resolve, to Create a Task Force to Study Telecommunications  
Taxation

**Sec. 1. Task force established. Resolved:** That the Task Force to Study Telecommunications Taxation, referred to in this resolve as the "task force," is established; and be it further

**Sec. 2. Task force membership. Resolved:** That the task force consists of the following 15 members:

1. One member from the Department of Administrative and Financial Services, either the Bureau of Revenue Services or the Bureau of Information Services, appointed by the Governor;

2. One member from the Department of Economic and Community Development, appointed by the Governor;

3. One municipal official who has expertise in the area of telecommunications property taxation, appointed by the Governor;

4. Six representatives from the communications industry, appointed by the Governor, representing the following business groups:

A. One representative of an independent telephone company;

B. One representative of a regional telephone company;

C. One representative of a long distance telephone company;



- D. One representative of a cable television company;
- E. One representative of an internet service provider; and
- F. One representative of a primarily nonwire-based telecommunications carrier;

5. Three members of the Senate, at least one of whom represents the Joint Standing Committee on Taxation, appointed by the President of the Senate; and

6. Three members of the House of Representatives, at least one of whom represents the Joint Standing Committee on Taxation, appointed by the Speaker of the House; and be it further

**Sec. 3. Appointments; meetings. Resolved:** That all appointments must be made no later than 30 days following the effective date of this resolve. The Executive Director of the Legislative Council must be notified by all appointing authorities once the appointments have been made. Within 15 days after the appointment of all members has been completed, the Chair of the Legislative Council shall call and convene the first meeting of the task force. The members shall select a chair from among the members who are Legislators; and be it further

**Sec. 4. Duties. Resolved:** That the task force shall:

1. Identify and recommend methods to eliminate disparities within the present tax system among the various telecommunications industry subgroups including, but not limited to:

- A. Rural independent telephone service providers;
- B. Regional telephone companies;
- C. Cellular telephone service providers;
- D. Long distance telephone service providers;
- E. Cable television companies;
- F. Internet service providers; and
- G. Radio paging service providers;

2. Compare the telecommunications businesses with other industry sectors and, to the extent possible, with similar businesses in other states;

3. Evaluate strategies to ensure that the telecommunications tax system is easily administered and predictable and that it provides for revenue stability; and

4. Clearly define the tax base and appropriate taxing jurisdiction; and be it further

**Sec. 5. Staffing assistance. Resolved:** That the task force may request staffing assistance from the Department of Administrative and Financial Services, Bureau of Revenue Services and the Legislative Council; and be it further

**Sec. 6. Reimbursement. Resolved:** That the members of the task force who are Legislators are entitled to receive the legislative per diem as defined in the Maine Revised Statutes, Title 3, section 2 and to receive reimbursement for travel and other necessary expenses for attendance at meetings of the task force upon application to the Executive Director of the Legislative Council. Other members are not entitled to reimbursement of expenses; and be it further

**Sec. 7. Report. Resolved:** That the task force shall submit a report together with any necessary implementing legislation to the joint standing committee of the Legislature having jurisdiction over taxation matters, with a copy to the Executive Director of the Legislative Council, no later than January 15, 1999. If the task force requires an extension, it may apply to the Legislative Council, which may grant the extension; and be it further

**Sec. 8. Meetings. Resolved:** That the task force may meet up to 6 times; and be it further

**Sec. 9. Appropriation. Resolved:** That the following funds are appropriated from the General Fund to carry out the purposes of this resolve.

1998-99

## LEGISLATURE

### Task Force to Study Telecommunications Taxation

Personal Services	\$1,980
All Other	2,300

Provides funds for the per diem and expenses  
of legislative members and miscellaneous

costs of the Task Force to Study  
Telecommunications Taxation.

