STUDY FINDS SALES TAXES SLOW BROADBAND DEPLOYMENT, REDUCE GROWTH AND EMPLOYMENT

 A new study found that eliminating the sales and use tax on purchases of machinery and equipment used to provide broadband and other communications services would increase network investment, broadband penetration, employment, and economic growth.

Currently, two-thirds of the states impose sales taxes on communications network purchases. These sales taxes on communications network investment reduce the amount of funds that providers invest in their networks. For example, Arkansas imposes a combined state and local sales tax rate averaging 9.41% on network equipment, which means that nearly one out of every ten dollars invested is actually paid in taxes instead of being used to purchase equipment. This slows broadband deployment, especially in rural and underserved areas.

 Among the key findings of the study:

* Broadband networks provide critical productivity benefits to many businesses, governments, and non-profit organizations that increasingly rely on these networks to provide goods and services to customers and clients.
* Tax policies that slow broadband investment and network upgrades are working a cross purposes with numerous federal and state programs actively encouraging network investment, such as the federal “Connect America” broadband grant program. It makes no sense to provide subsidies and grants for broadband deployment while at the same time maintaining tax policies that reduce broadband network investment.
* Elimination of sales taxes on network investment in all states that impose such taxes on communications network investment would result in $10 billion in new network investment in the first two years. This increased investment would result in $70 billion in new economic activity and the creation of 70,000 jobs.
* Increased broadband network investment resulting from a reduction or elimination of sales taxes would increase broadband penetration among households, with the greatest impact in states with lower rates of broadband penetration. This would allow additional households to connect to the information economy.
* The new economic activity generated by increased broadband network will generate substantial offsetting revenues for state and local governments as new employment and economic activity generates tax revenue.

A copy of the full study and report is available at [www.broadbandtax.org](http://www.broadbandtax.org). The lead author of the study, Dr. Raul Katz, is the Director of Business Strategy Research at the Columbia University Institute for Tele-Information.