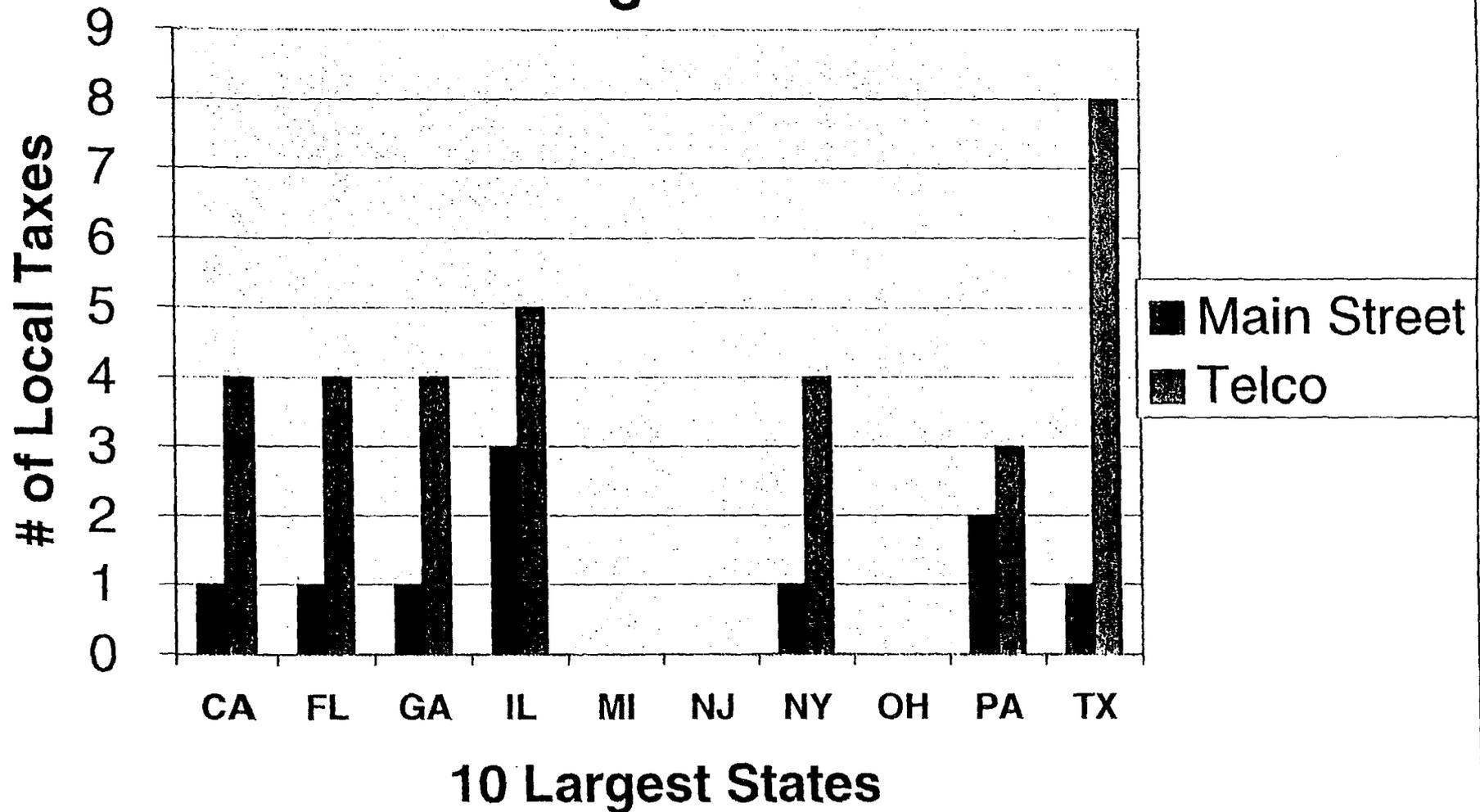
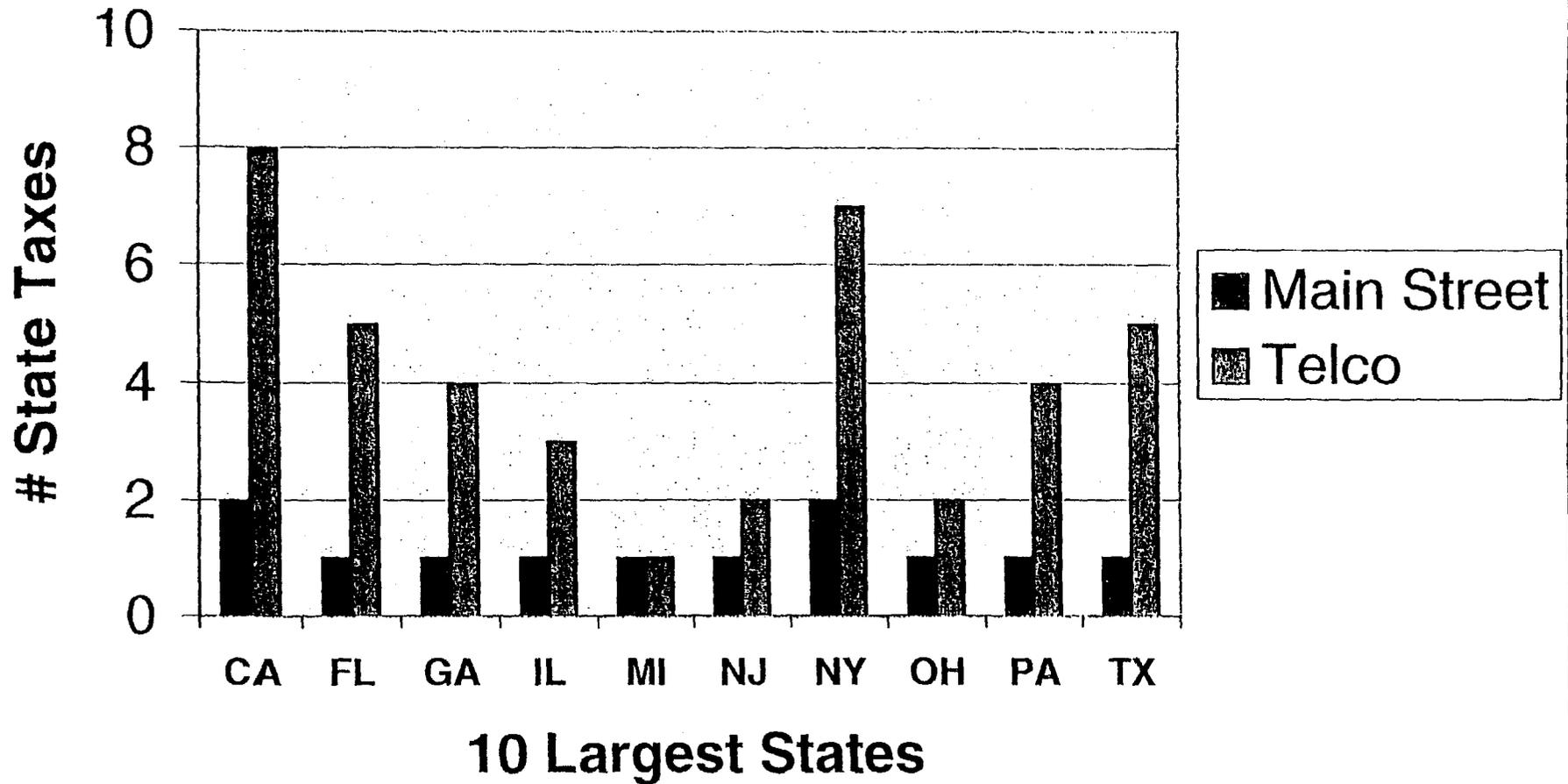


# Comparison of # of Local Taxes in Ten Largest States



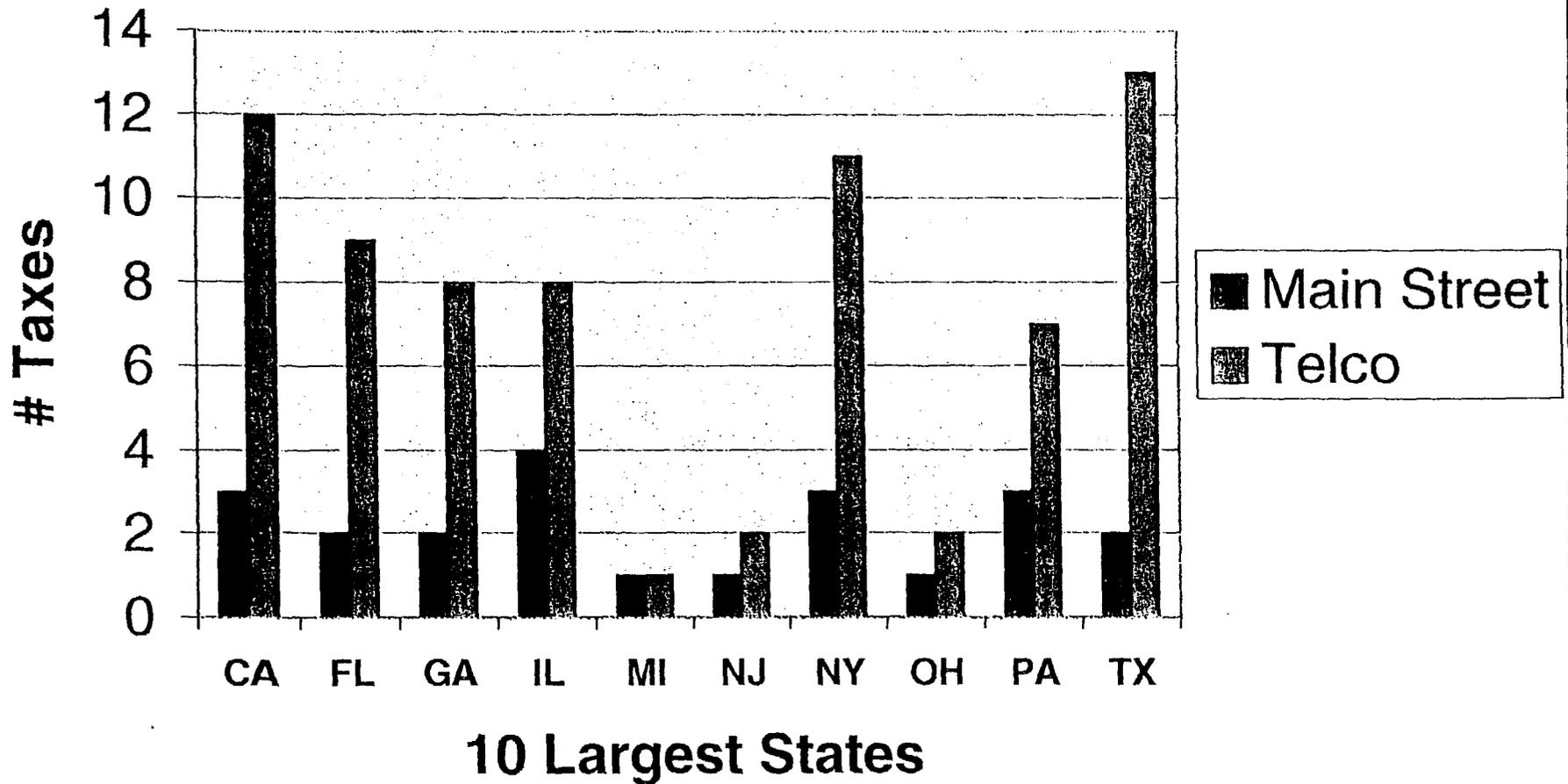
Note: 'Main Street' refers to general business; e.g., a seller of tangible personal property with stores in each taxing jurisdiction.

## Comparison of # State Taxes in Ten Largest States



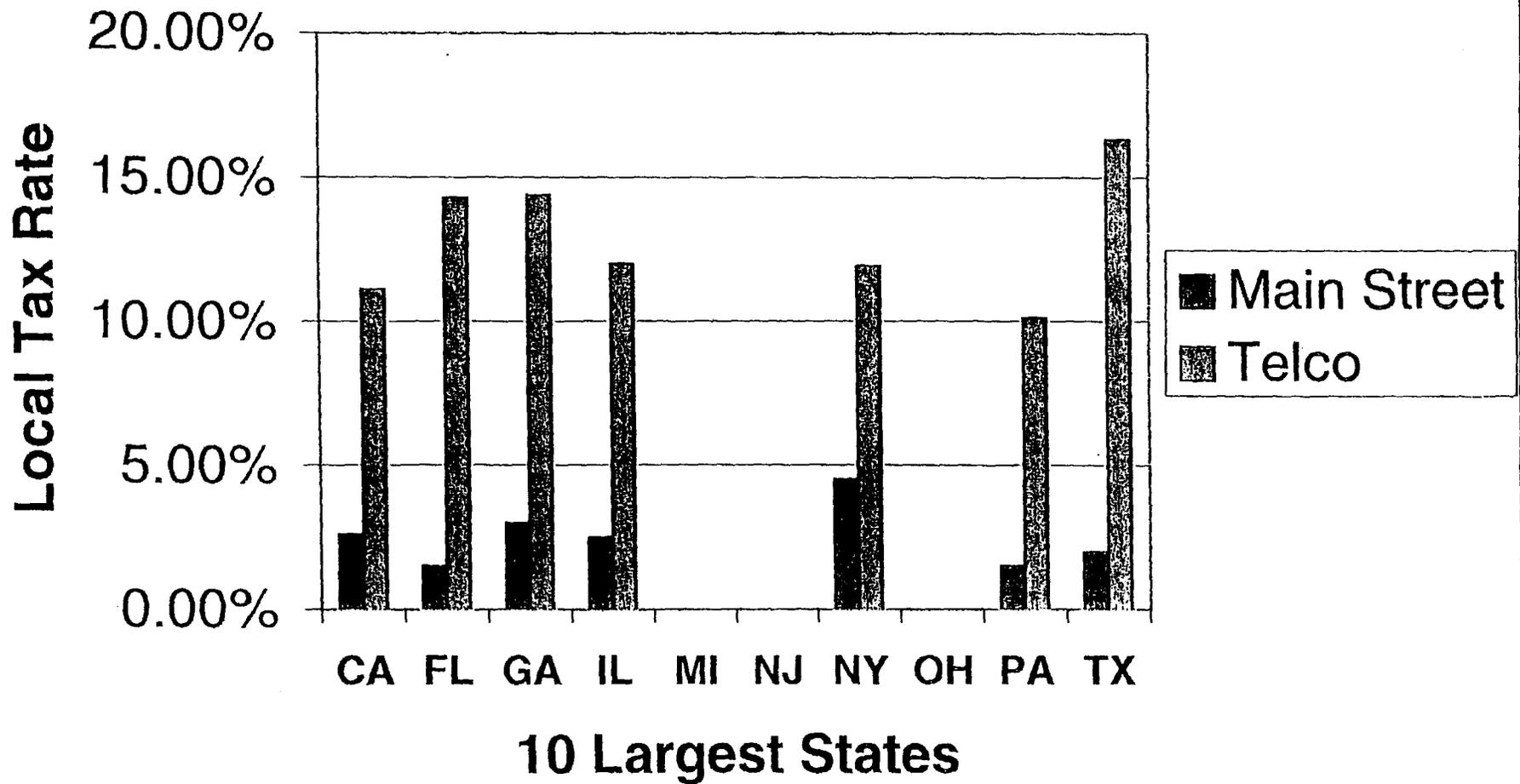
Note: 'Main Street' refers to general business;  
*e.g.*, a seller of tangible personal property with  
stores in each taxing jurisdiction.

# Comparison of Total # Taxes in Ten Largest States



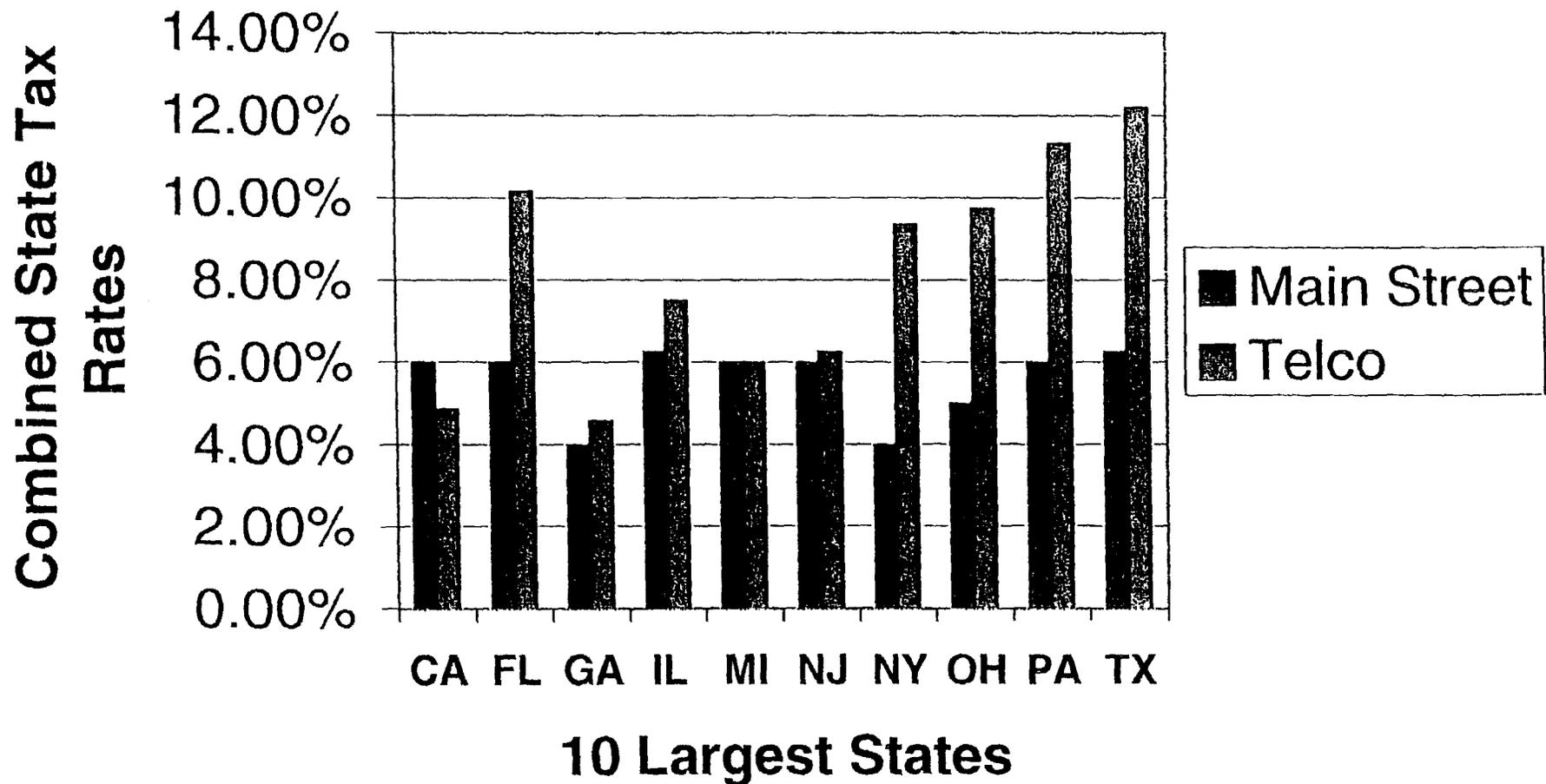
Note: 'Main Street' refers to general business;  
e.g., a seller of tangible personal property with  
stores in each taxing jurisdiction.

# Comparison of Total Local Tax Rates in Ten Largest States



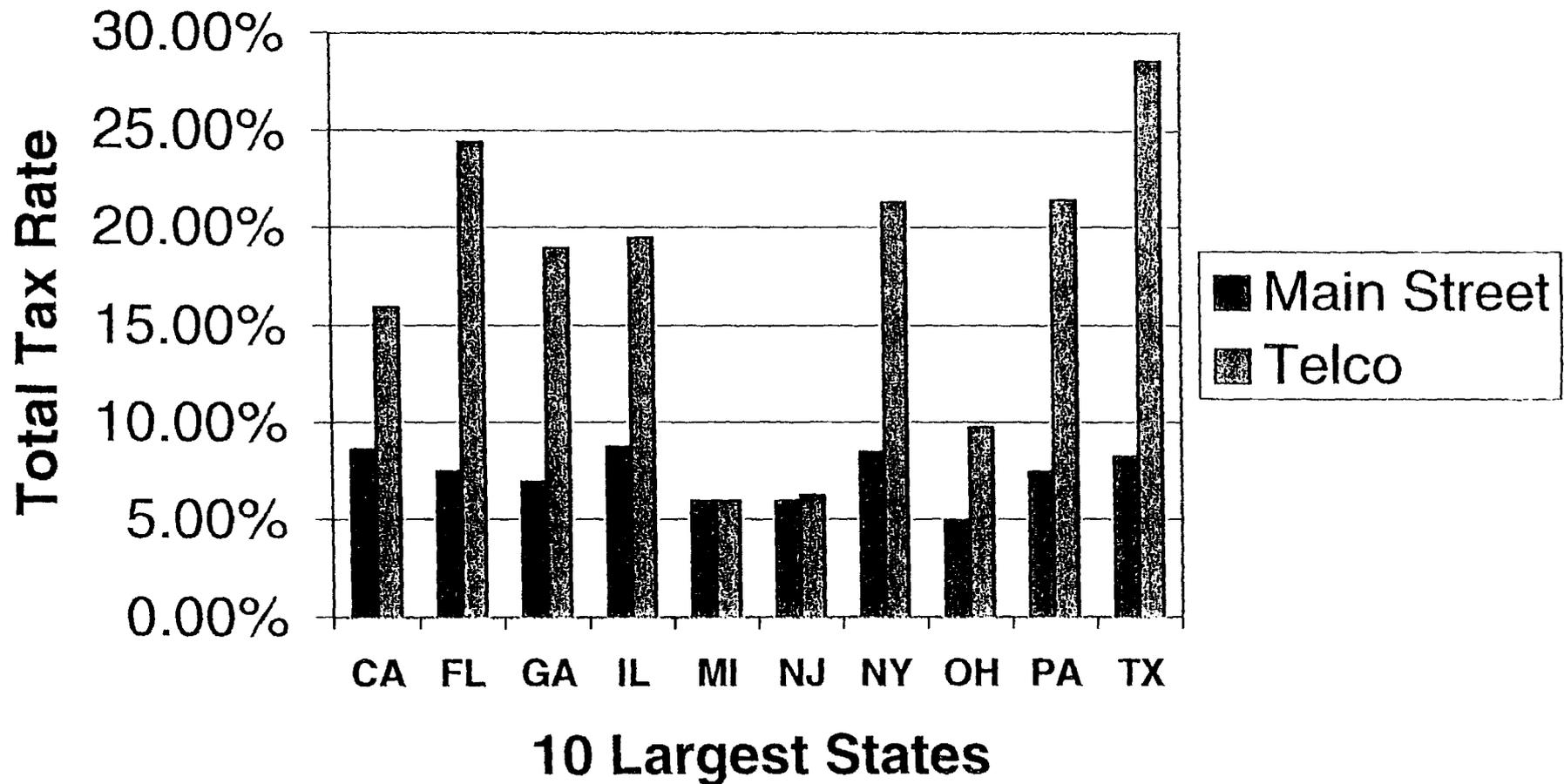
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stores in each taxing jurisdiction.

