

**Testimony Before the**  
**COMMITTEE ON LEGISLATION**  
**SPECIAL SESSION ON PROPERTY TAXES**

**Regarding:**

**Telecommunications Provisions of SB 854**

**Presented by:**

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Good Morning Chairman Wenger and members of the Committee. Thank you very much for the opportunity to appear before you today to discuss provisions of Senate Bill 854 that could significantly raise the rates that Pennsylvania's consumers pay for telecommunications services. My name is Rik Hull and I am an attorney with the law firm of Hawke, McKeon, Sniscak and Kennard. For the past 3 years I have served as Counsel to the Pennsylvania Telephone Association, the trade association representing Pennsylvania's 37 local telephone companies. These companies serve nearly 5 million access lines in the Commonwealth, employ approximately 20,000 individuals and, of particular interest to this committee, are significant contributors to the tax revenues of the Commonwealth. In fact, Pennsylvania's local telephone companies are one of the state's largest taxpayers.

In 2004, the Pennsylvania General Assembly passed and Governor Rendell signed into law HB 30, Pennsylvania's alternative regulation of telecommunications statute, commonly referred to as Chapter 30. During the more than two-year debate on that legislation, the General Assembly, Governor Rendell, the Pennsylvania Consumer Advocate and many other parties made it abundantly clear that they wanted to protect Pennsylvania consumers by minimizing any potential increases on the rates paid for basic local telephone service. The provisions of HB 30, now Act 183 of 2004, effectively accomplished this goal. However, we sit here today a little more than one-year after HB 30 was signed into law and we are faced with a situation where Pennsylvania's consumers could potentially be subjected to a 6% increase in the rates they pay for their local telephone service.

I am referring to the provisions of SB 854 that if not addressed by the legislature, may have the effect of extending the Pennsylvania State Sales Tax to basic local residential telephone service. Historically, the General Assembly has recognized the importance of local telephone service to Pennsylvania consumers and has exempted this service from the state sales tax. However, as written, the provisions of SB 854 would potentially eliminate this exemption and expose millions of Pennsylvanians to a significant increase in the price that they pay for this essential public utility service.

I use the phrase “potentially eliminate” here because there is some confusion as to the way the provisions of the legislation are drafted relative to this service. Specifically, the term Basic Local Telephone Service has been stripped from the definition of “Tangible Personal Property.” And, while the explicit exclusion from the tax for this service remains in Section 1204 of the legislation, it can be argued that this exclusion is rendered moot by virtue of the fact that the Tangible Personal Property definition no longer includes the term Basic Local Telephone Service.

In fact, the Department of Revenue is using this very rationale to include basic local telephone service as a taxable item in their analysis of the revenue impacts of SB 854. In the breakdown of revenue gains and losses that he submitted to this Committee two weeks ago, Revenue Secretary Fajt estimated that the extension of the sales tax to basic local residential service and pay phone service will generate nearly \$417 million in new revenues between now and the end of Fiscal Year 2009-2010. This is a significant economic burden to place on the backs of Pennsylvania’s consumers.

It is important to note that basic local residential telephone service is the only essential public utility service to be taxed under the provisions of SB 854. The exclusions from

the tax for natural gas, propane and electricity are not only retained in SB 854, but are expanded to apply to business consumers as well as residential consumers.

If enacted into law, SB 854 would extend this tax to an overwhelming majority of Pennsylvania's residents, since recent Federal Communications Commission (FCC) figures indicate that 95 percent of eligible Pennsylvania consumers subscribe to basic local telephone service. This includes the nearly 150,000 low-income consumers in Pennsylvania who currently receive a Lifeline subsidy to help them afford basic local phone service.

Chairman Wenger and members of the Committee, the legislature has always viewed affordable access to telecommunications services, including basic local telephone service, as a critical priority. This fact takes on even greater importance as telecommunications services rapidly transform the way we conduct business and go about our every day activities. It is the wrong move to extend the sales tax to local telephone service and I encourage you to take the necessary steps to ensure that the historical exemption for this critical service is preserved in SB 854.

Thank you for your attention and I welcome any questions from the Committee.