

# FINAL BILL REPORT

## HB 2601

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Synopsis as Enacted

**Brief Description:** Implementing the cellular communications tax study recommendations regarding 911 emergency communication system funding.

By Representatives Finkbeiner, Brumsickle, Bray, Wang and Scott.

House Committee on Revenue  
Senate Committee on Energy & Utilities

**Background:** Cellular telephones are mobile or portable devices that are part of what the Federal Communications Commission calls "Domestic Public Cellular Radio Telecommunications Service." Cellular telephone systems divide service areas into relatively small "cells," using multiple transmitter/receiver locations ("cell sites"). These cell sites are connected with each other and the ordinary telephone network in a way that allows a cellular telephone user to move from one cell to another while maintaining a telephone connection.

Cellular telephone systems are subject to property tax in the same manner as any other property. Cellular telephone devices and equipment are subject to sales and use taxation in the same manner as other tangible personal property.

Cellular telephone services (represented by monthly and per-call charges) are included in the definition of "telephone services" that are subject to sales and use taxes. Because telephone services are taxable as retail sales, cellular companies pay state B&O taxes on gross receipts at the retailing rate (0.471 percent). There is no state utility tax on telephone services. However, cities impose utility taxes on utility services, including "network telephone services," which includes cellular telephone service. City utility rates may not exceed 6.0 percent for telephone, electrical energy, natural gas, and steam energy services after 1992 unless the voters approve a higher rate. The rate on water, sewer, garbage, and cable television services is not limited.

Counties may impose a tax of 50 cents on each telephone line to fund emergency telephone (911) systems. The state also imposes a tax of 20 cents on each telephone line. After

December 31, 1998, the state rate will be 10 cents per line. Cellular telephones are not subject to these taxes because they do not use switched telephone lines.

In 1992, the Legislature directed the Department of Revenue to study and define cellular communications, and recommend to the Legislature how cellular communications should be taxed. The department submitted an interim report in December 1992, and a final report in December 1993. The report included several recommendations regarding property taxes, city utility taxes, and 911 taxes.

**Summary:** The legislative authority of a county may also impose an excise tax on the use of telephone numbers assigned to cellular telephones. The tax may not exceed 25 cents per month. Like the 911 tax on switched telephone lines, the revenue from the new tax may be used only for emergency services communications systems.

The Department of Revenue is directed to conduct a study of the 911 excise tax. The study will address but not be limited to questions of who pays the tax, projected revenues, projected expenditures, funding of 911 systems in other states, appropriate base and tax rate, and fiscal impacts of changing the tax structure.

To perform this study, the Department of Revenue is to form an advisory study committee with balanced representation from county government, wireline and wireless telecommunications companies, large and small businesses that use wireline and wireless telecommunications services, the Department of Community, Trade, and Economic Development, and county 911 coordinators. The committee will also include two members from the House of Representatives, and two members from the Senate.

The Department of Revenue is to present a final report of the findings of the study to the committees of the Legislature that deal with revenue matters by July 1, 1995. Revenue from the state 911 tax may be appropriated to pay the costs of the study.

Cellular telephone companies must provide a system of automatic number identification so that 911 operators may identify the number of a caller.

**Votes on Final Passage:**

House	79	17	
Senate	42	1	(Senate amended)
Senate	40	1	(Senate receded)

**Effective:** March 23, 1994  
January 1, 1995 (Section 5)