**LEGISLATURE**  
**TOTAL**

\$4,280

## APPENDIX B



**TASK FORCE TO STUDY TELECOMMUNICATIONS TAXATION**  
**(Resolve 1997, Chapter 121)**  
***Membership***

**Appointed by the Senate President**

Senator Richard J. Carey  
P.O. Box 474  
Belgrade, Maine 04917

Senator Beverly C. Daggett  
16 Pine Street  
Augusta, Maine 04330

Senator R. Leo Kieffer  
12 Harvest Road  
Caribou, Maine 04736

**Appointed by the Speaker of the House**

Representative Donald P. Berry, Sr.  
115 Searsmont Road  
Belmont, Maine 04952

Representative Thomas M. Davidson  
11 School Street  
P.O. Box 446  
Brunswick, Maine 04011

Representative Bonnie Green  
542 Ridge Road  
Monmouth, Maine 04259

**Appointed by the Governor**

Daniel B. Breton  
Bell Atlantic  
1 Davis Farm Road  
Portland, Maine 04103

Representing Regional Telephone Companies

Larry Sterrs  
Unitel  
25 Main Street  
Unity, Maine 04988

Representing Independent Telephone Companies

Nancy A. King  
208 Portland Road  
Gray, Maine 04039

Representing Independent Service Providers

## **Task Force to Study Telecommunications Taxation**

### **Appointed by the Governor (Continued)**

Anne J. Gregory  
29 Woodville Road  
Falmouth, Maine 04105

Representing Municipal Officials with  
Expertise in Telecommunications Property Tax

Bob Mayer  
Chief Information Officer  
Bureau of Information Services  
145 State House Station  
Augusta, Maine 04333-0145

Representing Department of Administrative and  
Financial Services

Alan Brigham  
59 State House Station  
33 Stone Street  
Augusta, Maine 04333-0059

Representing Department of Economic and  
Community Development

Pete McHugh  
118 Johnson Road  
Portland, Maine 04102

Representing Cable Companies  
(Time Warner Cable)

Kenneth M. Lefebvre  
60 Oakland Avenue  
Westbrook, Maine 04092

Representing Nonwire-based  
Telecommunications Services

Douglas Smith  
Eaton Peabody  
P.O. Box 460  
Dover-Foxcroft, Maine 04426

Representing Long Distance Carriers

**Staff:** Julie Jones, Office of Fiscal & Program Review  
(207) 287-1635

## APPENDIX C





# STATE TELECOMMUNICATIONS PROPERTY TAX

## TITLE 36 MRSA

### 36 § 457. State tax on telecommunications personal property

**1. Definitions.** As used in this section, unless the context otherwise indicates, the following terms have the following meanings.

A. "Telecommunications business" means a person engaged in the activity of providing interactive 2-way communication services for compensation.

B. "Telecommunications personal property" means personal property used for the transmission of any interactive 2-way communications, including voice, image, data and information. Transmission of communications includes the use of any medium such as wires, cables, community antenna television or other broad band cables, microwaves, radio waves, light waves or any combination of those or similar media. Telecommunications personal property includes qualifying property used to provide telegraph service. Telecommunications personal property does not include property used solely to provide value-added nonvoice services in which computer processing applications are used to act on the form, content, code and protocol of the information to be transmitted, unless those services are provided under tariff approved by the Public Utilities Commission. Telecommunications personal property does not include single or multiline standard telephone instruments. Notwithstanding section 551, telecommunications personal property includes any interest of a telecommunications business in poles.

**2. Tax imposed.** A state tax is imposed on telecommunications personal property at the rate of 27 mills times the just value of the property. Just value and ownership of the property must be determined as of the April 1st preceding the assessment.

**3. Repealed.**

**4. Assessment.** The State Tax Assessor shall assess a tax on telecommunications personal property owned or leased by a telecommunications business. Telecommunications personal property owned or leased by a person who is not a telecommunications business must be assessed a tax by the municipal assessor in the municipality in which the property is located on April 1st of the taxable year. The date of assessment of telecommunications personal property by municipalities must be consistent with other property subject to property taxation by the municipalities.

