

Overview of December 12th Meeting

RE: Communication Services

- Communication services
 - Voice – telephone
 - Video – cable and satellite
 - Data – Internet
- 'Old days'
 - Communication services used to be provided with distinct and separate technology.
 - Taxation of these services based upon the company that provided the service rather than the service itself.
 - NC
 - 7% State sales tax on the gross receipts derived from telecommunication services with a portion of the revenue allocated to local governments.
 - Local franchise tax of up to 5% on cable companies and a 7% State sales tax with a credit for any local franchise tax paid. Cable companies subject to local regulation.
 - 7% State sales tax on direct-to-home satellite service. Federal law prohibits local tax.
- Today
 - Experiencing both a technological and industry convergence
 - Consolidation of all communications onto a single network infrastructure ... Internet
 - Both telephone and cable providers have the necessary infrastructure to offer these services via Internet
 - Providers of single communications service in the past now able to package and offer a broader array of services
 - Purpose of the tax system is to provide revenue to meet the State's budgetary needs, not to give one industry a competitive advantage over another
 - However, while the industry has experienced a convergence, the tax system has not.
 - NC has made efforts to neutralize the tax differences:
 - 2001 – Tax satellite at 5%
 - 2005-276 – Tax satellite and cable at 7% with credit
 - 2005-276 – Equalize the sales tax treatment of equipment used by telecommunications companies and cable companies

- Goal of this Committee is equity of taxation between providers of cable service, satellite service, digital audio service, video programming service, and data service
 - Current law taxes by industry, not by service
 - Recognize the nature of tax and distribution of revenue between State and local governments
 - Establish the goal and role of local regulation
 - Recognize federal limitations
 - Several draft and introduced bills that would significantly change the Telecommunications Act of 1996
 - Telecoms enter video services without obtaining local or state franchises?
 - Existing local franchises?
 - Nationwide franchising?
 - "Build out" of services within a particular community? Economic redlining?
 - Public access?
 - Access to public rights-of-ways?
 - Wireless providers?
 - Continuing convergence and competition will lead to erosion of communications tax revenues under current law.