## Comparison of State Tax Rates in Ten Largest States



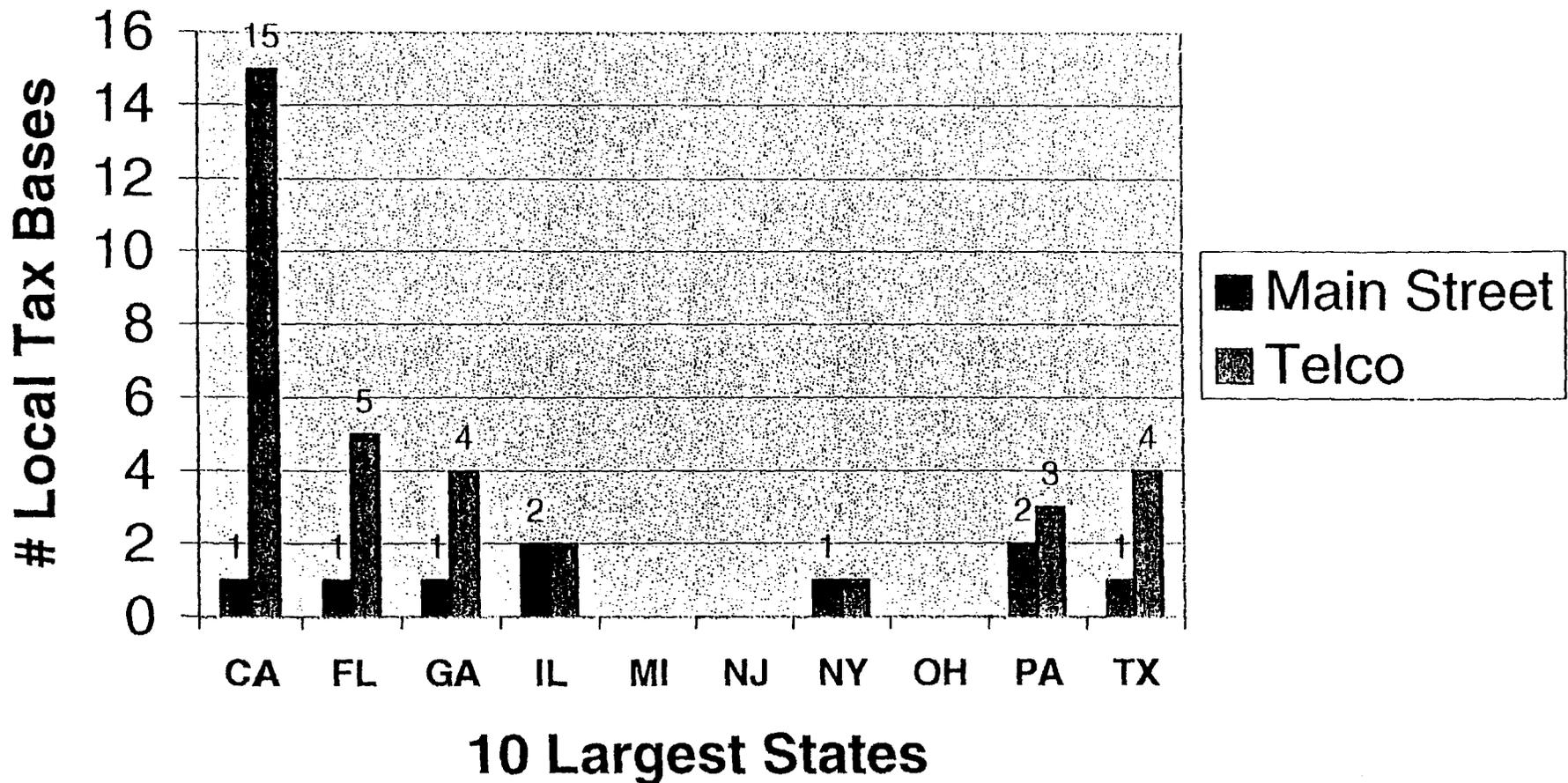
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# Comparison of Total Tax Rates in Ten Largest States



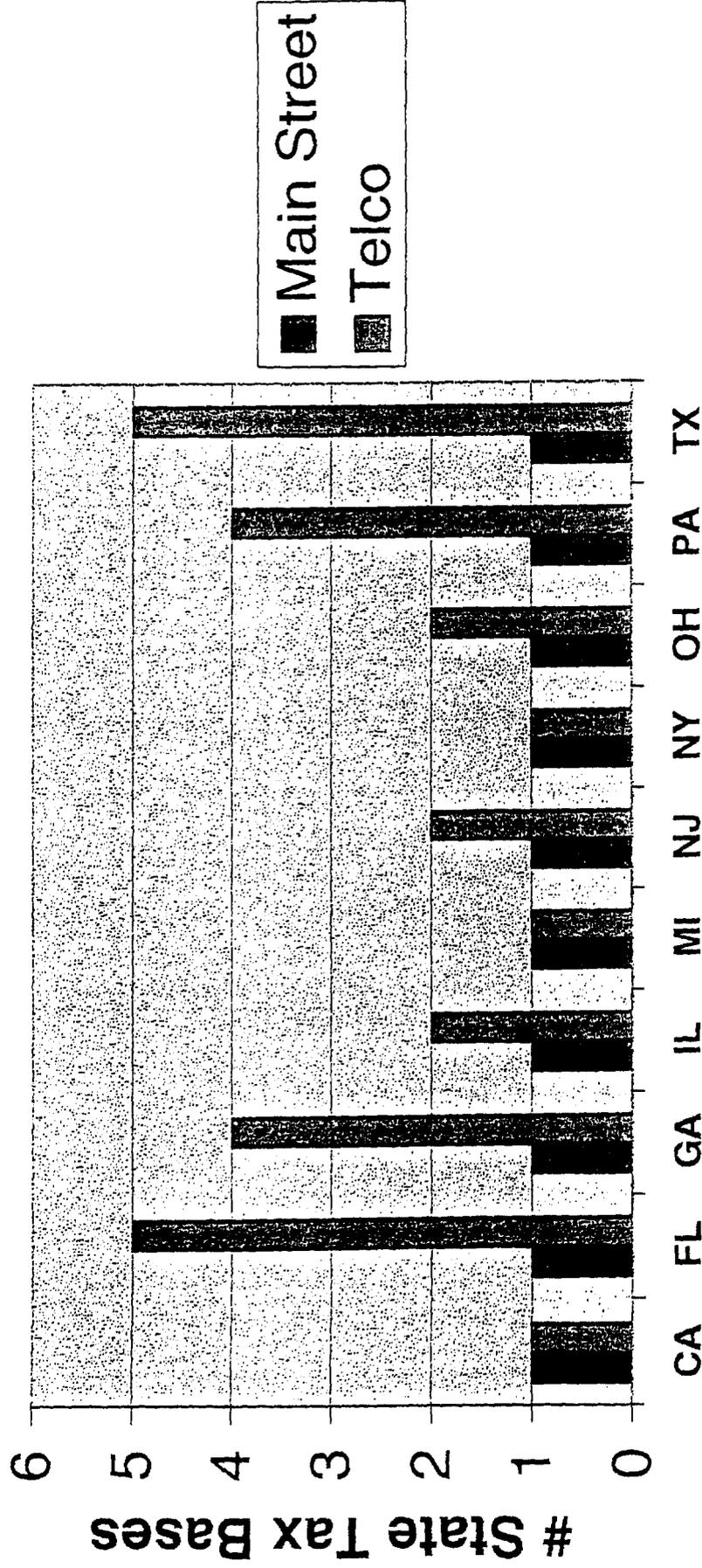
Note: 'Main Street' refers to general business; e.g., a seller of tangible personal property with stores in each taxing jurisdiction.

## Comparison of # Local Tax Bases in Ten Largest States



Note: 'Main Street' refers to general business;  
e.g., a seller of tangible personal property with  
stores in each taxing jurisdiction.

