

Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2390 - Central Office Equipment Sales & Use Exemption (LSB 6642 SV)
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Fiscal Note Version - New
Requested by Senator Jeff Danielson

Description

Senate File 2390 provides a State and local option sales and use tax exemption for specified telecommunications central office and transmission equipment. The exemption applies to equipment purchased or rented, starting July 1, 2012, by local exchange carriers, competitive local exchange service providers, franchised cable television operators, mutual companies, cooperatives, municipal utilities not subject to regulation, long distance companies, and commercial mobile radio services.

The Bill provides for a phased-in refund of sales taxes paid on telecommunications equipment, beginning July 1, 2006. The refunds are provided in sevenths, with one-seventh of the tax paid in FY 2007 refunded that year and six-sevenths refunded in FY 2012. Local option sales taxes are not refunded during the phase-in period.

Assumptions

- Investment in central office and transmission equipment by the Iowa telecommunication industry will equal \$320.0 million in FY 2006 and will grow 8.4% per year for the next five fiscal years and 4.0% per year after that.
- Approximately 49.0% of the investment will be subject to sales and use tax under current law.
- The State sales and use tax rate is 5.0%. By FY 2013, the average local option rate will be 1.3%.

Fiscal Impact

The sales and use tax exemption created in SF 2390 will reduce net General Fund revenue by the following estimated amounts:

- FY 2007 = \$1.2 million
- FY 2008 = \$2.6 million
- FY 2009 = \$4.3 million
- FY 2010 = \$6.2 million
- FY 2011 = \$8.4 million
- FY 2012 = \$10.5 million
- FY 2013 = \$12.7 million

The Bill will also reduce local option sales tax revenue by an estimated \$3.3 million per year, beginning in FY 2013.

Sources

Department of Revenue
Property Tax Records
Telecommunications Industry Association (TIA Online.org)

Dennis C Prouty

March 27, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
