June 3, 2020

Hon. Reinaldo Vargas Rodríguez  
Presidente de la Comisión de Comisión de Asuntos Municipales  
2do. Piso Anexo  
San Juan, PR 00902-222

Dear President Vargas:

On behalf of CTIA®, the trade association for the wireless communications industry, I write to strongly oppose provisions of Senate Bill 1333 that would modify the taxation of telecommunications companies under the property tax code. If enacted, according to Telecommunications Bureau President Sandra Torres, these provisions would result in the tax burden for some telecommunications companies increasing by up to 1000 percent.

The current property tax system already results in telecommunications companies paying a discriminatory tax burden as compared to other businesses in Puerto Rico. Under current regulations, the “voice channel” methodology for establishing property tax valuations combined with the 21 percent adjustment factor - compared to 10.55 percent for self-assessed businesses - results in telecommunications companies paying approximately $48 million in discriminatory property taxes to municipalities. The proposed legislation would change a system that already discriminates against telecommunications companies and make it ever more burdensome and discriminatory for CTIA member companies.

This is a question of tax fairness. The wireless industry currently pays and remits hundreds of millions in taxes to the Commonwealth and its municipal governments, including the following:

- Income taxes on net income earned in Puerto Rico
- Commonwealth and municipal sales taxes on sales of wireless service
- Commonwealth and municipal sales taxes on purchases of network equipment
- 911 taxes to fund emergency communications
- Municipal license taxes
- Property taxes

The wireless industry already contributes more than its fair share of taxes to funding Commonwealth and municipal services in Puerto Rico, which makes it surprising and disappointing that the industry would be targeted with such a significant, discriminatory tax increase.
The U.S. wireless industry has begun to invest in deploying 5G, the next generation of wireless service. 5G promises to unleash the benefits from the Internet of Things (IoT), including autonomous vehicles, mobile health care, and distance learning. A recent study by Accenture Strategy found that wireless providers will invest approximately $275 billion in U.S. infrastructure over the next few years, which could create up to 3 million jobs and boost annual Gross Domestic Product (GDP) by $500 billion nationally.² It is estimated that over the first 7 years of 5G buildout in Puerto Rico’s ten largest municipalities, wireless providers will invest over $1 billion in their networks - adding over $1.95 billion in estimated GDP growth and approximately 12,000 new jobs in those ten municipalities.

We are very concerned that the proposed tax increase would have a chilling effect on new wireless network investment in the Commonwealth. If 5G investment in Puerto Rico is delayed or reduced, sales tax revenues from purchases of new equipment will be delayed or reduced as well. In addition, the economic development benefits of 5G investment as discussed in the CTIA study will be delayed or reduced as well, and citizens and businesses will not have access to the technology needed to keep them competitive with the mainland U.S. as well as other countries in the region.

The proposed legislation would replace the “voice channel” methodology for establishing the property value of telecommunications companies with a “per line” value of $188. However, the number of lines has no relationship to the value of the property used to provide telecommunications services. Therefore, the legislation would in effect convert the property tax to an excise tax of approximately $1.50 per month per line assuming the current average effective rate of approximately 10 percent. Under the federal “Permanent Internet Tax Freedom Act,” states and territories are prohibited from taxing Internet access. While this prohibition does not apply to taxes levied on property value, it does apply to taxes imposed on a per line basis. Therefore, the proposed legislation could be subject to a court challenge unless internet access lines were specifically excluded from the tax.

CTIA’s opposition to SB 1333 does not mean that our member companies do not support reform of the property tax system as it applies to telecommunications companies. In fact, the current “voice channel” valuation methodology is an obsolete system that was put in place after the sale of the Puerto Rico Telephone Company (PRTC) because the CRIM did not have any way to value PRTC’s assets. This system is no longer appropriate for the competitive telecommunications industry that has replaced the monopoly industry that once existed.

Therefore, wireless providers have proposed a system that would use Net Book Value to establish the taxable value for telecommunications providers beginning in 2021. This reform would treat telecommunications companies like other businesses in the Commonwealth and eliminate the obsolete and discriminatory “voice channel” methodology.

In summary, CTIA urges the committee to reject the proposed provisions of SB 1333 and work with the industry to create a fair and equitable property tax system for all businesses in Puerto Rico.

Sincerely,

Gerard Keegan  
Vice President  
State Legislative Affairs