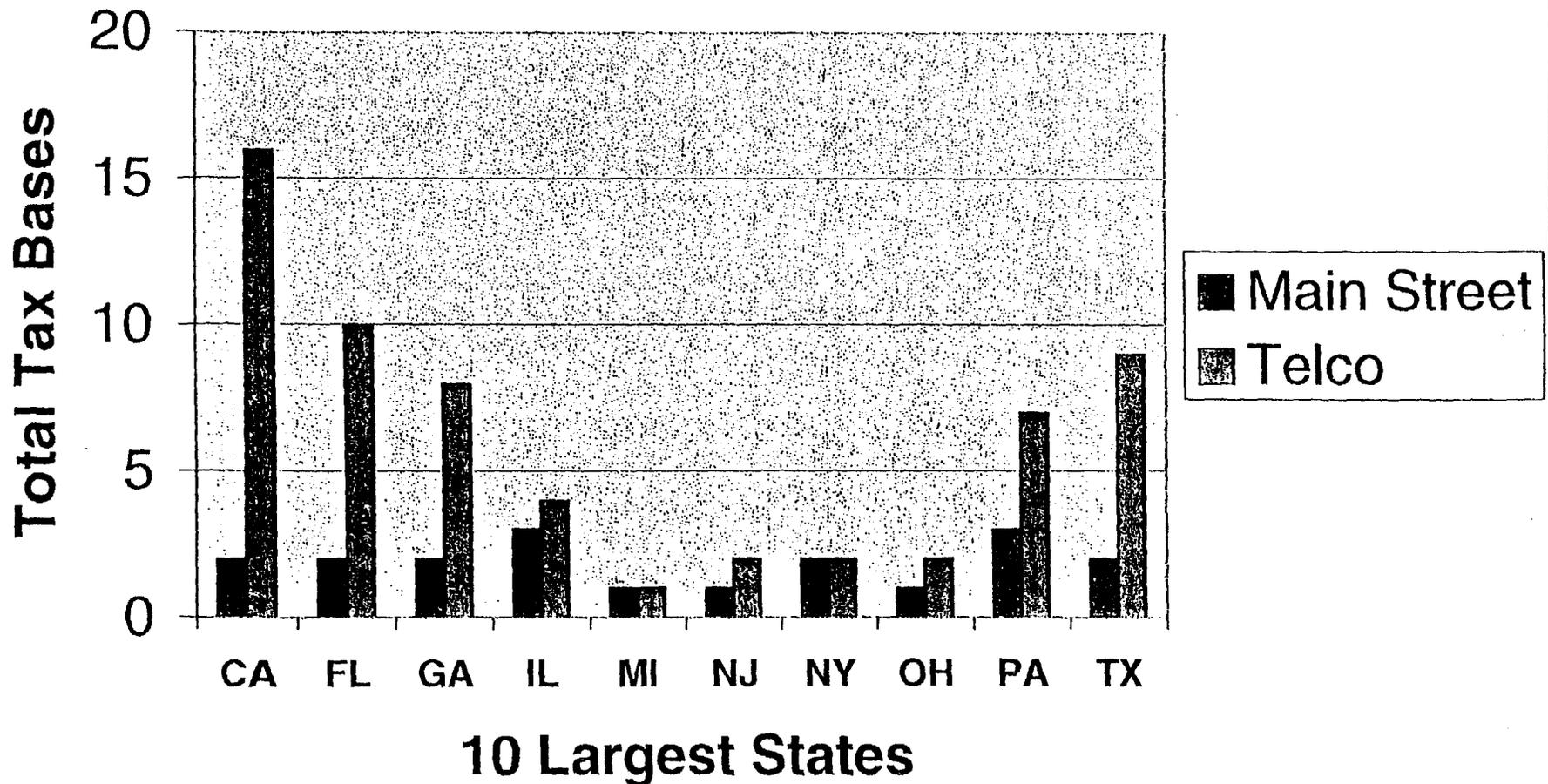
# Comparison of # State Tax Bases in Ten Largest States



# 10 Largest States

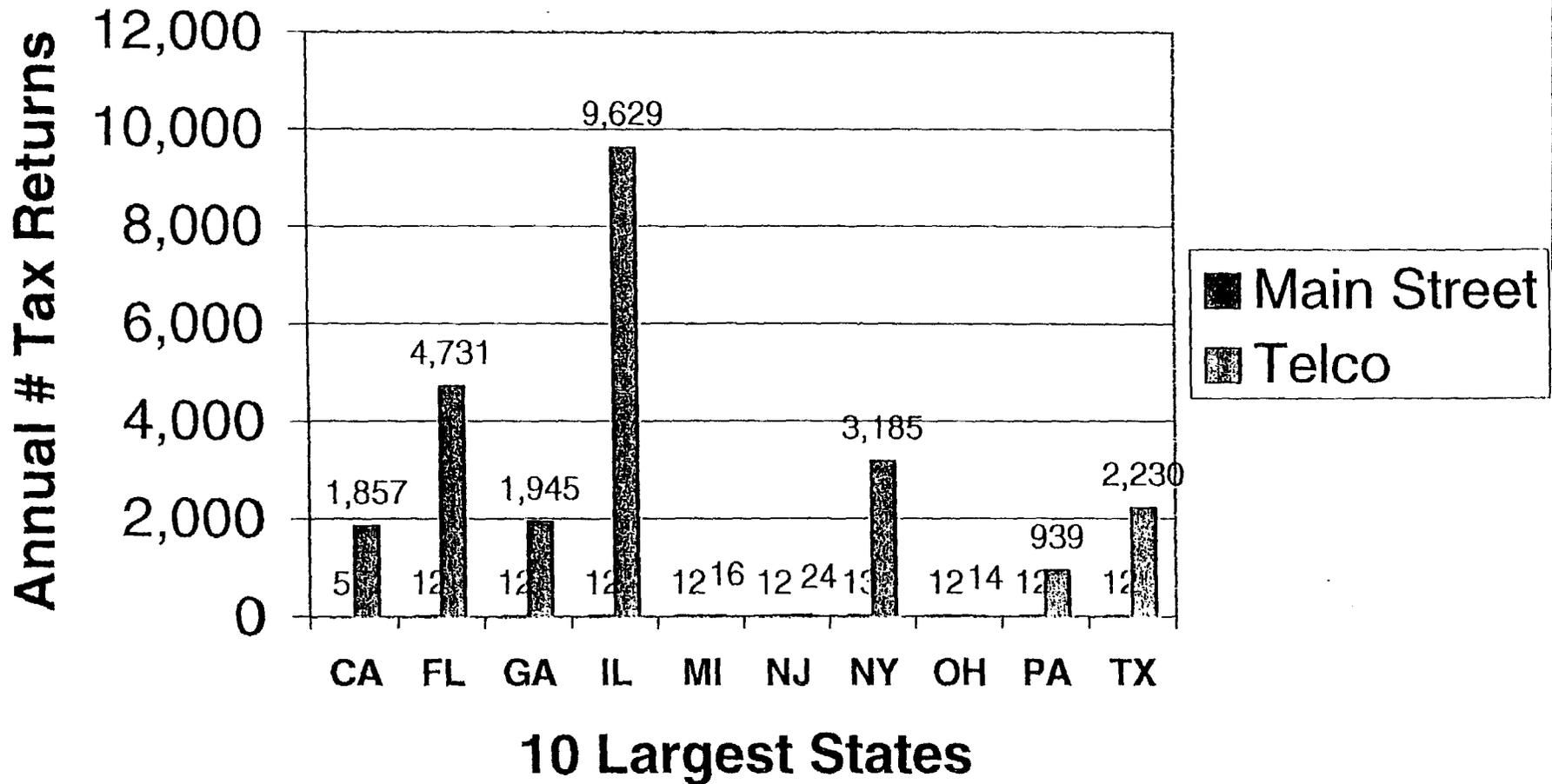
Note: 'Main Street' refers to general business; e.g., a seller of tangible personal property with stores in each taxing jurisdiction.

## Comparison of Total # Tax Bases in Ten Largest States



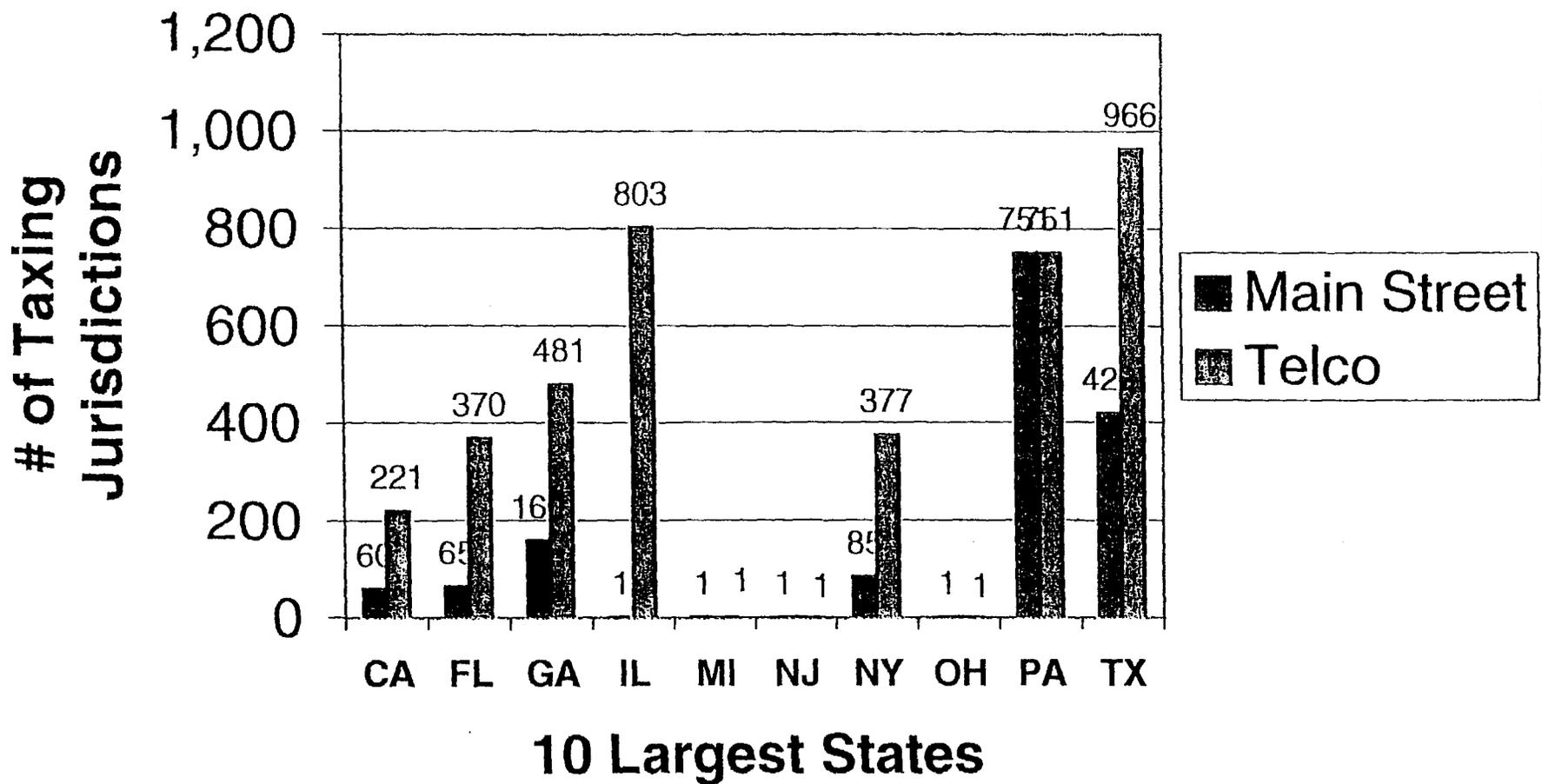
Note: 'Main Street' refers to general business;  
e.g., a seller of tangible personal property with  
stores in each taxing jurisdiction.

