Andrew Kleine

FROM	
NAME & TITLE	Andrew Kleine, Chief
AGENCY NAME & ADDRESS	Bureau of Budget and Management Research Department of Finance
SUBJECT	City Council Bill No.10-0473 Telecommunications Tax

CITY of BALTIMORE

MEMO

CITY OF BALTIMORE 1797

DATE: April 19, 2010

TO

Honorable President and
Members of the City Council
C/O Karen Randle
Room 409, City Hall

This bill proposes that the telecommunications tax be increased from $3.50 per line per month to $4.00 and that Centrex rates be increased from $0.35 to $0.40

Analysis

The City imposes an excise tax on the transmission of telecommunications originating within the City limits. It is paid by residents, businesses and nonprofit organizations. Between 1994 and 2004 the City imposed a 12% gross sales tax on all land lines. In 2005 the City adjusted the tax to a flat rate per line charge of $3.50 per line per month and $0.35 per Centrex line. The change in 2005 expanded the tax to cover wireless phones and also removed the nonprofit exemption in the tax code.

Because this is a broad based tax, it produces significant revenues at low tax rates. The City estimates that there are 2.85 phone lines per household in the City and that the new rates would result in a $1.40 increase in telecommunications taxes per household per month.

Collections and administrative processes are currently in place so no new resources are needed to collect this tax. Collection rates are high in that phones service is terminated if the bill and associated tax is not paid in a timely manner.

Because this tax is paid by residents, businesses and nonprofits, the increase in tax burden is broadly shared. Finally, prices on telecommunications have seen a significant drop in the last several years, particularly long distance rates.

Fiscal Impact

The Fiscal 2010 budget for the telecommunications tax is $29.1 million. By increasing the telecommunications tax rates, the City projects $3.7 million in additional revenues.

Recommendation

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The Finance Department urges the passage of this rate increase as the additional revenue is needed to fill critical budget gaps for Fiscal 2011. This proposal is part of a $50 million revenue package that shares the burden of new taxes and fees among residents, non-

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residents, businesses and nonprofit organizations. The new revenue will contribute to a comprehensive plan for closing the City's $121 million budget gap. The plan closes 60% of the gap with spending reductions and 40% with revenue enhancements.

CC: Edward J. Gallagher
Angela Gibson