

Revenue Laws Committee, January 11, 2006

Testimony of Bruce D. Yancey, Director – State & Local Taxes,
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Mr. Chairman and Honorable Members of the Committee:

I am Bruce Yancey, Director of State and Local Taxes for BellSouth. BellSouth employs more than 6,000 people in North Carolina and is privileged to serve over 2 million customers in the State.

First of all, I would like to thank the honorable committee members for the leadership they have provided in achieving great strides towards fair, equitable tax policy on communications services. In the Southeast, North Carolina was one of the first states to adopt simplification and uniform taxation with the Telecommunications Simplification Act of 2001 which was sponsored by Representatives Hackney, Luebke and Wainwright and by Senators Kerr and Hoyle. With the passage of that Act all telecommunications services were taxed the same whether it was local exchange services or long distance services.

The Telecommunications Simplification Act of 2001 was landmark legislation taxing telecommunications more like any other general business. It is now time to expand this tax policy to recognize the convergence of our industry.

Since 2001, BellSouth has evolved to more of a broadband company rather than a telecommunications company. Broadband is one of the fastest growing sectors of our company. Due to competition from wireless, competitive local companies and Cable TV (VoIP), the demand for older technology is shrinking. The investment needed to continue our push into the broadband market will be fueled by enhanced utilization of the network. An exciting

area BellSouth is currently testing is the entrance into the Cable TV market. The Cable TV market has proven to be challenging economically. The level of investment needed with no guarantee of adequate return since we are the third entrant into a competitive market behind well established competitors as cable television and satellite television. Another challenge we are examining is the technology and the interaction of the technology with our extensive network. Everywhere you go, you do not have to look far to see some component of our network whether it is telephone lines or central offices. The larger the system, the more challenges there are in enhancing the system. However, that is what we do best. Lastly, there is the local franchise challenge. All of which are barriers of entry into the market.

Today, I come before you to discuss tax policy. Alan Ciamporcero from Verizon is our next speaker and he has much more experience in negotiating local franchises. For that reason, I will limit my comments to taxes.

I suspect our Cable competition will come before you and state they are OK with keeping the franchise structure as it is. This is very much understandable as they know the local franchises are a barrier of entry. What other valid business reason would Cable have to want to file thousands of tax returns with local jurisdictions other than to protect their market? We are all good citizens in this room and I doubt there is anyone of us that would like to file more tax returns and undergo more audits.

I also suspect local governments will also want to continue on with the current tax policy of filing local cable franchise tax returns. However, leaving the current franchise barriers in place will curtail investments in their communities, reduce the likelihood of competition, and keeps local cable rates high. We have an opportunity to keep local governments whole and still increase investments and retain jobs in this state.

This can all be accomplished by expanding the simplification effort undertaken in 2001 by:

1. Creating a single statewide cable franchise.
2. Take the last step in simplification.
 - a. Eliminate franchise fees and credits altogether;
 - b. Continue imposing sales tax on voice and Cable TV services at 7%; and
 - c. Distribute a share of the Cable TV sales tax revenue to local governments.

The Revenue Laws Committee doesn't have to look far to find the most efficient tax policy. You only have to expand your existing sales tax/franchise fee funding statutes provided for in telecommunications to include Cable TV services. As such, the following goals will be accomplished:

1. Local governments will be kept whole.
2. Taxes will be collected in the most efficient manner.
3. You will create an incentive to spur investments and employment opportunities in the state.
4. You will promote competition in the cable industry to give the consumers of the state more choices and lower rates.

Mr. Chairman and honorable members of the committee, thank you for the opportunity to speak before you and I welcome any questions you may have.