# Comparison of Annual # of Returns in Ten Largest States



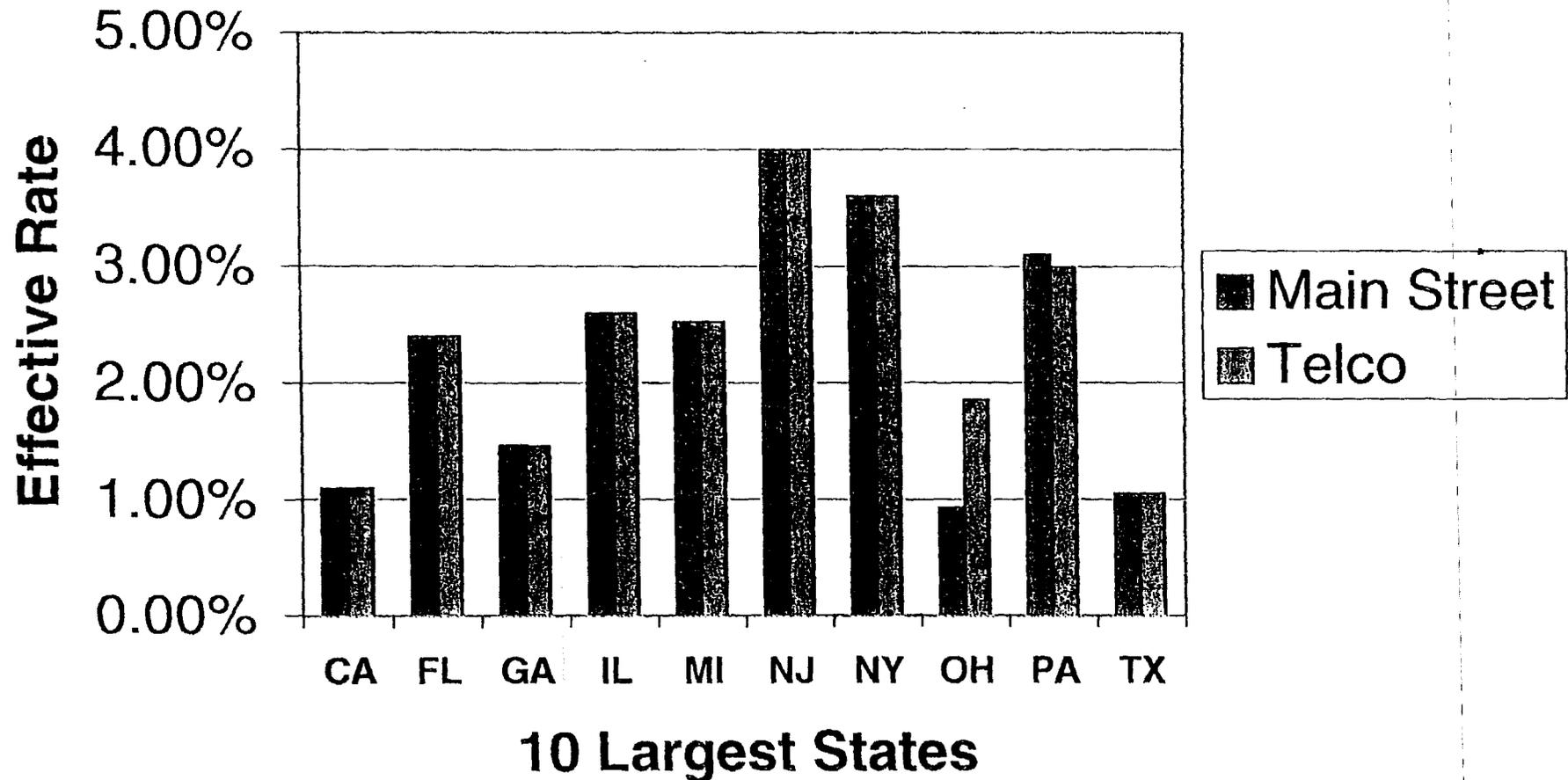
Note: 'Main Street' refers to general business; e.g., a seller of tangible personal property with stores in each taxing jurisdiction.

## Comparison of # of Taxing Jurisdictions in Ten Largest States



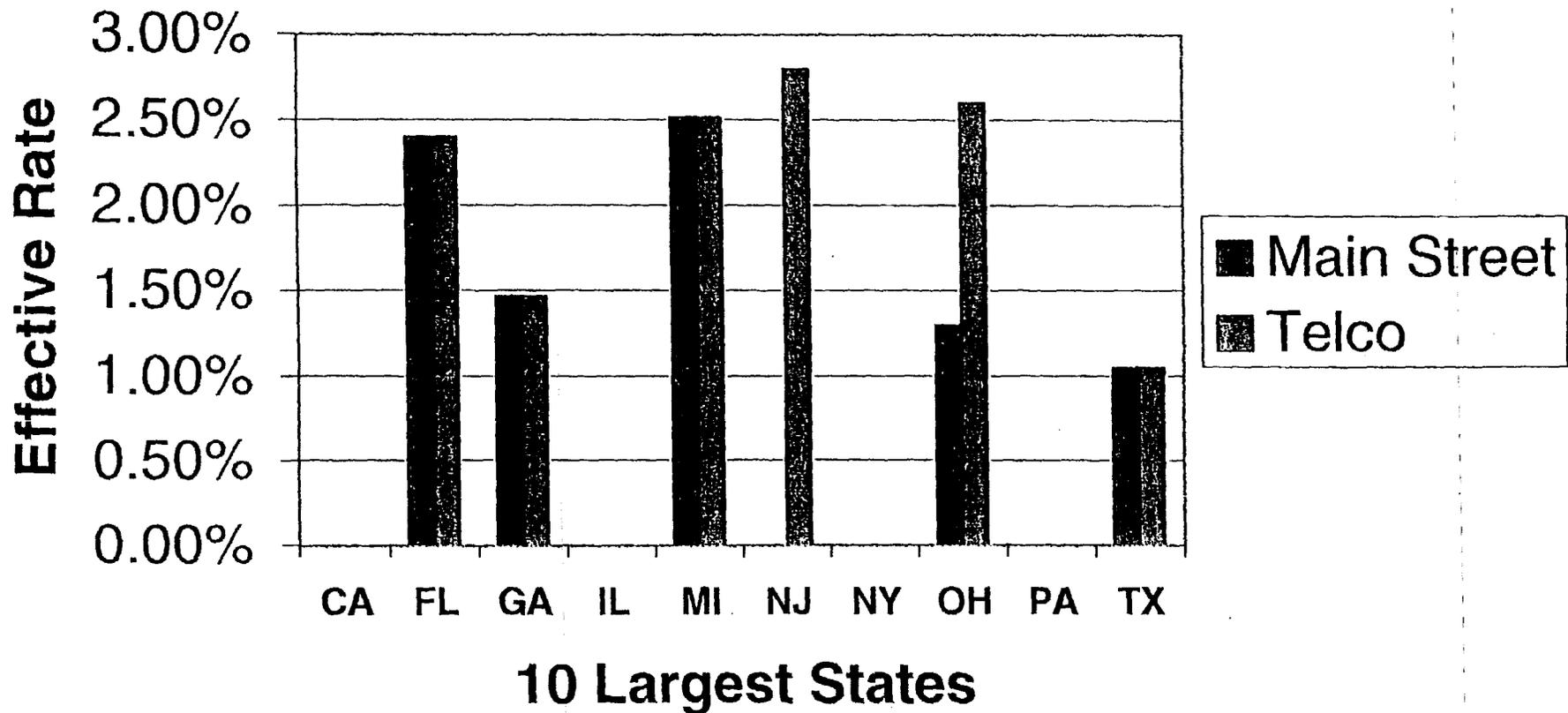
Note: 'Main Street' refers to general business; e.g., a seller of tangible personal property with stores in each taxing jurisdiction.

