



## STATEMENT OF AT&T CONNECTICUT

**Regarding Raised House Bill No. 6350**  
**An Act Eliminating Exemptions from the Sales and Use Tax and Lowering the Rate of**  
**Such Tax**  
**Before the Committee on Finance, Revenue and Bonding**  
**February 9, 2009**

**Proposal:**

Raised House Bill No. 6350 will eliminate exemptions from the sales and use tax, lower the rate of the tax to five per cent, and make conforming changes.

**Comments:**

AT&T is opposed to Raised House Bill No. 6350 and urges the committee to reject it.

What the bill does:

- ✓ Lowers the sales and use tax rates to 5% and increases the rate from 1% to 5% for computer and data processing services.
- ✓ Imposes tax on Internet access services as of April 1, 2009. The Internet Tax Freedom Act Amendments Act of 2007 (Public Law No. 110-108) prohibits Connecticut from reapplying the tax to Internet Access services. See section 6 of such act adding a new paragraph (3) to section 1104(a).
- ✓ Eliminates almost all exemptions including:
  - transactions between affiliates,
  - telephone equipment for deaf or blind persons, and
  - equipment used to provide broadband telecommunications services.

Three significant concerns with these changes include: the imposition of tax on Internet Access; the imposition of tax on sales between affiliates and the elimination of exemptions such as the tax on the purchase of equipment used to provide broadband services.

**Internet Access Services**

Raised House Bill No. 6350 would subject Internet access to tax beginning April 1, 2009 at a rate of 5%. This violates the Internet Tax Freedom Act as amended by the Internet Tax Freedom Act Amendments Act of 2007 (Public Law No. 110-108). Section 6 of that Act eliminates the grandfather status of any state that previously taxed Internet access but exempted such service from tax prior to October 31, 2005. Connecticut exempted Internet access from the sales tax effective July 1, 2001. As a result, Connecticut is prohibited from taxing Internet access prior to the sunset date of the Internet Tax Freedom Act, November 2014.

### Affiliated Transactions

Raised House Bill No. 6350 would subject to sales tax transactions between affiliated entities. This imposition of tax on services consumed between entities results in tax pyramiding and creates an unequal tax burden between competitors.

Tax pyramiding occurs when sales tax is imposed on the acquisition of a good or service by a business that is a component part of the ultimate good or service sold by that business. In effect, the consumer of the final product is taxed twice: at the time of purchase and a second time when the business passes the cost of the tax imposed on a good or service that is an input into the final product.

Unequal tax burdens result between competitors when one business produces the good or service within the same legal entity and another produces the good or service between two or more legal entities. This competitive inequity is particularly harmful in industries where some of the competitors face differing regulatory requirements that force them to maintain separate legal entities.

### Equipment used to provide Broadband Services

Raised House Bill No. 6350 would eliminate the exemption for equipment used to provide broadband communication services. In addition to creating the tax pyramiding issues discussed above, removal of this exemption runs counter to the policy goals of encouraging deployment of advanced broadband services and economic stimulus. All of the current stimulus plans before Congress are seeking to stimulate the economy and create jobs by encouraging the deployment of advanced communications infrastructure. Connecticut would be adopting policies that would negate the stimulus benefits of the federal actions.

Successful economic development requires the establishment of an infrastructure to support economic expansion. Just as many early American cities developed around shipping centers, railroad stations and major transportation routes, the life blood of today's economy comes from the ability to transport information through communications networks.

Technological advances have increased the portability of telecommunications equipment to such an extent that certain types of equipment can easily be placed outside Connecticut to serve Connecticut consumers. This makes it imperative that Connecticut's tax policy foster an environment that stimulates continued capital investment by communications providers.

### Conclusion

Adoption of Raised House Bill No. 6350 will have significant negative consequences which are contrary to public policy initiatives. AT&T urges the Committee to consider these impacts in determining tax changes adopted this session.