



Talking, Texting, Taxing

It is not often that Nebraska leads the nation on a particular area of policy; unfortunately, the Cornhusker State has the dubious distinction of having the highest cell phone taxes in the country.[\[i\]](#)

Unlike standard sales or income taxes, cell phone taxes are not levied directly on the consumer. Instead these taxes are imposed by multiple levels of government on telecommunications providers as a collection of smaller taxes and fees, the bulk costs of which are passed along to their customers. Economists Matt Mitchell and Thomas Stratmann of the Mercatus Center at George Mason University contend this taxation method "appears to suffer from a tragedy of the anticommons" as overlapping tax authorities place multiple small burdens on companies, which, leads to "overexploitation of the tax base."[\[ii\]](#)

Nebraska's rate for state and local cell phone taxes is approximately 18.67 percent, which jumps to 24.49 percent when federal taxes are included.[\[iii\]](#) To put that in perspective, a citizen of Lincoln whose average cell phone bill is \$48 per month pays nearly one-quarter of the total-\$11.35-on taxes, fees, and surcharges.[\[iv\]](#)

Nebraska's cell phone tax rates are significantly higher than our neighboring states. Excluding federal taxes, cell phone users in Wyoming and Iowa pay about 40 percent what the average Nebraska pays, with state and local rates at 7.79 and 7.95 percent, respectively. Nebraskans also pay 30 percent more than residents of Kansas (13 percent), 24.5 percent more than Missourians (14.29 percent), and 42.1 percent more than the citizens of Colorado(10.82 percent).[\[v\]](#)

In addition to increasing customer bills, these high taxes discourage cell phone use. A study by economist Scott Mackey found that for every 1 percent increase in the price of wireless services, demand decreases by 1.2 percent. [\[vi\]](#) By this metric, the combined federal, state, and local taxes Nebraskan's pay for cell phones have increased wireless service prices by 24.49 percent and decreased demand by approximately 29.39 percent. The

decrease in wireless demand could discourage investment in high-tech services and infrastructure, hurting jobs and wages in those industries and creating cycle where customers are charged more to compensate for the lack of investment.[vii] The International Chamber of Commerce found a strong link between communication and information technology infrastructure and economic growth, and high cell phone taxes that discourage wireless investment stifles economic growth. Specifically, the Chamber said that lowering these taxes "may reduce tax receipts in the short term, but the longer-term increase in the use of advanced capability devices, service demand, and network deployment resulting from these tax reductions is likely to counteract this loss of revenue over time." [viii]

Apart from the economic impacts, high cell phone taxes are also regressive. In 2009, 24.5 percent of all American households had only cell phones and an additional 14.3 percent had landlines but communicated mostly or all the time exclusively with cell phones. These numbers nearly double for low income households.[ix] The high taxes associated with cell phones make these devices more expensive and take away money that could be spent on other necessities.

High cell phones taxes also counteract the Congressional initiative to achieve universal broadband access, as 40 percent of users in 2010 said their cell phone was their only means of internet access. Divided demographically, 18 percent of African-Americans, 16 percent of English-speaking Hispanics, and 10 percent of whites said their cell phone was the only way they access the internet.[x]

The Unicameral made some effort to restrict municipal occupation taxes on telecommunications companies in 2011 with LB165, which froze the rate and only allowed rate increases when approved by popular vote,[xi] but more must be done to roll back these taxes and bring them in line.

There is no reason Nebraska should have the highest cell phone taxes in the nation. They inhibit economic growth, discourage investment, disproportionately affect the poor, and impede efforts to expand internet access. Lowering these taxes would immediately help average Nebraskans in their everyday lives and improve the economic

[i] Joseph Henchman, "State and Local Governments Impose Hefty Taxes on Cell Phone Consumers," Tax Foundation January 30, 2013. Accessed April 2, 2013, <http://taxfoundation.org/article/state-and-local-governments-impose->

[hefty-taxes-cell-phone-consumers](#).

[ii] Matthew Mitchell and Thomas Stratmann, "Wireless Taxes and Fees: A Tragedy of the Anticommons," Working Paper January 2012, Mercatus Center at George Mason University. Accessed April 2, 2013, http://mercatus.org/sites/default/files/publication/Wireless_StratmannMitchell_WP1206.pdf.

[iii] Joseph Henchman, "State and Local Governments Impose Hefty Taxes on Cell Phone Consumers," Tax Foundation January 30, 2013. Accessed April 2, 2013, <http://taxfoundation.org/article/state-and-local-governments-impose-hefty-taxes-cell-phone-consumers>.

[iv] Scott Mackey, "A Growing Burden: Taxes and Fees On Wireless Service," State Tax Notes, February 14, 2011. Accessed April 2, 2013, <http://www.ksefocus.com/wordpress-content/uploads/2011/02/2010-Tax-Study-Final-Tax-Notes-PDF.pdf>.

[v] Joseph Henchman, "State and Local Governments Impose Hefty Taxes on Cell Phone Consumers," Tax Foundation January 30, 2013. Accessed April 2, 2013, <http://taxfoundation.org/article/state-and-local-governments-impose-hefty-taxes-cell-phone-consumers>.

[vi] Scott Mackey, "A Growing Burden: Taxes and Fees On Wireless Service," State Tax Notes, February 14, 2011. Accessed April 2, 2013, <http://www.ksefocus.com/wordpress-content/uploads/2011/02/2010-Tax-Study-Final-Tax-Notes-PDF.pdf>.

[vii] Steve Pociask, "Nebraska Has the Highest Cell Phone Taxes in the Country: Harms Consumers," the American Consumer Institute Center for Citizen Research, February 21, 2011. Accessed April 2, 2013, <http://www.theamericanconsumer.org/2011/02/21/nebraska-has-the-highest-cell-phone-taxes-in-the-country-harms-consumers/>.

[viii] International Chamber of Commerce quoted in Scott Mackey, "A Growing Burden: Taxes and Fees On Wireless Service," State Tax Notes, February 14, 2011. Accessed April 2, 2013, <http://www.ksefocus.com/wordpress-content/uploads/2011/02/2010-Tax-Study-Final-Tax-Notes-PDF.pdf>.

[ix] Daniel M. Rothschild, "Mercatus On Policy: The Case Against Taxing Cell Phone Subscribers" Mercatus Center at George Mason University, No. 92, June 2011. Accessed April 2, 2013, <http://mercatus.org/publication/case->

[against-taxing-cell-phone-subscribers.](#)

[x] Daniel M. Rothschild, "Mercatus On Policy: The Case Against Taxing Cell Phone Subscribers" Mercatus Center at George Mason University, No. 92, June 2011. Accessed April 2, 2013, <http://mercatus.org/publication/case-against-taxing-cell-phone-subscribers>.

[xi] Nebraska Legislature, "Legislative Bill 165," January 7, 2011. Accessed April 3, 2013, <http://nebraskalegislature.gov/FloorDocs/102/PDF/Final/LB165.pdf>.

