

BRIEFINGS



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Legislature Should Provide a Meaningful Reduction in the State Communications Services Tax

The highest combined state and local sales tax rate in Florida is 7.5%. However, when Floridians purchase taxable communications services, such as cell phone service, they pay an average tax rate of more than 15%. Florida has one of the highest tax rates on communications services in the nation and that rate is much higher than the sales tax rate on other retail purchases in Florida.

According to legislative testimony, Florida has the third highest tax rate in the nation on wireless phone service and the seventh highest tax rate on landline phone services. These are the highest rates in the southeast and more than double those in neighboring states such as Georgia and Alabama.

These facts raise questions about the fairness of the tax rate, its effect on the competitiveness of Florida business and the attractiveness of Florida's economic climate.

There is considerable support among this Legislature and the Governor to reduce the Communications Services Tax this year. However, the tight budget year has led to reductions in the size of the proposed tax cut and is putting its adoption in question.

Comparison of Tax on Communications Services to Most Other Purchases

<i>State CST on communications services</i>	9.17%
<i>State sales tax on other retail purchases</i>	6.0%
<i>Average total state and local CST</i>	15.23%
<i>Maximum state and local sales tax rate</i>	7.5%

The Communications Services Tax (CST) is levied on the sales of communications services including telephone (landline and mobile), cable television and direct-to-home satellite television. Residential landline phone service is exempt, but all mobile phone service is taxable.

There are two components of the state CST. There is a 6.8% state CST rate and a 2.37% gross receipts tax –for a total state rate of 9.17%. There is also a local option CST that maybe levied

by cities or counties (on unincorporated areas). Currently, these local taxes range from 0.3% to 9.5%. The majority of local jurisdictions (60%) have rates between 5% and 6%. Satellite television, on which local taxes are federally prohibited, has a state CST rate of 10.8%.

For distribution purposes, the main state CST is treated like the sales tax, meaning that over 90% goes to state general revenue, with the rest going to local governments and other purposes. The gross receipts tax goes to fund school construction.

Proposed Tax Cut Being Scaled Back

Legislation was introduced this session to cut the Communication Services by 1.17%. Acknowledging the limited available revenue to balance the budget, the proposed tax cut has been reduced. The Florida House of Representatives has already passed a bill (HB 567) to decrease the CST by 0.25%, from 6.8% to 6.55% (satellite TV from 10.8% to 10.55%). This reduced the fiscal impact from \$185 million to \$42.7 million. This is the size of the tax reduction recommended by Governor Crist earlier this year.

In the Senate, SB 980 was amended in the Finance and Tax Committee earlier this week to reduce the tax cut only 0.1%. This reduces the impact to just over \$10 million.

The legislation only reduces the main state CST rate. It does not affect the gross receipts tax rate, so funding for school construction would not be affected. It also does not reduce local option taxes.

This tax cut would benefit a wide range of Floridians, virtually all individuals and businesses. And many taxpayers consume more than one type of communications service. All cell phone users, business phones and cable and satellite televisions users would get tax relief.

The 2007 Legislature is focusing on providing local tax relief through property tax reform. However, there is sentiment in both the Legislature and the Governor's Office to provide some state tax relief as well. There are several different proposals still in play this session and the competition for limited available dollars is high.

Lawmakers would be hard pressed to find a more justifiable way to provide broad-based state tax relief. There is no discernible public policy justification for what amounts to discriminatory taxes on Floridians' communications services. The average total tax rate paid on these services is more than the state and local sales tax rate that applies to most other retail purposes. The high tax rate relative to other states also raises economic development and competitiveness concerns.

Florida TaxWatch encourages the Legislature to find the money to pass a reduction in the state Communications Services Tax at least equal to the amount in the House bill (0.25%). We then encourage them to keep this issue alive so that truly meaningful relief can be provided in future years when the state budget outlook is more favorable. The tax rate on communications services should be more comparable to that levied on other most other purchases.

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Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 28-year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

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