

MINNESOTA • REVENUE

TELECOMMUNICATIONS FEE Fee on Prepaid Wireless Service

May 9, 2011

Preliminary Analysis

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 441 (Loon) First Engrossment, **Revised Estimates**

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)			
Emergency Telecommunications Service				
Fee Account	\$3,500	\$8,900	\$9,500	\$10,100
Telecommunications Access Minnesota				
Fund	<u>\$440</u>	<u>\$1,100</u>	<u>\$1,200</u>	<u>\$1,300</u>
Total – All Funds*	\$3,940	\$10,000	\$10,700	\$11,400

* This total does not include the losses from exempting prepaid wireless telecommunications services from the current emergency telecommunications service fee and telephone access Minnesota fee.

Effective January 1, 2012.

EXPLANATION OF THE BILL

Current Law: The emergency telecommunications service fee (E911) and the telephone access Minnesota fee (TAM) apply to all telephone lines in Minnesota. The E911 fee is currently 80¢ per line per month and the telephone access Minnesota fee is currently 10¢ per line per month. These fees are administered by the Department of Public Safety.

Proposed Law: The bill would exempt prepaid wireless telecommunications services (PWTS) from the E911 fee. The TAM fee is administered in the same manner as the E911 fee. PWTS would be exempted from the TAM fee by this bill. PWTS would be subject to one fee that has two parts. The total fee consists of an 80¢ fee per transaction that would go to the E911 fund and a 10¢ fee per transaction that would go to the TAM fund. This fee would be collected at the retail level. The parts of this fee would be adjusted to match changes in the E911 fee and the TAM fee. The Department of Revenue would administer this new transaction fee and it would be remitted with the sales tax.

REVENUE ANALYSIS DETAIL

- The Department of Public Safety provided data on subscriber counts and historical and projected E911 fees and rates.
- **The revised estimates** assume that the E911 fee would remain at 80¢ and the TAM fee would remain at 10¢ for the duration of this estimate.
- In fiscal year 2010 Minnesota had approximately 4.3 million wireless subscribers.

REVENUE ANALYSIS DETAIL (Cont.)

- The International Association for the Wireless Telecommunications Industry reports that in December of 2009 prepaid wireless services accounted for 20.3% of the wireless subscriptions. The percentage of prepaid subscribers is assumed to be constant for this analysis.
- Between FY 2007 and FY 2010 wireless subscriptions in Minnesota grew at an average rate of 6.3% per year.
- This analysis assumes that on average prepaid subscribers make 11.6 transactions per year based on industry data.
- Fee collections are reduced by 3% to account for PWTS retailers who have no physical presence in the state.
- The retailer can deduct and retain 3% of the fee and the Department of Revenue may not deduct and retain more than 2% of the collected fees to reimburse the Department for administration costs.
- The revenue impact for fiscal year 2012 is reduced to reflect five months of collections.
- This analysis does not include the losses to the E911 fund and the TAM fund from exempting PWTS from the current fee structure.

Number of Taxpayers: Approximately 1,000,000 prepaid wireless subscribers.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy