



## TAXES AND FEES ON UTILITY SERVICES

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### QUESTION

What fees and state taxes apply to telecommunications (including cable TV and satellite TV) and energy utility services? This report discusses the fees and taxes that apply specifically to companies providing these services. The companies also pay other taxes, e.g., the property tax, and typically pass these costs on to their customers although they do not itemize them on their bills.

### TELECOMMUNICATIONS SERVICES

#### *Fees*

There are several charges imposed on telecommunications services pursuant to federal and state law. In several cases, it is up to the telecommunications company to decide whether to pass these costs on to their customers.

Federal law regulates the monthly subscriber line charge that covers part of the costs telephone companies incur in connecting customers to the telephone network. The Federal Communications Commission (FCC) regulates the charge and has capped it at \$6.50 for a single line. The money received from the charge goes directly to local telephone companies.

Federal law requires telecommunications companies that operate on an interstate basis to pay into the universal service fund. The fund is used to make telephone service more affordable for low-income consumers and customers living in rural areas where the costs of providing telephone service are high. The fund also provides subsidies for: (1) Internet access, telecommunications services, internal infrastructure, and basic maintenance of internal connections to schools and libraries and (2) telehealth and telemedicine, typically a combination of video-conferencing infrastructure and high speed Internet access, to enable doctors and patients in rural hospitals to access specialists in distant cities at affordable rates.

Each company makes a business decision about whether and how to charge its customers to recover its universal service costs.

The federal Telecommunications Relay Service (TRS) fund compensates TRS providers (typically telephone companies) for the costs of providing interstate telephone services that let a person with a hearing or speech disability to communicate with a person without such disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services.

CGS § [16-247e](#) similarly requires the Public Utilities Regulatory Authority (PURA) to establish a TRS program funded by telecommunications companies that provide in-state service based on their gross revenues in Connecticut. Some companies pass this cost on to their customers.

CGS § [16-256g](#) requires telecommunications companies to pay a fee to support the E-911 emergency telecommunications system. The fee is assessed against each subscriber of: (1) local telephone service, (2) commercial mobile radio service (e.g., cell phone service), and (3) voice over Internet protocol service provided companies such as Vonage. PURA sets the fee annually, which is capped at 75¢ per month.

### ***State Taxes***

The 6.35% sales tax applies to telecommunications services, which include those provided by telephone and other telecommunications companies, cable TV companies, and other satellite TV companies such as the DISH network.

By law, cable TV services, as well as the video services provided by satellite TV companies, are also subject to the 5% gross earnings tax (CGS § [12-256 et seq.](#)). Since the tax is on the companies' gross earnings, it applies to the revenue the companies collect to pay for the sales tax.

## **ENERGY UTILITY SERVICES**

### ***Fees***

The bulk of electric company bills consists of the generation service charge (the cost of the power itself) and transmission and distribution charges (the cost of shipping the power from the power plant to the substation serving a neighborhood and from the substation to the individual home or business, respectively). In addition, customers pay:

1. a combined public benefits charge, consisting of state-imposed charges to support energy efficiency and renewable energy programs as well as certain other public policies;
2. the federally mandated charge attributable to congestion on the transmission system; and
3. the competitive transition assessment, which pays for the electric company's "stranded costs" (costs the company had incurred with PURA's approval, whose continued recovery was jeopardized by the introduction of electric industry competition).

The only comparable fee on gas service is the conservation adjustment mechanism, which is set by PURA and is used to fund utility conservation programs.

### ***Taxes***

Electric and natural gas services are subject to the gross earnings tax (CGS § [12-264](#) et seq.). For electric utilities the tax is (1) 8.5% of their gross earnings from providing electric transmission or distribution services for non-residential customers and (2) 6.8% of their gross earnings from providing these services to residential customers. For gas utilities, the rate is 5% of gross earnings, less certain deductions.

Sales of electricity and gas for residential or agricultural use and for certain manufacturing uses is exempt from the sales tax. Other sales are subject to the sales tax.

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