

## STUDY FINDS SALES TAXES ON EQUIPMENT SLOW BROADBAND DEPLOYMENT, REDUCE GROWTH AND EMPLOYMENT

A new study shows that state and local sales taxes on communications network equipment reduce investment in broadband networks, reduce economic growth, and lower employment. The study was conducted by Dr. Raul Katz of Columbia University, a leading authority on the role of taxation and government policy in the deployment of broadband infrastructure, for the Broadband Tax Institute.

Dr. Katz and his colleagues examined five years of communications network investment data for each state to explore the relationship between taxes and investment. The study analyzed the economic benefits to the country as a whole and to specific states from eliminating sales and use taxes on equipment purchased by companies to maintain and upgrade communications networks. Thirty-one states impose sales taxes on this equipment, resulting in a diversion of resources from the critical need to expand high speed broadband networks. This in turn slows network upgrades, lowering economic growth and employment.

Sales taxes on communications network equipment reduce the amount of funds that providers have available to invest in broadband networks. For example, California imposes a combined state and local sales tax rate as high as 8.75% on network equipment, which means that nearly one in ten dollars a communication company pays for broadband network equipment is diverted to state and local governments. This slows broadband deployment, especially in rural and underserved areas.

Among the key findings of the study:

- Broadband networks provide critical productivity benefits to many businesses, governments, and non-profit organizations that increasingly rely on these networks in their business processes. These benefits are widely dispersed across the economy, and tax policy changes that increase broadband investment would accrue primarily to users of broadband networks.
- Tax policies that slow broadband investment and network upgrades are working at cross purposes with numerous federal and state programs actively encouraging network investment. It makes no sense to provide subsidies and grants for broadband deployment while at the same time maintaining tax policies that provide disincentives to broadband network investment.
- Elimination of sales taxes on network investment in all 31 states that impose such taxes would result in \$6.8 billion in additional investment in the first three years. This increased investment would result in \$33 billion in new economic activity and the creation of 243,000 new jobs during the first three years after elimination of the taxes on network investment. Nationally, the unemployment rate would drop by one tenth of a percentage point.
- Increased broadband network investment resulting from a reduction or elimination of sales taxes would increase broadband penetration among households, with the greatest impact in states with lower rates of broadband penetration. This would allow more households and individuals to

connect to the information economy.

- The new economic activity generated by increased broadband network will generate substantial offsetting revenues for state and local governments as new employment and economic activity generates tax revenue.

Most economists and policymakers agree that sales taxes should be imposed only on final consumption, not on the goods and services that businesses use to produce the products and services they sell. For example, Texas exempts equipment used by manufacturers and farmers from the sales tax but provides no such exemption for communications services providers. As a result, sales taxes paid on communications equipment must be incorporated into the price of the service sold to consumers. This “pyramiding” – the imposition of a tax upon a tax – results in hidden taxes on consumers. In addition to increasing broadband deployment, the elimination of sales taxes on communications network equipment would eliminate tax pyramiding in Texas.

A copy of the full study and report is available at  
[http://www.broadbandtax.org/downloads/BTI\\_KatzStudy\\_October-2012.pdf](http://www.broadbandtax.org/downloads/BTI_KatzStudy_October-2012.pdf).

**About Raul Katz, Ph.D.** -- The lead author of the study, Dr. Raul Katz, is Adjunct Professor of Economics at Columbia Business School and Director of Business Strategy Research at the Columbia Institute for Tele-Information. Dr. Katz earned his Ph.D. from the Massachusetts Institute of Technology. Prior to joining the faculty at Columbia, Dr. Katz headed the telecommunications practice for the Americas at Booz Allen Hamilton. Among his recent reports are: "The Impact of Taxation on the Development of the Mobile Broadband Sector" (2010); "Economic Impact of Wireless Broadband in Rural America" (2011); and "Estimating the Economic Impact of the US Broadband Stimulus Plan" (2009).

**About the Broadband Tax Institute** -- The Broadband Tax Institute was established in 1986 to facilitate communication and cooperation among its members on tax issues and developments that affect the cable and telecommunications industry.