# Comparison of Real Property Effective Tax Rate in Ten Largest States



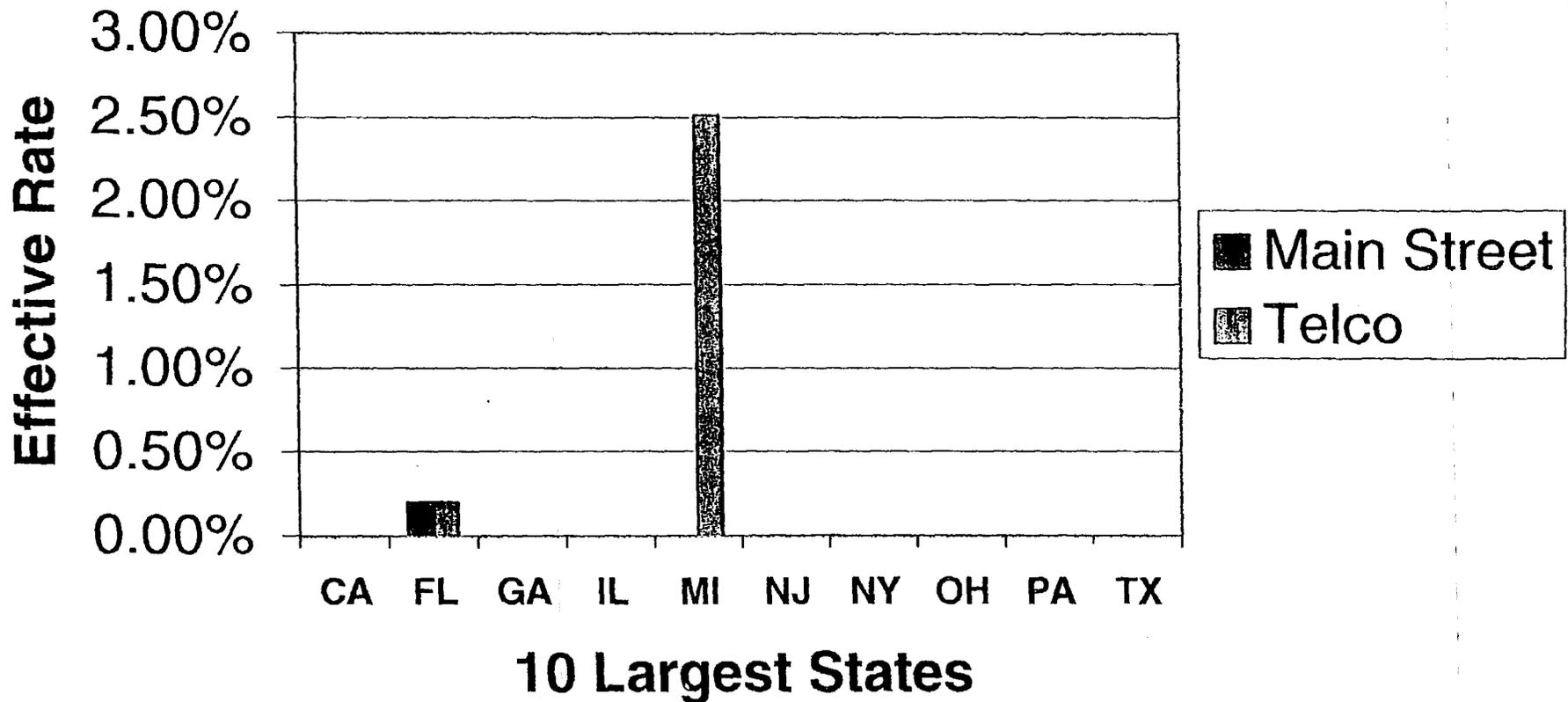
Note: 'Main Street' refers to general business;  
e.g., a seller of tangible personal property with  
stores in each taxing jurisdiction.

# Comparison of Tangible Personal Property Effective Tax Rate in Ten Largest States



Note: 'Main Street' refers to general business; e.g., a seller of tangible personal property with stores in each taxing jurisdiction.

# Comparison of Intangible Value Effective Tax Rate in Ten Largest States



Note: 'Main Street' refers to general business;  
e.g., a seller of tangible personal property with  
stores in each taxing jurisdiction.



## APPENDIX C

### METHODOLOGY AND ASSUMPTIONS

#### Methodology

The COST Telecommunications Tax Task Force<sup>10</sup> prepared the Study. The data compiled is true and accurate to the best knowledge of the Task Force members that participated in the Study. COST cannot and does not attest that the data is absolutely precise. However, COST believes that the data reasonably reflects the existing state and local tax burden imposed on the telecommunications industry.

The participants in the Study attempted to identify and quantify each element that is part of the taxing process for sales of tangible personal products (general business) and certain taxable services (telecommunications). The participants also attempted to identify the applicable property tax rates applied to property. Income taxes are not included in the Study. For each state the Study contains a worksheet that shows:

- A list of taxes that apply
- Whether the tax applies to telecommunications and/or general business
- Whether the tax is imposed on the business or customer
- Applicable tax rates (or ranges of rates) or amounts imposed
- Consistency of rates (from local jurisdiction to local jurisdiction)
- Applicable tax base for each tax (in very general terms)
- Number of taxing jurisdictions applying each tax
- Number of returns required for each tax each year
- Whether tax bases are consistent for a tax (from local jurisdiction to local jurisdiction)
- Whether tax exemptions from the taxes are consistent
- Whether vendor's compensation is allowed for administering the tax
- Whether the business is centrally or locally assessed
- The methodologies used to determine the fair market values of property
- The effective tax rates applied to real, tangible personal, and intangible property

The results of the individual state studies were input into a worksheet that summarizes the data for both general business and telecommunications businesses. The state by state summary data shows:

- The number of state and local taxes (i.e., counts the different types of taxes)
- The state and local effective tax rates
- The number of state and local tax bases
- The number of returns the businesses must file each year
- The number of different taxing jurisdictions

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<sup>10</sup> The following companies participated in the Study: AirTouch Communications, ALLTEL Corporation, Ameritech Corporation, AT&T Corporation, Bell Atlantic Corporation, BellSouth Corporation, Citizens Utilities Company, CommNet Cellular Inc., Frontier Corporation, GTE Corporation, MCI WorldCom, Nextel Communications, Inc., SBC Communications, Inc., Sprint Corporation, U.S. West, VoiceStream Wireless, and Western Wireless Corporation.

- The effective property tax rates for real, tangible personal, and intangible property (taking into account assessment ratios and rates)

The state by state summary data is sorted and incorporated into several graphs. Two sets of graphs are included. The first set includes comparative data for the top ten highest states (e.g., the ten states with the highest applicable parameter for telecommunications). The second set includes comparative data for the top ten most populous states (based on 1998 populations).

The summary data is also included in comparison charts that show the results of each parameter by state. The side-by-side comparisons highlight a few parameters where general business has a worse result than telecommunications. For example, general business may pay a tax or fee that telecommunications does not (due to another tax or fee applying in lieu of the tax or fee). In a couple of instances, the administrative burden on general business may be greater for a particular tax.

