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Repeal the sales tax on broadband equipment

Article by: Raul Katz
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The only industry in Minnesota subject to a sales tax on capital equipment is the telecommunications industry.

The state's sales tax on broadband equipment is regressive, and the negative impacts on Minnesota's economy will far exceed the revenue collected. What's arguably worse is that the state is establishing goals for broadband deployment while at the same time imposing this new tax burden on the very companies making the investments needed to reach Minnesota's broadband goal.

I had the opportunity to visit Minnesota last week and met with a range of stakeholders, including the Governor's Task Force on Broadband, members of the media, legislators and members of the newly created All Minnesota Broadband Alliance. I witnessed firsthand a true sense of urgency to repeal this ill-conceived tax.

Between 2006 and 2012, telecommunications companies in Minnesota invested more than $5 billion — $836 per capita. Over half of the spending went to the deployment of broadband services, critical to high-speed Internet connections, with approximately 50 percent of that dedicated to suburban, rural and isolated communities.

This investment has supported more than 112,000 jobs and generated more than $10 billion in economic output. In 2014 and 2015, to cover the cost of this new tax, Minnesota telecommunications companies will reduce their investments by $153 million. The result will be a loss of 3,323 jobs and a $308 million hit to Minnesota's GDP.

The economic analysis I conducted also showed that the new tax on communications infrastructure will destroy more than $722 million in additional economic activity over the next few years. While the projected revenue to the state from this tax is not insignificant, the negative economic impact is seven times greater than the projected revenue. Further, communities in rural areas will suffer the most.

Research on the economic impact of the telecommunications deployment has shown that the productivity benefits associated with investments in communications networks are broadly distributed across the many businesses, governments and nonprofits that use information technology and communication services. Therefore, capital investments made by communications companies improve infrastructure that benefits the entire state of Minnesota, not just the companies making the investments.

Additionally, I conducted a survey across telecommunications companies operating in Minnesota and found that under the new tax policy, 40 percent of service providers said they would reduce their investment. At the same time, 50 percent said they would increase their capital expenditures if the tax were to be repealed.

Having first-class access to a high-speed Internet connection is at the core of any state's innovation and economic competitiveness. Maintaining a high level of telecommunications investment is key for individuals, educational institutions, health care providers and researchers, nonprofit organizations, and business of all sizes and types.

Repealing the tax on telecommunications equipment is the best way for Minnesota to maximize investment in broadband and innovation across the entire state. The tax exemption is technology-neutral and is the most efficient way for the state to foster access to high-speed Internet and wireless communications for all Minnesotans. Gov. Mark Dayton is right to have called for repealing this shortsighted tax.

Raul Katz is an adjunct professor of economics and finance at Columbia Business School in New York and director of business strategy research at Columbia's Center for Tele-Information. The complete economic study can be found at www.teleadvs.com.