**5. Repealed.**

**5-A. Procedure.** The tax on telecommunications personal property of a telecommunications business must be assessed and paid in accordance with the following.

A. The State Tax Assessor shall make a gross tax assessment and a net tax assessment on May 15th of each year. The gross tax assessment equals the just value multiplied by the tax rate. The net tax assessment equals the gross assessment reduced by the amount of the prepayment of estimated tax made for that tax year.

B. For the 1991 tax year, a payment of 1/2 the gross tax assessment must be made no later than October 20, 1991. The remaining 1/2 of the gross tax assessment must be paid no later than May 30, 1992.

C. A prepayment of 1/2 the estimated tax for the subsequent tax year must be paid no later than June 1st of each year. For the purposes of this subsection, the estimated tax for the subsequent year is equal to the gross tax assessment for the current tax year.

D. For tax years subsequent to 1991, a payment must be made no later than June 1st of the year subsequent to the year in which the assessment is made equal to the amount by which the gross tax assessment exceeds the estimated tax paid for that tax year.

**6. Repealed.**

**7. Collection.** Taxes assessed by the State Tax Assessor must be enforced as generally provided by this Title. Taxes assessed by municipal assessors must be enforced as other locally assessed personal property taxes.

**8. Penalty.** Underpayment of the tax imposed by this section and the prepayment of estimated tax required by this section are subject to the penalties imposed by section 187.

**36 § 458. Continuation of exemption**

Telecommunications personal property subject to taxation under this chapter shall continue to be exempt from ordinary local property taxation as formerly provided under section 2696. It is the intent of the Legislature that this section not be considered a new property tax exemption requiring state reimbursement under the Constitution of Maine, Article IV, Part Third, Section 23.

## APPENDIX D



**Legislation to implement the recommendations of the Task Force to Study  
Telecommunications Taxation**

*(Reported pursuant to Resolves 1997, c. 121)*

**An Act to Implement the Recommendations of the Task Force to Study  
Telecommunications Taxation**

**Sec. 1. 30-A MRSA §5252, sub-§2** is amended to read:

**2. Captured assessed value.** "Captured assessed value" means the valuation amount by which the current assessed value of a tax increment financing district exceeds the original assessed value of the district. If the current assessed value is equal to or less than the original there is no captured assessed value. "Captured assessed value" does not include the value of telecommunications personal property which becomes subject to local property taxation as a result of the repeal of Title 36, section 458.

**Sec. 2. 36 MRSA §112, sub§10** is amended to read:

**10. Review of telecommunications taxation.** By January 1, 2001 and January 1, 2004, the assessor shall review the provisions of this Title relating to the taxation of telecommunications services including the taxation of electronic commerce. The review must include an analysis of the impact of structural and technological changes in the telecommunications industry and a review of federal and other national activities relating to the taxation of telecommunications service and electronic commerce. Before issuing a final report, the assessor shall solicit comments from the Maine Public Utilities Commission, the Maine Public Advocate, the Maine Science and Technology Foundation, the Department of Economic and Community Development, businesses providing and using telecommunications service and electronic commerce, organizations representing municipal officials and members of the public. The assessor shall submit a report to the joint standing committee of the Legislature having jurisdiction over taxation matters containing the results of the review required by this section, the assessor's recommendations regarding changes to the laws relating to the taxation of telecommunications service and electronic commerce and a summary of significant comments received by the assessor during the review.