### **Assumptions**

For each state, the Study assumes that the telecommunications business is a statewide service provider and the general business has a store in each taxing jurisdiction. Thus, the Study attempts to identify each transactional tax or fee and the property tax applicable in each local jurisdiction in the state (as well as the state level taxes and fees).

Given the complexity of the taxation of telecommunications and in order to compare the data, various assumptions were made. Because state and local taxing jurisdictions frequently do not tax all types of telecommunications uniformly, if any segment of the telecommunications industry is taxed, the highest tax or rate imposed on such service is included in the summary. For example, if only local telecommunications service is taxed (not long distance or wireless service), the tax on local service is included in the data. Similarly, to the extent local jurisdictional tax rates vary, the highest rates are generally included. Because there are many taxes and fees that are applied on an access line basis (e.g., many 911 fees), such flat amounts were converted to percentages based on average monthly residential bills (for 1998).



## APPENDIX D

### GLOSSARY OF TERMS

**Assessed Value.** With respect to a taxpayer's property, the measure of value to which the tax rate is applied to determine the tax liability. The assessed value is typically set by state statute at some fraction of the property's true fair market value depending on the type of property (e.g., real or personal) and/or the use of the property (e.g., residential or commercial).

**Assessment Ratio.** The ratio of assessed value to true fair market value. The term "assessment ratio" is often used to distinguish between the levels of assessed value for different types of property.

**Business License Tax or Fee.** A tax that is imposed for the privilege of doing business within the taxing jurisdiction. It is sometimes set as a flat fee depending on the type of business but may also be based on the company's gross receipts within the taxing jurisdiction, either pursuant to a graduated scale or expressed as a percentage.

**Central Administration.** This term refers to the administration of some or all local sales, excise, or gross receipts taxes by a single entity, such as the state department of revenue or other state agency responsible for the administration of the state sales tax.

**Effective Property Tax Rate.** For purposes of the Study, the "effective property tax rate" was determined by multiplying the average millage rate applicable to property in the state by the assessment ratio prescribed for the particular type of property. Alternatively, the rate could also be calculated by dividing the property tax by the fair market value of the property.

**Excise Tax.** For purposes of this Study, the term "excise tax" refers to a transactional tax imposed on the sale of one or more specific types of services, such as telecommunications services. It is similar to a sales tax in that it is typically imposed on the purchaser of the service and collected and remitted by the seller, but it is not generally applicable to the sale or lease of all tangible personal property and other services commonly subject to sales taxes.

**Exemption.** Generally a statutory provision providing that a tax shall not apply to certain property, services, persons or transactions that otherwise would be subject to the tax.

**Exemption Certificate.** Generally a representation by the purchaser, in a form prescribed by the respective taxing jurisdiction, that some or all purchases are exempt from tax, typically based either on the status of the purchaser or the use to which the purchaser intends to put the property or services being purchased, e.g., purchases for resale.

**Franchise or Right-of-Way (ROW) Fee.** A fee paid by carriers to municipalities and/or counties pursuant to contract and/or local ordinance, which is ostensibly based on the carrier's use of the public rights-of-way for placement of its facilities. Such fees are often expressed as a percentage of all or part of the carrier's revenues generated within the local jurisdiction, but may also be measured in other ways, such as by the linear miles of the carrier's cable within the jurisdiction.

**Gross Receipts Tax.** For purposes of this Study, the term “gross receipts tax” refers to a transactional tax that is measured by the gross receipts from one or more specific types of services, such as telecommunications services. It is similar to an excise tax, except that the legal obligation to pay the tax is imposed on the seller. Depending on the applicable law, the seller may or may not be permitted to pass the tax on to its purchasers as a line item on the bill. If not passed on, the seller must absorb the tax as an additional cost of doing business.

**Intangibles or Intangible Property.** Property other than tangible physical assets. Examples include the value of licenses to provide services, such as cellular and PCS licenses, goodwill and the excess of a company’s fair market value as a going concern over its net book value. Intangible property may or may not be subject to the general property tax depending on state law. However, even when not subject to the general property tax, the value of intangibles is often reflected in the assessed value of a taxpayer’s property because of the method used to determine value.

**Property Tax.** A tax measured by applying the rate, generally expressed in terms of millage, to the assessed value of taxable property.

**Sales Tax.** A tax that applies generally to the sale or lease, within the taxing jurisdiction, of tangible personal property and certain enumerated services, and which is typically collected by the vendor from the purchaser at the time of sale and remitted to the taxing jurisdiction on monthly returns.

**Sourcing.** In connection with a transactional tax, the determination of where the sale of the product or service takes place for purposes of applying the tax of the correct jurisdiction or jurisdictions.

**Tax Base.** The amount to which the tax rate is applied in order to determine a taxpayer’s tax liability. In the case of a transactional tax, the tax base is essentially the sum of the revenues received by the taxpayer from taxable products or services during the reporting period. In the case of a property tax, the tax base is essentially the aggregate assessed value of the taxpayer’s taxable property to which millage rates are applied.

**Tax Matrix.** A database listing all of the products and services provided by a company and indicating whether each such product or service is subject to tax. A particular product or service would not be subject to the tax if the tax does not apply to that item or if it is exempt from the tax. A company must maintain a unique tax matrix for each transactional tax that is imposed on a different tax base.

**Tax Rate.** In the case of a transactional tax, the percentage applied to the tax base in order to determine a taxpayer’s tax liability. In the case of a property tax, the millage applied to the assessed value of a taxpayer’s taxable property in order to determine the tax liability.

**Taxing Jurisdiction.** In the case of a transactional tax, any state, or any political subdivision of a state, that imposes a separate tax or franchise fee. In the case of a property tax, a state or political subdivision imposing a separate millage rate to the assessed value of taxable property.

**Transactional Tax.** A tax imposed upon or measured by the amounts paid for products and services, regardless of whether the legal obligation to pay the tax is placed upon the vendor or customer.

**Unified Audit.** This term refers to a situation in which a single entity, such as a state department of revenue, conducts a single audit of taxpayers for all state and local transactional taxes, as opposed to each individual taxing jurisdiction potentially conducting a separate audit of the taxpayer for its respective tax.

**Unified Exemption Rules.** This term refers to a situation in which each taxing jurisdiction in a state follows the same rules regarding which property, services, persons and transactions are exempt from tax, and in which a single exemption certificate is applicable to all transactional taxes and accepted by all taxing jurisdictions within a state.

**Unified Filing.** This term refers to a situation in which taxpayers subject to state transactional taxes and one or more local transactional taxes file a single return with respect to each reporting period for all such taxes, as opposed to filing multiple separate returns in each individual taxing jurisdiction.

**Uniform Sourcing.** This term refers to a single method of sourcing, applicable to all taxing jurisdictions, which would eliminate the possibility of a transaction being sourced, due to inconsistent sourcing rules in the different jurisdictions, to more than one jurisdiction at the same level (e.g., more than one local jurisdiction).

**Uniform Tax Bases.** This term refers to a situation in which each taxing jurisdiction that imposes a given type of tax (e.g., sales tax) imposes the tax on the same base (i.e., the same products and/or services) and recognizes the same exemptions, although the tax rates may differ. The term could apply to all state and local taxes or to all local taxes within a state.

**Uniform Tax Rates.** This term refers to a situation in which each taxing jurisdiction that imposes a given type of tax (e.g., sales tax) imposes the tax at the same rate, although the tax bases may differ. Although the term could apply to all state and local taxes or only to all local taxes, for purposes of this Study, the term “unified rate” is used to apply only to all local taxes within a state.

**Unit Valuation.** A method of valuing a taxpayer’s property for property tax purposes that is generally used in connection with centrally assessed taxpayers. Under a unit valuation approach, instead of valuing individual items of taxable property, the value of the entire company as a going concern or “unit” is determined using various approaches, some of which have no relation to the value of individual items of property (such as capitalization of earnings, stock and debt, and/or using prices reflected in recent mergers and acquisitions of the same or other companies). The unit value so determined is then allocated among the states in which the company operates, and it is the allocated value that forms the basis of the company’s assessment. In contrast, the property of most other taxpayers is assessed locally by county tax assessors, and the valuation of such property is based primarily on comparable sales (for real property) and cost (for personal property).

**Use Tax.** A tax that applies generally to the use or consumption, within the taxing jurisdiction, of tangible personal property purchased outside of the taxing jurisdiction by the purchaser. A use tax is generally complementary to, and imposed at the same rate as, the jurisdiction’s sales tax.