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## MEMO

TO: Communications Providers

FROM: Scott Mackey  
Leonine Public Affairs

DATE: December 20, 2022

RE: Fiscal Impact of Telecommunications Equipment Sales Tax Exemption

As you know, in 2019 Dr. Raul Katz completed an econometric study that modeled the impact of a repeal of the sales tax on communications network investment in the United States using 10 years of reported investment data.<sup>1</sup> While these studies did not include a detailed “case study” for Kansas, you asked me whether information from the Katz study could be extrapolated to Kansas to estimate the fiscal impact and economic benefits of the repeal.

Data provided by the major communications companies (wireless, wireline, and cable) to Dr. Katz and extrapolated to the entire industry indicates that, in 2018, total communications network investment in Kansas subject to the sales tax was an estimated \$257.3 million. Assuming a similar level of investment and using the state sales tax rate of 6.5%, the static estimate for a sales tax equipment exemption is \$16.8 million.

This estimate includes two important assumptions. First, the communications carriers reported total network expenditures to Dr. Katz for the study. However, not all capital expenditures are for machinery and equipment subject to sales and use tax. In order to calculate the sales tax impact, adjustments were made to remove estimates for installation labor, engineering, permitting, and other capitalized costs not subject to sales and use tax. Based on discussions with communications carriers, the total reported capital expenditures were reduced by 23.7% to reflect only taxable machinery and equipment.

Second, while the data provided by the cable and wireless industries reflected close to 100% of sector investment, the wireline telecommunications data included only an estimated 80% of investment in that sector because it did not include small phone companies. Therefore, the reported wireline investments were “grossed up” by 20%.

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<sup>1</sup> Dr. Raul Katz, “Assessment of the Economic Impact of Taxation on Communications Investment in the United States.” Report to the Broadband Tax Institute, October 2012 and November 2019. Available at [https://broadbandtax.org/downloads/Katz%20Study%20-%20Broadband Tax Institute 2019 Report v.Final 9.pdf](https://broadbandtax.org/downloads/Katz%20Study%20-%20Broadband%20Tax%20Institute%202019%20Report%20v.Final%209.pdf)

The Katz study modeled the direct, indirect, and induced economic impacts of a sales tax reduction using five years of investment data. The model suggests that each 1% reduction in the sales tax imposed on network equipment would result in an additional 1.97% in new investment. In Kansas, this would result in as much as \$28.2 million in new communications network investment in Kansas in the first full year after enactment. This number includes the \$16.8 million in new investment solely due to the elimination of the sales tax and an additional \$11.4 million in new investment over and above the sales tax savings.

The model suggests that this new investment would result in significant employment growth due to direct expenditures on additional network equipment purchases and installation, as well as the indirect benefits of this additional spending throughout the Kansas economy. In addition, the expansion of broadband networks to underserved areas of Kansas will boost economic growth in those areas. These important economic benefits are not quantified in the Katz study but would provide offsetting revenue boosts for the state and Kansas local governments that are not included in this static estimate.

If you have any questions, let me know.