

CITIZENS LEAGUE REPORT

No. 120

**Proposed Charter Amendment 18
Tax on Local Telephone Service**

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Citizens League
545 Mobil Oil Building
Minneapolis 2, Minnesota

October 27, 1960

PROPOSED CHARTER AMENDMENT NO. 18 AUTHORIZING THE MINNEAPOLIS
CITY COUNCIL TO LEVY A TAX ON LOCAL TELEPHONE SERVICE

Recommendation

The Board of Directors of the Citizens League recommends a Yes vote on proposed Minneapolis charter amendment no. 18 authorizing the City Council to levy up to a 2% tax on local telephone users. If the amendment is adopted, the Citizens League will determine its position on the actual imposition of the tax on the basis of the Council's demonstration of the need for additional revenue.

The following statement of facts and pros and cons of this issue was prepared by the League's Taxation and Finance Committee.

Background:

For a number of years the City of Minneapolis, in common with many other large cities, has been faced with increasing costs, demands for additional services, and a reluctance to increase the property tax beyond its already high level. As the central governing body and the one responsible for a wide range of local services, the City Council from time to time has sought to get legislative authority to levy additional non-property taxes, but without success. In recent years the additional taxes requested have included a number of specific taxes on business.

In 1959, the City Council appointed a Community Tax Study, a group consisting of leading representatives of business, labor and civic groups, with the purpose of surveying the City Council's needs and recommending possible changes in the City's tax structure. The Tax Study has been working for over a year but has not as yet reported its findings and recommendations.

In the late summer of 1960 the City Council, on recommendation of its Bi-Partisan Charter Committee, requested that the Minneapolis Charter Commission place on the ballot charter amendments authorizing the Council to levy four special business taxes: on parking lots, on billboards, on hotel rooms, and on local telephone service. In addition, the Council asked for a charter amendment prohibiting the City to borrow for current expenses.

After a series of public hearings, at which the Charter Commission heard testimony from the Council in support of the proposed tax measures and in explanation of the Council's revenue needs, and testimony from the four industries affected in opposition to the taxes, the commission, in executive session, voted to reject the first three taxes and place on the ballot on November 8 the proposal authorizing a 2% levy on local telephone service.

The commission also approved submission of the charter proposal for prohibiting borrowing for current purposes. This proposal is dealt with in a separate report of the Citizens League.

The proposed amendment

The text of the proposed charter amendment is attached as Appendix "A".

Salient features are:

- (1) It would authorize the Council to levy the tax by ordinance. It is merely permissive.
- (2) The authorized rate is not more than two per cent. It may be noted that the Council's request to the Charter Commission was for a maximum authority of 5%.
- (3) The tax would be on "the purchase and use of local exchange telephone service". Such service includes equipment rentals but excludes directory charges, toll and long distance services and federal excise taxes.
- (4) "The telephone company shall include the tax in its bills to its subscribers and state the same separately, beginning with the billing period in which the tax first becomes effective." Thus the tax is imposed on the consumer, and must be stated on his bill. It is not a tax on the company. State law allows the telephone company to be taxed only by the State, and only on a gross earnings and income tax basis. Thus, the telephone company can pay no property tax to the City government.
- (5) The proposal contains much administrative detail of the kind not usually recommended for inclusion in a charter.
- (6) The estimated yield according to the City Council is \$400,000.
- (7) At 2% the tax would cost 11.4¢ per month per residential-private line, and 33.5¢ per month per business line; 2¢ per month per residential-private extension, and 3¢ per month per business extension.

Taxation of the telephone company

Although the proposed tax is a tax on the customer and not directly on the business, it is exclusively on the service of one business, and therefore may have some effect on that business as distinguished from all utilities or business generally.

As noted, the telephone company by State law may pay only State taxes, on gross receipts and on corporate net income. It may not pay local property or other taxes. It does pay special assessments and property taxes on property not used for telephone purposes.

As differentiated from other utilities, the telephone user already pays a 10% federal excise on all telephone services, which is stated separately on the bill and collected by the company.

The telephone company states that total monthly taxes on its average Minnesota telephone amounted to \$2.98 in 1959, distributed as follows: gross earnings - \$0.57, excise - \$0.80, federal net income - \$1.40, other - \$0.21. A late estimate for 1960 is that this total figure is \$3.05.

The pros and cons of the telephone tax

Arguments in favor of the tax

1. The tax is broad based. It is estimated there are 139,000 telephones in Minneapolis.
2. The tax is a direct excise tax on the payer: it is stated separately on the customer's bill.
3. It is easy to collect and administer.
4. It is stable in yield.
5. It is at a low rate which is unlikely to materially alter the use of telephone service.
6. Such effect that it has as a special business tax is minimized by the fact that it is imposed on a monopoly service. It is likely to have minimal effect on the location of business in or outside the City.
7. If additional tax revenues are needed, it is well to raise them from a non-property tax source.
8. Such burden as the excise tax may place upon the phone company is justified by the fact that the company pays no local taxes whatsoever. No other business is in this position.
9. The rate is similar to that levied on the gross receipts of the other utilities: gas company - 1.6%, power company - 1.5%. The latter of course pay local property taxes in addition.
10. The amendment is only permissive. The Council must take responsibility for actually levying the tax.

