



The Social Cost of Wireless Taxation: Wireless Taxation and its Consequences for Minorities and the Poor

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EXECUTIVE SUMMARY:

Continual increases in state and local taxes of mobile service, digital goods, and digital services harm the ability of low-income communities to realize the full benefits of mobile broadband and create deeply troubling consequences for minorities and the poor. Understandably, the enormous growth of the mobile broadband and applications markets makes the consumer costs of wireless service, digital goods, and digital services tempting potential tax bases for struggling state and local governments. However, more tax increases on mobile service and the purchase of digital goods and services would perpetuate a regressive tax regime. Left unchecked, this tax structure will continue to harm low-income consumers who stand to gain the most from the potential of wireless broadband to lower their cost of living while improving their prospects in healthcare, employment, and other areas.

Recent data shows that people of color and low-income individuals are the most avid users of mobile devices. These consumers are therefore in a position to benefit from the lower prices offered via the Internet. Unfortunately, they are also in a position to be disadvantaged by higher taxes on mobile services, digital goods, and digital services. Moreover, raising taxes on wireless services, digital goods, and digital services could potentially thwart behaviors policymakers and others seek to encourage, such as increased broadband adoption rates among minorities and the poor.

Under consideration in the U.S. Congress are two bills—the Wireless Tax Fairness Act of 2011 (H.R. 1002 and S. 543) (WTFA) and the Digital Goods and Services Tax Fairness Act of 2011 (H.R. 1860 and S. 971) (DGSTFA), which would help prevent disproportionate harms to minorities and the poor. The WTFA would impose a five year moratorium on new “discriminatory” (i.e. higher) wireless service taxes, as compared to state and local sales taxes on goods and services purchased offline. The DGSTFA would prohibit state and local governments from imposing “multiple or discriminatory” taxes on digital goods and digital services, as compared to state and local taxes on tangible goods and services purchased offline. These bills would give state and local governments the opportunity to update their tax laws and, most importantly, encourage consumers to make full use of mobile broadband during these difficult economic times.

This paper presents an argument for why state and local governments should opt for comprehensive reform of taxes against wireless services, digital goods, and digital services and shares recent data on minority mobile broadband use. In the end, the need to clearly understand the unintended consequences of a regressive tax regime on minorities and the poor is essential for developing a more equitable tax structure on wireless services and digital goods.

While African-Americans and Latinos are leading the nation in wireless and smartphone usage, they disproportionately comprise the nation’s low-income population. When states raise the tax burden on the most vulnerable Americans, the ability of these citizens to break the trajectory of poverty by connecting to vital services and opportunities is more difficult, and the incentive to use broadband for these purposes is diminished.

Such regressive taxation schemes also create a broadband adoption barrier for low-income individuals that have no other reliable way to go online. The higher total cost of service created by these taxes may cause many low-income consumers to either forego purchasing a mobile device and subscribing to a mobile service plan, or cancel their service upon discovering the true cost of maintaining their service.

While regressive state and local wireless taxation structures may appear to generate revenues to provide needed services, these taxes also put mobile opportunities farther out of reach for those consumers who would most benefit from wireless broadband. In the end, comprehensive and equitable tax policies are absolutely critical for creating a mobile broadband environment that is more conducive to improving conditions in low-income communities.

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