**Sec. 3. 36 MRSA §§457, sub-§9 and 10** are enacted to read:

**9. Transition.** The tax imposed under this section is repealed for tax years based on the status of property after April 1, 2000. Pursuant to subsection 5-A, the payment of

taxes due on June 1, 2000 is equal to the total of the amount by which the 1999 gross tax assessment exceeds the estimated tax paid for that year and the payment of taxes due on June 1, 2001 is equal to the amount by which the 2000 gross tax assessment exceeds the estimated tax paid for that year

**10. Repeal.** This section is repealed July 1, 2001.

**Sec. 4. 36 MRSA §458** is amended as follows:

**36 § 458. Continuation of exemption**

Telecommunications personal property subject to taxation under this chapter shall continue to be exempt from ordinary local property taxation as formerly provided under section 2696. It is the intent of the Legislature that this section not be considered a new property tax exemption requiring state reimbursement under the Constitution of Maine, Article IV, Part Third, Section 23. This section is repealed July 1, 2000.

**Sec. 5. 36 MRSA §1752, sub-§1-H** is enacted to read:

**1-H. Communications service.** “Communications service” means:

A. The provision of 2-way interactive communications through the use of telecommunications equipment; or

B. The installation, maintenance or repair of telecommunications equipment.

**Sec. 6. 36 MRSA §1752, sub-§2-A** is amended to read:

**2-A. Directly.** "Directly," when used in relation to production of tangible personal property or the communications service, refers to those activities or operations which constitute an integral and essential part of production, as contrasted with and distinguished from those activities or operations which are simply incidental, convenient or remote to production.

**Sec. 7. 36 MRSA §1752, sub-§7-D** is enacted to read:

**7-D. Network elements.** “Network elements” means a facility or equipment used in the provision of a telecommunications service and includes features, functions, and capabilities that are provided by means of that facility or equipment including subscriber numbers, databases, signaling systems and information sufficient for billing and collection or used in the transmission, routing, or other provision of a telecommunications service.

**Sec. 8. 36 MRSA §1752, sub-§8-B** is enacted to read:

**8-B. Prepaid calling arrangement.** “Prepaid calling arrangement” means the right to purchase exclusively telecommunications services, that must be paid for in advance, that enables the origination of calls using an access number or authorization code. The sale or recharge of the service is considered a sale within the State if the transfer for consideration takes place at the vendor’s place of business in the State. If the sale or recharge of a prepaid calling arrangement does not take place at the vendor’s place of business, the sale or recharge is considered to take place at the customer’s shipping address, or if there is no item shipped, at the customer’s billing address or the location associated with the customer’s mobile telephone number. The sale of the service is considered to occur on the date of the transfer for consideration of such service.

**Sec. 9. 36 MRSA §1752, sub-§9-B** is amended to read:

**9-B. Production.** "Production" means an operation or integrated series of operations engaged in as a business or segment of a business that provides communication service or that transforms or converts personal property by physical, chemical or other means into a different form, composition or character from that in which it originally existed or .

"Production" includes manufacturing, processing, assembling and fabricating operations that meet the definitional requisites, including biological processes that are part of an integrated process of manufacturing organisms or microorganic materials through the application of biotechnology.

"Production" does not include biological processes except as otherwise provided by this subsection, wood harvesting operations, the severance of sand, gravel, oil, gas or other natural resources produced or severed from the soil or water, or activities such as cooking or preparing drinks, meals, food or food products by a retailer for retail sale. The foregoing are examples of activities that are not included within the term "production."

**Sec. 10. 36 MRSA §1752, sub§11, ¶B** is amended to read:

B. "Retail sale" does not include:

- (1) Any casual sale;
- (2) Any sale by a personal representative in the settlement of an estate, unless the sale is made through a retailer, or unless



the sale is made in the continuation or operation of a business;

(3) The sale, to a person engaged in the business of renting automobiles, of automobiles, integral parts of automobiles or accessories to automobiles, for rental or for use in an automobile rented on a short-term basis;

(4) The sale, to a person engaged in the business of renting video tapes and video equipment, of video tapes or video equipment for rental; ~~or~~

(5) The sale, to a person engaged in the business of renting or leasing automobiles, of automobiles for rental or lease for one year or more; or

(6) The sale, to a person engaged in the business of providing cable television services, of cable converter boxes for rental or lease.

