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Implications of Federal Tax Reform on State and Local Taxes

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As proposed, HR1 dramatically impacts the effectiveness of State incentives

-Certain contributions to capital are taxed as income, including incentives that state and local governments provide businesses in certain circumstances

-For example, this dramatically diminishes the value of rural broadband grants

-States could address the adverse impacts by focusing on how sales/use and property taxes function to make sure they dovetail with the state's important policy objectives i.e.

BROADBAND DEPLOYMENT

Telecom Equipment Sales Tax Exemption

Currently, about 47 states provide a sales tax exemption for manufacturing equipment, whereas only about 23 states provide the same exemption for telecommunications/broadband equipment

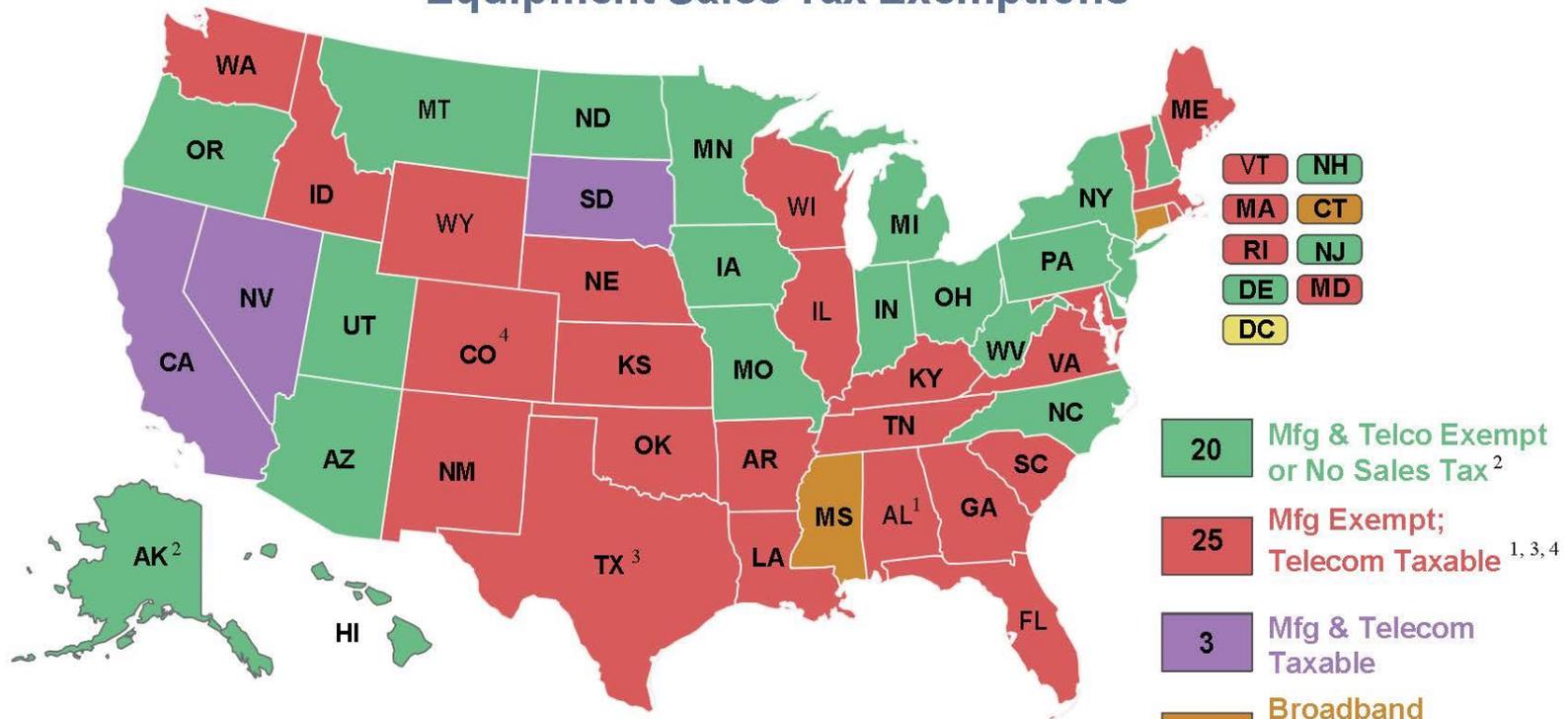
NCSL adopted a resolution in 2015 which stated they support the policy goal of encouraging deployment of high speed communications networks across all States, including rural and underserved areas;

NCSL recommended that states who wish to encourage broadband deployment consider exempting communications network equipment from the sales and use tax.

Both the manufacturing industry and the communications industry = CAPITAL INTENSIVE

Equipment Sales Tax Exemption

Telecommunications/Manufacturing Equipment Sales Tax Exemptions



- ¹ Alabama - special reduced 1.5% rate
- ² Alaska - local sales taxes may apply
- ³ Texas - rebate of taxes paid capped at \$50 million
- ⁴ Colorado - rebate of taxes paid capped at \$1 million

Property Tax Discrimination Issues

In 2015, the NCSL Task Force on State and Local Taxation issued a document entitled “Property Taxation on Communications Providers: A Primer for State Legislatures”

The report discussed how state and local property tax policies subject property of communications providers to discriminatory treatment as compared to other competitive businesses

This resolution has been revised/updated and will be presented to you for approval at this meeting.

As presented, the paper provides examples of how states have addressed the discrimination issues

Recap

Federal income tax reform could adversely impact important state policy objectives

Most states are focused on increasing broadband penetration throughout their state so the state can:

- (a) create additional jobs and have increased economic growth
- (b) ensure their citizens and businesses have access to the most technologically advanced services
- (c) improve the rural quality of life and economy through things like distance learning, telemedicine, etc.
- (d) increase state and local tax revenues for the future, through the increased size of their economy

Now might be a good time to consider addressing some of the long-standing sales/use and property tax discrimination issues affecting the communications industry AND, in the process, enable further broadband deployment