Arguments opposed to the tax

1. While the tax is an excise tax, its selectivity does have an effect on the one business it involves, the telephone company, as distinguished from business or taxpayers in general. This effect is direct, in the cost of billing and collecting the tax, and indirect, in the degree to which it may discourage consumption of local telephone service.

2. The tax is another piecemeal approach to the City's basic need for more revenue and property tax relief, and is likely to relieve the pressure for attaining the broad solution.
3. The telephone user already pays a high tax compared to the consumer of other goods and services.
4. The City Council well over a year ago appointed a broadly-representative Community Tax Study to consider the full dimension of the City's financial problem and make recommendations. This group has devoted many hours to its task. In the absence of a clear and compelling emergency the public should not act without having the benefit of the results of their long and careful study.
5. A charter amendment should not contain as much detail as this one does.
6. If the tax proposal were not approved at this time, the City could submit it or any other tax proposal at the June 1961 election and then, if approved, still have revenue from one half year.

League position on the property tax

The League has indicated its belief many times that, under the present system and administration of the property tax, this tax in Minneapolis is at a level which is high compared with similar cities. The League has therefore strongly favored finding a major non-property tax source to help take the pressure off the property tax, and several times has recommended such a source.

The League cooperated in the City Council's establishment of the Community Tax Study in 1959, and appointed a representative and alternate to the study group.

Conclusions and recommendations

With such an array of arguments both for and against the proposed amendment, choice of a position is not simple. The League Board is most impressed by these points in favor of the measure:

- (1) The tax is broadly based, is stable in yield, and is easy to collect and administer.
- (2) It is a non-property tax, thereby giving some relief to the City's already overburdened property.
- (3) The telephone company, unlike other utilities, pays no local taxes.
- (4) The two percent maximum rate is comparable to the rates levied on the gross receipts of the other local utilities.
- (5) The amendment is permissive. The Council must take responsibility for actually levying the tax.

In opposition to the amendment, we are most impressed by the fact that this revenue source, like so many that have been suggested in the past, is basically a stopgap measure so far as meeting the City's fundamental need for a broad revenue alternative to the property tax is concerned. Continued resort to such measures inevitably delays community effort to achieve the broad alternative.

On balance, we recommend that the voters of Minneapolis approve the proposed amendment.

If the amendment is adopted, the Citizens League will determine its position on the actual levying of the tax on the basis of the City Council's demonstration of need for additional revenue.

APPENDIX "A"

C O P Y

CAS:BT 8/11/60

PROPOSED CHARTER AMENDMENT
AUTHORIZING A TAX ON THE USE OF
LOCAL TELEPHONE EXCHANGE SERVICE

Chapter 5 of the charter of the City of Minneapolis is amended by inserting between sections 25 and 26 the following:

Section 25D. Subdivision 1. The City of Minneapolis may levy by ordinance and collect a tax on the purchase and use of local exchange telephone service as hereinafter provided.

Subdivision 2. The rate of tax shall not be more than 2 per cent of the lawful rates for such local telephone service within the city, including equipment rentals but excluding directory charges, toll and long distance services, and federal excise taxes.

Subdivision 3. The tax shall be imposed at a uniform rate on all such telephone service and shall be limited to those telephones located within the geographical boundaries of the city. The tax shall take effect on the 15th day of the second calendar month following the effective date of the ordinance. The treasurer of the City shall provide the telephone company, the services of which are made subject to the tax, with a true and correct copy of the ordinance, together with a statement setting forth the effective date thereof.

Subdivision 4. The telephone company shall include the tax in its bills to its subscribers and state the same separately, beginning with the billing period in which the tax first becomes effective. The tax shall be paid to the company for the use and benefit of the city and the company shall be liable only for such tax as is actually paid to it by or on behalf of its customers.

Subdivision 5. No tax shall be imposed under authority of this section on the State of Minnesota, its political subdivisions or their departments or agencies, the Government of the United States, its departments or agencies, or where prohibited under the Constitution or laws of the United States, or under the Constitution of this state, or on the use of coin-operated telephones.

Subdivision 6. Taxes received by the telephone company, shall be reported and paid to the treasurer of the city at six month intervals. The first report and payment shall be made within thirty days after the expiration of the first six months that said tax is in effect, and within 30 days after the expiration of each six month period thereafter that said tax is in effect.