

MFP #1
May 18, 2010

Worksession

MEMORANDUM

May 14, 2010

TO: Management and Fiscal Policy Committee

FROM: Michael Faden, Senior Legislative Attorney
Amanda Mihill, Legislative Analyst *A. Mihill*

SUBJECT: **Worksession:** Resolution to amend rates of Telephone Tax

A resolution to change the rates of the telephone tax, sponsored by the Council President at the request of the County Executive, was introduced on April 27, 2010. A public hearing on the resolution is scheduled for May 18 before the Committee worksession.

This resolution would increase the rate for wireless telephone lines to \$3.00 per month per line. The Executive estimates that this increase would produce \$11.853 million more revenue in FY11.

History of the Telephone Tax

The County first imposed a telephone tax in 1971. This preceded the breakup of AT&T. At the time, phone charges in the County were based on message units and "base unit" telephones. From 1971 to 1984, the tax was assessed as a percentage of message units sold to a customer plus a set amount per "base unit." When AT&T broke up, the local billing method changed and made the County's method of assessing the telephone tax obsolete. Nevertheless, from 1984 to 1989, the local exchange provider continued to pay the County an amount of tax equal to the amount it had been paying under the old local billing method.

In 1988, the Council passed legislation changing the telephone tax assessment to a per-line rate calculated to produce the same amount of revenue that the County had collected under the old assessment method. The law took effect in early 1989 and set the rate at \$0.62 a month for each non-Centrex line and \$0.062 a month for each Centrex line. The law ratified the tax collections that the County had received from the local exchange carrier between 1984 and 1989 by making the law retroactive to 1984.

In 1991, the Council adopted Resolution 12-193 to approximately double the telephone tax from \$0.62 to \$1.25 a month on each residence, business, or PBX local exchange access line or trunk line, and from \$0.062 to \$0.125 a month on each Centrex local exchange access line or trunk line. The resolution provided that the rates would return to \$0.62 and \$0.062, respectively, on July 1, 1995. Before the automatic reduction took effect, the Council adopted Resolution 13-161 and set the rates at \$0.925 and \$0.092, respectively.

In 1996, the Council amended the law to apply the tax to wireless telephone service, which did not exist when the Council first imposed the telephone tax. The law set the tax on wireless service at the same rate as the tax on most wired telephone service, \$0.925 a month per line, and continued the Council's authority to change rates by resolution.

In 1999, the Council set the rate for wireless service at zero, although the statutory authority for taxing wireless service remained unchanged.

In 2003, the Council adopted Resolution 15-173 to increase the rate to \$2.00 a month on each residence, business, or PBX local exchange access line or trunk line and each wireless telephone line, and \$0.20 a month on each Centrex local exchange access line or trunk line.

Preliminary Committee Discussion

Should the wireless telephone tax rate be raised? Should the landline rate be raised?

At its worksession on May 6, the Committee discussed whether members wanted to raise the tax rate for landlines. Staff in the Department of Finance estimated that if the landline rate was increased to \$3.00 per month per line, which is the same increase the Executive has proposed for wireless lines, the County would receive approximately \$3.37 million in additional revenue in FY11. The Committee tentatively recommended adopting the resolution as proposed by the Executive.

This packet contains:

Resolution

Transmittal memorandum

Circle

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Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: Council President at the Request of the County Executive

SUBJECT: Telephone Tax - Rates

Background

1. Section 52-15 of the County Code levies a tax on every person who owns a telephone line for the reception, transmission, or communication of messages by telephone, or who leases, licenses, or sells telephonic communication in the County.
2. Section 52-15 provides that the Council must set by resolution the monthly tax rate for each type of telephone line listed in Section 52-15(a)(1), after holding a public hearing advertised as required by Section 52-17(c). The Council held a public hearing on this resolution on _____.
3. Resolution 15-173, approved by the Council on May 14, 2003, sets the current telephone tax rates.

Action

The County Council for Montgomery County, Maryland amends Resolution 15-173 as follows:

Effective July 1, [2003] 2010, the rates of the telephone tax levied under Section 52-15 of the Code are:

- (1) \$2.00 a month on each residence, business, or PBX local exchange access line or trunk line (except lines furnished to telephone lifeline services customers);
- (2) [~~\$2.00~~] \$3.00 a month on each wireless telephone line; and
- (3) \$0.20 a month on each Centrex local exchange access line or trunk line.

This is a correct copy of Council action.

APPROVED AS TO FORM AND LEGALITY:
OFFICE OF COUNTY ATTORNEY
BY Maria Herrera
DATE 4/25/10

(1)



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 26, 2010

TO: Nancy Floreen, President
Montgomery County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Telephone Tax – Rate Increase

I am forwarding to the Council with this memorandum a proposed resolution to increase the wireless telephone tax. I am making this difficult recommendation because of the recently projected severe decline in income tax revenues for FY11.

The current rate for wireless telephone customers is \$2/line per month. I am recommending that the Council increase this rate to \$3/line per month to raise an additional \$11.853 million in FY11. I recommend that land-line rates remain the same. This increase in revenue is necessary in order to balance the FY11 budget.

IL:tjs