



STATE OF NORTH DAKOTA  
**OFFICE OF STATE TAX COMMISSIONER**  
Cory Fong, Commissioner

---

## Memorandum

**To:** Interim Taxation Committee  
**From:** Myles Vosberg, Director, Tax Administration Division  
**Date:** May 6, 2010  
**Subject:** Request for Information on Taxes Related to Communication Service

---

**Rate of Telecommunications Gross Receipts Tax required to replace 911 fees:**

The telecommunications gross receipts tax rate would need to be increased from 2½ percent to 4½ percent of gross receipts to eliminate the 911 fees and replace the revenue with gross receipts tax.

- FY2009 911 fees = \$8.4 million
- FY2009 gross receipts tax = \$10.8 million

**Sales and Use tax revenue generated by communications service industry:**

- Taxable sales and purchases reported by communications industry in CY2009
  - Sales \$560 million
  - Purchases \$22.5 million
  - Total \$582.5 million
  - 5 percent sales and use tax \$29.125 million
- Revenue of \$29.125 million represents what is reported by the communications industry, but does not represent all tax revenue generated by the industry. The revenue reported does not include tax paid by the industry on purchases of equipment and other tangible personal property where the seller is collecting the tax and remitting it to the Tax Department.
  - Retailers collect and remit tax on sales of cable, switching equipment, software, cell tower materials, and other goods purchased by the industry.
  - Tax paid by contractors on equipment and materials installed into telecommunication systems.

**Fiscal impact of equalizing the tax base for sales tax and telecommunications gross receipts tax:**

- Two major differences between tax bases
  - Gross receipts tax applies to interstate services; sales tax applies to intrastate only.
  - Sales tax applies to Internet access fees, gross receipts tax does not.
    - Internet access is not included in definition of telecommunications
    - Sales tax applies to “communication service”
      - telecommunication services, including ancillary services
      - access fees, including internet access
- Expanding sales tax base to include interstate telecommunications service
  - Estimated revenue increase of \$2 million a year
- Cannot determine the fiscal impact of internet access without surveying service providers that also provide telecommunication services
  - Cable, satellite, and other telecommunication service providers provide both internet access and telecommunication services
    - All taxable sales reported in one lump sum on sales tax return.