**Sec. 11. 36 MRSA §1752, sub§17-A, ¶C** is amended to read:

C. ~~Telephone or telegraph service~~ telecommunications service;

**Sec. 12. 36 MRSA §1752, sub-§17-A, ¶¶G and H** are amended to read:

G. Rental of video tapes and video equipment; ~~and~~

H. Rental or lease of an automobile-; and

**Sec. 13. 36 MRSA §1752, sub-§17-A, ¶I** is enacted to read:

I. Prepaid calling arrangements.

**Sec. 14. 36 MRSA §1752, sub§§18-A and 18-B** are repealed.

**Sec. 15. 36 MRSA §1752, sub-§§18-C and 18-D** are enacted to read:

**18-C. Telecommunications equipment.** “Telecommunications equipment” means any 2-way interactive communications device, system or process for transmitting or receiving signals and capable of exchanging audio, video, data or textual information. “Telecommunications equipment” does not include computers, except those components of a computer used primarily and directly as a 2-way interactive communications device capable of exchanging audio, video, data or textual information.

**18-D. Telecommunications service.** “Telecommunications service” means all telecommunications service as follows:

**A. “Telecommunications service” includes:**

(1) The provision of 2-way interactive communications through the use of telecommunications equipment;

(2) The installation, maintenance or repair of telecommunications equipment.

**B. “Telecommunications service” does not include:**

(1) Service originating or terminating outside this State;

(2) Access services;

(3) Directory advertising services;

(4) The sale of unbundled network elements for use in the provision of telecommunications service;

(5) For leases entered into on or after October 1, 1996, “telecommunications service” does not include the lease of telecommunications equipment; or

(6) A prepaid calling arrangement.

**Sec. 16. 36 MRSA §1760, sub-§9-H is enacted to read**

**9-H. Residential telecommunications service.** Sales of up to the first \$16 per month per residential telecommunications account for local exchange service.

**Sec. 17. 36 MRSA §1760, sub-§32-A is enacted to read:**

**32-A. Machinery and equipment used to provide communications services.** Sales of machinery and equipment, including software integral to that equipment, for use by the purchaser directly and primarily in the provision of communications service for sale.

**Sec. 18. 36 MRSA §1811, 2d paragraph is amended to read:**

The tax imposed upon the sale and distribution of gas, water or electricity, or ~~telephone or telegraph service~~ telecommunications service, by any public utility, the rates for which sale and distribution are established by the Public Utilities Commission, shall be added to the rates so established. No tax shall be imposed upon the sale or use of electrical energy, or water stored for the purpose of generating electricity, when the sale is to or by a wholly owned subsidiary by or to its parent corporation, except for electrical energy or water purchased for resale to or by such wholly owned subsidiary.

### **Summary**

This bill contains the recommendations of the Task Force to Study Telecommunications Taxation established by Resolves 1997, chapter 121. The bill makes the following changes.

The bill clarifies the replaces the definitions of taxable “telephone and telegraph service in the sales tax law with a definition of “telecommunications service.” The new definition clarifies the meaning of the old definition, ensures that unbundled network elements sold to another provider of telecommunications services are not taxable and excludes prepaid calling arrangements from the definition of telecommunications service.

The bill excludes from sales tax the sale of cable television converter boxes to a provider of cable television services.

The bill provides that a prepaid calling arrangement is a taxable service under the sales tax law.

The bill requires the Bureau of Revenue services to monitor legal and technological developments in the field of telecommunications and report to the Legislature any need for change to the State’s tax laws.

The bill provides sales tax exemptions for machinery and equipment used directly and primarily to provide communications service and for the first \$16 monthly for each residential telephone account.

The bill repeals the state telecommunications personal property tax effective April 1, 2001 and returns that personal property to standard municipal property taxation

g:\ofpr\taxation\tclegis.doc