



Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Presented by the Iowa Department of Revenue

December 18, 2015

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

- **2013 Senate File 295**
- **The Study Committee:** To study the current system of assessing telecommunication company property and levying property tax against companies that provide telecommunications services in Iowa and make recommendations for change.
- **The Department:** By August 1, 2015, prepare and file a report that makes recommendations for:
 - Changes to the current assessment and levying system;
 - Establishing methods to provide *equivalent property tax treatment* for all companies providing telecommunication services in Iowa; and
 - Proposed legislation to implement the recommendations.
- **Companies:** Submit information determined to be necessary to facilitate the creation of the report.

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Background

- 219 companies

Type of Company/Service	How Assessed	What Assessed	Iowa Code §	Rules Chapter	Relevant Iowa Case Law
Competitive Long Distance Carriers	Centrally; unit value of company	Outside plant; pre-1996 personal property & equipment; leasehold improvement property; land & buildings; materials & supplies; CWIP.	433	701-77	Qwest Corporation vs. Iowa State Board of Tax Review Opinion released April 12, 2013 http://bit.ly/1NsFaiQ
Municipals	Centrally; unit value of company	Outside plant; all personal property & equipment; leasehold improvement property; land & buildings; materials & supplies; CWIP.	433	701-77	
Wireless/mobile	Locally	Land, buildings & improvements	441	701-77	
VoIP	Locally and centrally	<ul style="list-style-type: none"> • Non-telephone property assessed locally; • All operating property association with telephone service assessed centrally. 	433	701-71; 701-77	Courtney M. Kay-Decker, Director, Iowa Department of Revenue vs. Iowa State Board of Tax Review and Cable One Opinion released December 19, 2014 http://bit.ly/1lwUEW
Nomadic VoIP	No property	NA	NA	NA	
Local Exchange Carriers (LECs)	Centrally	Outside plant; all personal property & equipment; leasehold improvement property; land & buildings; materials & supplies; CWIP.	433	701-77	

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Neighboring States

Illinois:

- 35 ILCS 635/15 – ***State telecommunications infrastructure maintenance fees***
 - A State infrastructure maintenance fee imposed upon telecommunications retailers as a replacement for personal property tax.
 - 0.5% of all gross charges charged by the telecommunications retailer to service addresses in the State for telecommunications, other than wireless telecommunications, originating or received in this State.

Minnesota:

- Ad valorem tax on land and buildings only.

Nebraska:

- Operating property is centrally assessed; non-operating property is locally assessed.

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Neighboring States – cont.

South Dakota:

- 3 separate categories: Local Exchange Companies, Long Distance Companies, & Wireless Companies
 - Local Exchange Telephone Companies -- gross receipts tax.
 - Long Distance Companies – centrally assessed but at the same rates and at the same time as locally assessed property.
 - Wireless Companies -- 4% gross receipts tax on revenue from the sale at retail of intrastate and interstate telecommunications services to customers with a primary place of use in SD.
- Real and personal property used or intended for use in furnishing and providing telecommunication services is exempt from real and personal property tax.

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Neighboring States – cont.

Wisconsin:

- State levy on real and tangible personal property used in providing telecommunications.
- Designed to approximate the local property tax that would be levied on telephone property if telephone property were subject to local property tax.
- Centrally assessed and taxed at the prior year's net property tax rate of each taxing district.

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Legislative Activity

- 2010 - 2012
- 2013 Iowa Acts Senate File 295 -- tiered exemption from the taxable value:

Total Assessed Value	\$0 - 20M Assessed Value	\$20M - \$55M Assessed Value	\$55 - \$500M Assessed Value	>\$500M Assessed Value
2013 Exemption %	20.00%	17.50%	12.50%	10.00%
2014 Forward Exemption %	40.00%	35.00%	25.00%	20.00%

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Legislative Activity: 2013 SF 295 --cont.

2013:

- Collective 11.89% reduction in value
- Estimated \$6.85 million collective tax reduction

2014:

- Additional collective 17.26% reduction in value
- Estimated \$8.75 million collective tax reduction

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Legislative Activity: 2013 SF 295 --cont.

2015:

- Additional collective 9.41% reduction in value
- Estimated \$3.94 million collective tax reduction

**Cumulative total: \$19.54 million in taxes
exempted for all 219 Iowa Telcos.**

*Assumes a 3.5% effective tax rate.

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Legislative Activity

- 2014 – Connect Every Iowan
- 2015 – Governor’s Broadband Initiative
 - “Targeted Service Areas”
 - 10-year property tax exemption on value added by broadband infrastructure
 - OCIO certification
 - Application to County or to IDR

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Relevant Case Law

Qwest -- 2012

- Constitutional equal protection issue
- Iowa Supreme Court found there was a rational basis

Cable One – 2014

- Are they a “telephone company?”
- Statutes can encompass technologies not in existence at the time of enactment
- A cable or wire is a telephone line

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Relevant Case Law: Cable One -- cont.

Cable One and the district court reason that chapter 433 can only apply to telephone services operated over *traditional* telephone lines.⁸ We do not find such a limitation in the statute. Chapter 433 applies to “[e]very . . . telephone company operating a line in this state” and defines “company” as “any . . . corporation . . . that owns or operates, or is engaged in operating, any . . . telephone line.” Iowa Code §§ 433.1, .12 (2007). The foregoing cases support the view that the definition of “telephone line” adapts with changing technology, so long as there is a line and a comparable service is being provided. Cable One operates a transmission system to carry voice signals from one fixed location to another over a series of wires; therefore, it operates a telephone line within the meaning of chapter 433.

Study Committee Report on the Property Tax Treatment of Telecommunication Companies

Industry Comments

- The telecommunications industry has changed dramatically in recent decades.
- Property taxes continue to be a significant ongoing expense for telecommunications companies that play a major role in investment decisions.
- Iowa's telecommunication company property taxes are inequitably distributed because unlike for other businesses, Iowa picks up the value of personal property of telecommunications companies as part of its valuation process.
- The State of Iowa should continue to look for ways to modernize current property tax assessment mechanisms to account for the "communications convergence" that has shifted the competitive landscape for telecommunication companies.

Study Committee Report on the Property Tax Treatment of Telecommunication Companies



Questions and Discussion