

February 2009

## Summary:

Nebraska is considered to have one of the highest tax and fee burdens in the nation at more than 22 percent.

Nebraskans pay almost twice as much in tax and fees as residents of Iowa.

As it stands, Nebraska's cell phone tax is regressive and concerning.

Swift action is needed to reduce occupation taxes and the Universal Service Fee surcharge.

## Cell Phone Occupation Taxes and Universal Service Fee Needs Addressed in Nebraska

In an article released during July 2008, the Platte Institute for Economic Research called for changes to the tax structure in Nebraska that would make the state more comparable to the rest of the nation in terms of fees and taxes paid by cell phone customers. The article cited a survey by CTIA-The Wireless Association that ranked Nebraska among the highest in the nation for cell phone taxes in recent years. According to data compiled by the Platte Institute, Nebraskans pay more than 22 percent in cell phone taxes and fees, or nearly twice the amount as residents of neighboring Iowa, which pay 11.5 percent. Nebraskans also pay significantly more than the national average, which the CTIA report lists as roughly 15 percent.

Two of the biggest culprits in creating a tax burden that is significantly higher than normal in Nebraska are the Universal Service Fund surcharge and the occupation tax that some cities in Nebraska, most notably Omaha (6.25 percent) and Lincoln (5.5 percent), impose.

### **Occupation tax = stealth tax**

Occupation taxes have proven to be an effective way for municipalities to finagle their way around state sales tax limitations and avoid the unpopular rhetoric of raising property taxes. Occupation taxes can be implemented by municipalities without citizens having the opportunity to vote for or against in-

creases. This makes them some of the worst stealth taxes, with limited transparency, which strongly suggests why Nebraska's cell phone taxes are the highest in the nation. Therefore, legislation limiting the excessiveness of such a silent, regressive tax would be in the best interest of Nebraska taxpayers.

While it is noteworthy that not every municipality has an occupation tax, roughly 40 percent of all Nebraskans live within the city limits of either Omaha or Lincoln, exposing a large percentage of the state to some of the highest cell phone taxes and fees in the nation. It should also be noted that several other communities either have smaller occupation taxes on cell phone service or have been considering adding one as another revenue stream.

### **Cell phone no longer a luxury**

Many items which are subject to occupation taxes are considered luxury items. Car rentals and hotel rooms, as an example, fall under occupation taxes. And, at one time, cell phones were considered to be available only to those with the ability to purchase frivolous items. Statistics provided by CTIA show cell phone use grew from 97 million subscribers in June 2000 to more than 262 million in June 2008. At the same time, 15.8 percent of households were "wireless only" in June 2008, more than doubling from the 7.7 percent of house-

holds that were “wireless only” just three years earlier. Data compiled by the Platte Institute also shows that more cell phone lines are being used in Nebraska than traditional land lines. The free-market system of diverse competition and greater demand for service has turned cell phones into a necessary security staple of life rather than a luxury item.

There is a need for more urgency in reducing the burden now. Placing a much lower occupation tax rate on telephone services would bring Nebraska more in line with states such as South Dakota and Kansas and would give a large portion of the state immediate relief.

### Universal Service Fee reduction

As mentioned earlier, the Universal Service Fund surcharge Nebraskans pay is also a major culprit in Nebraska’s undesirable ranking. Consumers in only three neighboring states also pay a USF surcharge. Those states (Colorado – 2.2 percent, Wyoming – 1 percent, and Kansas – 4.65 percent) all pay significantly

lower amounts than Nebraska’s 6.95 percent for phone lines (the Nebraska USF rate for cell phones is 4.37%). While broadband development throughout the state is valuable, being given an explanation as to why our citizens pay such a significantly higher rate than Kansas and Wyoming, two states that seemingly equal Nebraska’s population density and geographical conundrums, would be just as valuable.

Therefore, with a major reduction in the occupation tax, Nebraskans would also benefit greatly from reducing the Universal Service Fund surcharge, from 6.95 percent to 4.65 percent, to match our next-highest neighboring state of Kansas.

### Recommendations

In conclusion, Nebraska would be able to achieve impactful and meaningful relief for all its citizens with a maximum telephone occupation tax of 5 percent and dropping the Universal Service Fund charge from 6.95 percent to 4.65 percent.

State	State-Local Rate	Federal Rate	Combined Rate	Rank
Nebraska	18.35%	4.19%	22.54%	1
Missouri	15.73%	4.19%	19.92%	5
South Dakota	11.91%	4.19%	16.10%	12
Kansas	11.12%	4.19%	15.31%	15
Colorado	10.89%	4.19%	15.08%	17
Wyoming	8.17%	4.19%	12.36%	31
Iowa	7.36%	4.19%	11.55%	38

\*Information obtained from CTIA

“Consumers in only three neighboring states pay a USF surcharge in addition to Nebraska. Those states (Colorado – 2.2%, Wyoming – 1 %, and Kansas – 4.65%) all pay significantly lower amounts than Nebraska’s 6.95 percent for phone lines.”

“Nebraska would be able to achieve impactful and meaningful relief for all its citizens with a maximum occupation tax of 5 percent and dropping the Universal Service Fund charge from 6.95 percent to 4.65 percent.”