

NCSL Task Force on State and Local Taxation

SALES TAX EXEMPTION FOR COMMUNICATIONS NETWORK EQUIPMENT

POLICY RECOMMENDATION

UPDATED AUGUST 2023

The National Conference of State Legislatures supports the policy goal of encouraging deployment of high-speed communications networks across all states, including rural and underserved areas.

American consumers increasingly rely on high-speed communications networks in their everyday lives for work, entertainment, emergency communications, and other purposes. Communications networks have become an integral part of the business process for millions of American businesses in sectors as diverse as agriculture, health care, manufacturing, retail, transportation and many others. Communications networks, both wired or wireless, have become integral to the delivery of government services and have the potential to allow for more efficient and cost-effective delivery of government services.

The United States' leadership in wired and wireless broadband deployment has allowed American businesses to lead the way in the global marketplace in areas such as applications development, cloud-based services and the utilization of software in the communications networks. The rapid adoption of new communications technologies by American businesses and consumers requires the investment of tens of billions of dollars to keep pace with the exponential growth in demand for network capacity. State economic growth and competitiveness depends on deploying modern, efficient communications networks.

In November 2021, the Infrastructure Investment and Jobs act became law, providing \$65 billion for expanding broadband access to unserved and underserved areas. The goal is to achieve digital equity so everyone in America has access to reliable and affordable high-speed internet.

A 2019 study by Ernst & Young confirmed what many prior economic studies have concluded—that the taxation of business inputs results in tax pyramiding, economic distortions and a lack of transparency in the tax system. Additionally, a study by Dr. Raul Katz at Columbia University found that (1) sales taxes on communications network investment reduce economic growth by increasing the cost of investment and slowing communications network investment, and (2) that the elimination of sales taxes on communications network investment in the states that impose such taxes could increase economic growth by \$16.65 billion and lead to the creation of 70,330 new jobs within two years.

The National Conference of State Legislatures' Task Force on State and Local Taxation released model language in 2015 and supports and recommends that state policymakers consider passing legislation to encourage broadband deployment consider exempting communications network equipment from the sales and use tax.