

Senate Committee on Assessment and Taxation
Testimony in Support of HB 2255
Nancy Riedel, Director State Tax Policy-Verizon
March 19, 2013

Chairman Donovan 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 telecommunications machinery and equipment invested in Kansas. HB 2255 would implement a policy to incent expeditious investment in the infrastructure necessary to improve and expand telecommunications services for the citizens and businesses of Kansas.

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 affordable state-of-the-art communications services to more people, particularly those in rural and underserved areas. 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 we have 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.

Eighteen 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. This issue has been before the Kansas legislature previously, with similar bills progressing in 2008 and 2009. As technology continues to evolve in today's borderless economy, investment decisions are not limited to a specific geographic area and are made after consideration of the overall environment.

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 used in 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.

The benefits of additional communications network investment extend well beyond the direct impact of new equipment purchases and construction jobs in the communications industry. Businesses, governments, and individual consumers all benefit from new investment in broadband networks. Many businesses rely on fast broadband networks to improve productivity and profitability. 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 in Kansas that will ensure the continuation of robust investment in that technology is important to establish the long term competitiveness of the state and to allow local communities, no matter their size, to compete in the global economy.

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