

Don't like the thought of sending even more of your hard-earned money to the government for corporate welfare? Then take notice: The FCC is considering a bipartisan proposal that would tax your Internet connections and fill the pockets of our nation's phone companies, even the ones that earn billions in profits while getting their own tax rebate checks from Uncle Sam.

At issue is how to pay for the Universal Service Fund (USF), a Reagan-era program with the laudable goal of ensuring that rural and low-income Americans have access to affordable communications services. Congress codified the FCC's existing program in a [1996 law](#), but left it to the FCC to figure out how to fund the program instead of using general tax revenues.

The FCC decided to adopt fees for long distance phone companies, which all dutifully pass those costs along to their customers in below-the-line [charges](#). (It's this complicated pass-through that lets the government and your phone company [claim](#) this fee isn't really a "tax.")

What started as a program with important goals (making sure rural farmers can make phone calls and ensuring the poorest among us can dial 911) turned into an unaccountable corporate slush fund. Today USF is an [\\$8 billion](#) annual program, nearly [quadrupling](#) in size since its inception, with the bulk of that increase going to landline and wireless phone companies.

Maybe this massive growth would be no concern if USF were a model program with a sterling reputation for efficiency. [But it's not](#). One recent [study](#) found that 59 cents of every USF dollar raised for rural networks was spent on administrative expenses and general overhead. A 2010 audit of the rural USF program [found](#) that one out of every four dollars sent to participating phone companies was an "overpayment," with nearly a billion dollars unaccounted for.

The FCC recently adopted [some reforms](#) to rural and low-income USF programs, but just this past month the Government Accountability Office [noted](#) that the FCC has yet to implement any system for determining each phone company's actual need for subsidies or any mechanism for tracking the effectiveness of the \$8 billion program.

Against this backdrop of an ever-increasing multi-billion dollar corporate subsidy come ongoing calls to overhaul how we pay for the USF. The need for some reform is pretty obvious—mostly because the way the system works today is anything but clear to the average consumer.

Go pull out a recent cell phone bill and look for the line item with a name like “Federal Universal Service Charge.” It will be a few bucks each month, accounting for about 6 percent of the total cost of your voice plan.

The FCC today requires fees only on the *interstate* revenues of telecommunications service providers (meaning long distance and cell phone carriers), and those companies pass that fee along to you. But because the overall size of USF is growing at a time when these long distance revenues are not, the size of the FCC’s assessment is growing. So this “[contribution factor](#)” is about 3 times higher today than it was 15 years ago, meaning that \$3 tax on your phone bill used to be \$1.

Instead of doing the politically hard work of strengthening the USF by cutting back the amount we toss to the companies feeding at the subsidy trough, [politicians](#) like former Democratic Rep. Rick Boucher, [regulators](#) like current Republican FCC Commissioner Rob McDowell, and some big [companies](#) have [called](#) for “expanding the contributions base,” which is DC-speak for adding a USF tax to services like your home broadband connection or smartphone data plan.

AT&T [says](#) that “retail mass market broadband Internet access should be included” in the FCC’s tax, and Google “strongly supports expanding the USF contribution base to include broadband Internet access services,” even as it [begs](#) the FCC to exempt Google’s own voice telephony services from the USF tax.

Think carefully

Our policymakers should think carefully before creating a new broadband tax. The big concern is that because consumer demand is more sensitive to price increases on emerging services like broadband than established ones like telephone service, a broadband tax could actually undermine adoption in low-income and senior populations, the very people most likely to be disconnected.

Like the rural electrification efforts during the New Deal, the goals of the USF program are noble; we all benefit when more of our fellow citizens are connected. But the FCC needs to focus on making USF more efficient and accountable before it reaches further into our wallets. At the very least, policymakers need to [first study](#) the impact of a broadband tax before foisting it on consumers.

Ultimately, if Congress wants to put USF on stable ground, it needs to change the law so the program is funded through general treasury revenues, not these regressive taxes.