

FISCAL IMPACT OF PROPOSED LEGISLATION

Measure: HB 4055 - 6

Seventy-Seventh Oregon Legislative Assembly – 2014 Regular Session
Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

For purposes of tax on customer access to 9-1-1 emergency reporting system from prepaid telecommunications service customers, requires Department of Revenue to establish by rule policies and procedures for collection of tax imposed on prepaid services and on fixed interconnected Voice over Internet Protocol service.

Government Unit(s) Affected:

Department of Revenue(DOR), Cities, Counties, Oregon Military Department

Summary of Expenditure Impact:

	2013-15 Biennium	2015-17 Biennium
2% Retailer Holdback	\$17,894	\$49,364
Other Funds – DOR	\$81,429	\$499,618
Total Funds	\$99,323	\$548,982
Positions	1	2
FTE	0.63	2.71

Local Government Mandate:

This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

Analysis:

The measure changes the method of tax collection for the 9-1-1 Emergency Reporting System as the tax is applied to prepaid telecommunication services, allows for retailers collecting the tax on behalf of consumers to withhold 2% of the amount collected for administrative costs, and increases the percentage allowed for administrative costs by the Department of Revenue from 0.5 percent to 1.0 percent of the amount collected.

The bill adds and modifies definitions related to the tax base for 9-1-1 Emergency Reporting System to clarify existing statute and to accommodate the change in collecting the tax from prepaid wireless service carriers to prepaid wireless consumers via point of sale collection by retailers. The measure creates a nine-month transitory period from January 1, 2015 to September 30, 2015 during which prepaid wireless carriers would continue to collect and forward the tax to the DOR, however, prepaid wireless carriers would be exempted from the existing tax statute and re-established in a separate temporary statute where the calculation of the tax is clarified using one of two alternate methods. Following this period and beginning on October 1, 2015, the original taxing statute is restored to its applicability to prepaid wireless carriers, but modified so that the consumer of prepaid services is responsible for the payment of the tax and the tax is to be collected by the retailer at each retail transaction. Beginning October 1, 2015 the tax statute also includes an explicit reference to interconnected Voice over Internet Protocol (VoIP) services that have access to the 9-1-1 system being subject to the tax.

The measure allows for retailers who collect the tax to withhold 2 percent of the amount collected to offset the administrative cost of collecting the tax. The measure also increases the percentage of the total amount collected that is available for use by the DOR for payment of actual cost of administering the tax collection program from 0.5 percent to 1.0 percent. Based on the estimate provided by the Legislative Revenue Office, this amount is roughly \$400,000 each biennium, and it is in addition to the amount currently expended by the DOR for this purpose. Based on the estimated total tax revenue, the agency is expected to have an additional \$201,343 available for administrative costs in the current 2013-15 biennium, according to the revenue impact statement.

The additional number of taxpayers that result from the change contemplated by the measure will require that the DOR add additional resources to the collection and enforcement of the tax. In total DOR anticipates adding two new positions and increasing the workload of three existing positions to accommodate the change. The first added position would be a double-filled clerical position beginning 7/1/2014 to prepare forms, answer questions from prepaid wireless carriers, and support an existing position that will be increased to account for the additional workload up to and through the transitory period. This position would be carried on to subsequent biennia full time. The second new position would be an auditor position and would be established beginning 7/1/2015. This position would be a full-time permanent position to audit the quarterly returns of retailers. Three other existing positions are anticipated by the DOR to be utilized to accomplish the additional workload. This would require an increase in part-time positions hours or a reallocation of time from other activities to this program. Although captured in the cost table above, the Legislative Fiscal Office expects that if DOR shifts hours and therefore costs of existing employees to this program to fulfill the expected workload, there would be a corresponding decrease in the cost of programs of which the hours were reduced.

No significant additional information technology costs are anticipated by DOR. The tax reporting by retailers is to be done through a web-based portal that will be included with the agency's current core systems replacement project. DOR reports that due to the timing of the change, no additional costs will be incurred to include this function; however, it will require that the implementation of the 9-1-1 portion of the Core System Replacement project be moved from October 2016 to October of 2015. This can be done at no additional costs, according to the agency.

In addition to the personal service and associated services and supplies costs, DOR has included costs for allocated overhead, travel, and legal fees associated with auditor activities. Although the agency assumes that there may be potential legal challenges from prepaid wireless carriers who have filed similar lawsuits in other states and from certain retailers, those potential costs are indeterminable and not captured in the table above.

The net revenue collected by the DOR for the 9-1-1 Emergency Response System Tax is deposited in the Emergency Communication Account and appropriated to the Oregon Military Department (OMD). In addition to the percentage allowed to cover the actual expenses of the DOR, the OMD is allowed up to 4 percent to cover its actual expenses. The remaining funds are distributed to 9-1-1 jurisdictions of cities and counties after distribution of 35 percent dedicated to enhanced 9-1-1 functions.