

Policy Brief | Utility User Tax for Communication Services

Summary: The City of Sacramento seeks to correct inequities in existing law and protect funding for public safety programs by clarifying the types of services that are taxed under the City Utility Users Tax (UUT).

Background: The City of Sacramento started collecting the UUT in 1969 on cable, natural gas, electrical, wired telecom (and wireless telecom starting in 1993). The total UUT revenue is approximately \$51 million. Telecom currently represents \$21 million of the UUT and wireless telecom raises \$12 million. The UUT represents about 13 percent of the entire budget (with communication services accounting for about 5 percent). The City started collecting the UUT on wireless communication services in 1993.

In 2005 the IRS modified the historical interpretation of the Federal Excise Tax (FET) and the City in 2006 subsequently removed the FET references from the ordinance, therefore expanding the tax base, which the Howard Jarvis Taxpayers Association claims to violate Proposition 218.¹

The measure seeks to achieve the following two objectives:

1. Put the references of the FET removal in front of the voters in November 2008 to ensure compliance with Proposition 218.
2. Modify the existing ordinance to maintain technological neutrality.

Other Considerations:

Police, fire protection, youth programs, and business services could lose up to \$12 million in General Fund proceeds if voters do not approve the measure. In addition to public safety services and youth programs, the measure could impact parks and recreation, maintenance, and other business services including deeper cuts in other city departments already severely impacted by budget cuts.

The tax rate will be reduced from 7.5 percent to 7 percent. UUT rate increases will be prohibited without voter approval. The measure reduces the current tax rate in order to maintain revenue neutrality.

¹ The FET defines long distance or “toll” calls based on both the elapsed time of the call and the distance between the persons on the call. Wireless services, because of the flat or monthly rates, say they are unable or refuse to detail distance between callers making it impossible to collect on wireless or bundled services consistent with the FET. Prior to 2005, the FET required the “elapsed transmission time” but not the “distance” in order to collect the tax.



SACRAMENTO PARTNERSHIP

Status:

Pending administrative authorization by City Council on July 22nd, to place the measure on the November 4, 2008 ballot. The measure requires a majority (50 percent plus one) of the electorate to be approved.