

House Committee on Commerce, Labor and Economic Development

Testimony in Support of HB 2255

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Chairman Kleeb, Vice Chairman Suellentrop and members of the Committee, thank you for the opportunity to provide testimony today. I am commenting in support of HB 2255 that would provide a refund of state sales tax paid on machinery and equipment used to provide telecommunications services to the citizens of Kansas. HB 2255 would implement a policy to incent expeditious investment in the infrastructure necessary to improve the communication services that are available to the citizens and businesses of Kansas.

This issue is familiar to many of you, as similar bills passed the House in 2009 and the full legislature in 2008. Unfortunately the 2008 proposal was amended into another bill that Governor Sebelius vetoed; however, in her veto message she specifically addressed the policy that would enhance telecommunication investment in Kansas and indicated support for that proposal being considered on its own merit in the future.

Verizon Commitment to Kansas:

Verizon has a proven commitment to our network in Kansas with investment exceeding \$500 million since 2000. Our coverage extends to every county in the state. However, there are many demands on our limited capital budget, and it must be allocated between expanding the capacity and coverage of existing sites, building out our 4G Long Term Evolution (LTE) network (which requires new infrastructure with fiber backhaul to every cell site), as well as building new cell sites.

How Tax Policy Affects Telecommunications Investment in Kansas:

Policy makers across the country understand the myriad ways wireless technology is enhancing our lives. However, many of the tax policies that apply to our industry are counterproductive to the common goal of incenting the investment necessary to provide

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affordable state-of-the-art communication services to more people. Despite our significant investment, Verizon does not have unlimited capital budgets and we are faced with complex decisions on where to spend our limited resources to get the requisite return on our investment. Sales tax burdens directly reduce the amount of capital available for investment in network infrastructure.

Kansas, along with most other states, allows a sales tax exemption for equipment used by manufacturers. This is generally accepted as the correct policy to avoid taxing the business inputs that are used to produce a product that is taxable upon consumption. This same rationale supports a sales tax exemption for equipment used by telecommunications companies to provide a service that is subject to tax upon consumption. The correct policy becomes even clearer considering the myriad direct and indirect benefits that flow through an economy from advanced telecommunications networks.

Twenty-two states (including DC) provide a sales tax exemption for equipment used to deliver telecommunication or broadband services; including the neighboring states of Missouri and Iowa. As technology continues to evolve in today's borderless economy, investment decisions are the result of the overall environment and are not limited to a specific geographic area.

Economic Impact:

A 2012 study by Dr. Raul Katz from Columbia University found that states would receive significant economic benefits from repealing the sales tax on communications network equipment that is used to provide high speed broadband networks. Specifically the study identified the following economic benefits flowing from exempting communications equipment:

- Increased network investment as each dollar invested pays for equipment, not taxes;
- Generation of new economic activity from better, faster networks;
- Creation of new private sector jobs, not only from construction and installation of network equipment but also in businesses that use the networks;

- Generation of new state and local taxes, offsetting a portion of the lost revenue from the sales tax repeal. In Kansas, for example, state and local option sales taxes may apply to telecommunications services; and
- Additional access to Broadband.

Many businesses now rely on fast broadband networks to improve productivity and profitability. Businesses, governments, and individual consumers all benefit from new investment in broadband networks. The benefits of additional communications network investment extend well beyond the direct impact of new equipment purchases and construction jobs in the communications industry. Consumers benefit as well; the study found that new investment would lead to additional broadband connections as faster service is expanded into new areas, spurring competition which drives down prices.

Summary:

Technology will continue to evolve, and even as we are in the process of building out our 4G network in Kansas and across the country, the next wave of communications technology is already being anticipated. Consumer demand will continue to require additional investment to support higher speeds, new applications, new devices and expanding support for agriculture, health, education and other e-commerce products and services. Implementing policies that will ensure the continuation of robust investment in that technology in Kansas is important to establishing the long term competitiveness of the state.

Thank you again for the opportunity to provide these comments in support of HB 2255.

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HB 2201

REFORM
TELECOM
REGULATION
&
REDUCTION
OF KUSF

LEGACY OF WIRELINE

HB 2255

INCREASE
BROADBAND
INVESTMENTS
BY
REDUCING
INVESTMENT
COSTS

Telecom Machinery &
Equipment Sales Tax
Refund in 2015

FUTURE OF BROADBAND

HB 2326

PREEMPT
REGULATION
OF VoIP
&
IP-ENABLED
SERVICES

FUTURE OF BROADBAND