



2023

**TAX CHANGES**  
Avalara

A TAX COMPLIANCE GUIDE FOR  
**COMMUNICATIONS**

# Communications

## DISCLAIMER

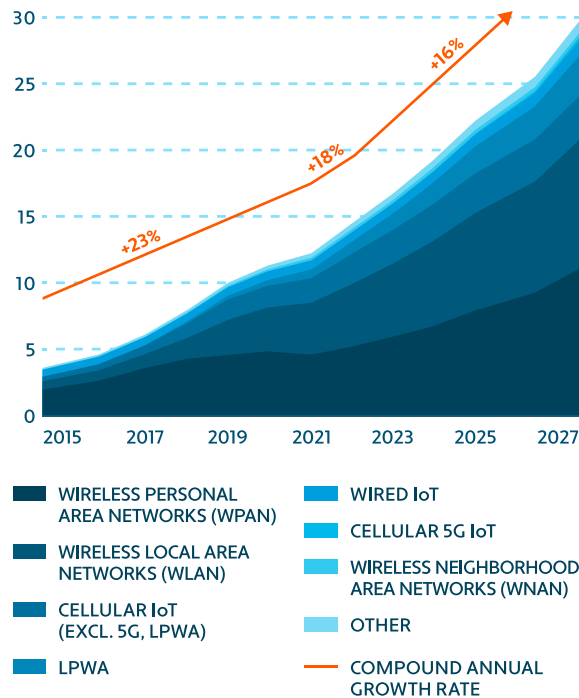
Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.

<b>INTRODUCTION</b> .....	<b>3</b>	<b>GO</b>
<b>NET NEUTRALITY ROADBLOCK JAMS FEDERAL UNIVERSAL SERVICE FUND REFORM</b> .....	<b>4</b>	<b>GO</b>
<b>CALIFORNIA CONSOLIDATES COMMUNICATIONS TAXES BUT CAN IT AVOID COMPLICATIONS?</b> .....	<b>5</b>	<b>GO</b>
<b>WILL THE RISE OF AD-BASED STREAMING LEAD TO NEW STATE TAXES?</b> .....	<b>7</b>	<b>GO</b>
<b>COMMUNICATIONS PLATFORM AS A SERVICE SNOWBALLS</b> .....	<b>9</b>	<b>GO</b>
<b>SATELLITE AND FIXED WIRELESS INTERNET SERVICE PROVIDERS DRIVE MORE PERVASIVE CONNECTIVITY</b> .....	<b>11</b>	<b>GO</b>
<b>OTHER ISSUES LIKELY TO AFFECT THE COMMUNICATIONS INDUSTRY IN 2023</b> .....	<b>12</b>	<b>GO</b>
<b>LOOKING AHEAD</b> .....	<b>14</b>	<b>GO</b>

# Introduction

The communications industry has come a long way since Alexander Graham Bell patented the telephone in 1876. From smart refrigerators to satellites and streaming video, new products and services are often released faster than tax authorities can regulate them. For perspective, an estimated **29 billion Internet of Things (IoT) device connections will exist by 2027**. Sooner or later, however, states and local jurisdictions will figure out a way to line their coffers so the list of **technologies subject to complex communications taxes** keeps growing.

**GLOBAL IoT MARKET FORECAST**  
(IN BILLIONS OF CONNECTED IoT DEVICES)



“Keeping up with communications tax changes will be one of the greatest challenges for businesses in the coming years,” says Steve Laccoff, General Manager of Avalara for Communications. “This will add more complexity and place an additional burden on businesses when it comes to tax preparation, filing, and remittance.”

New revenue models for streaming and massive growth for communications platform as a service (CPaaS) have jurisdictions rubbing their hands together in anticipation of replenishing diminishing revenues. Meanwhile, an ongoing partisan impasse in Washington, D.C., has telecommunications and internet providers still wondering how their bottom lines might be impacted by potential Federal Universal Service Fund (FUSF) reform.

# Net neutrality roadblock jams Federal Universal Service Fund reform

A controversial issue that continues to generate attention in Washington, D.C., is net neutrality. When we finally see movement on the issue, it could clear a path for overhauling the Federal Universal Service Fund (FUSF) and relief of a roughly 30% charge added to phone bills.

The FUSF was created to provide phone service to rural areas, low-income consumers, schools, libraries, and health care providers. In 2011, the [Federal Communications Commission](#) (FCC) approved using the fund to extend broadband.

Net neutrality is the principle that all internet data should be treated the same, without favoring or blocking certain websites, platforms, or devices. Proponents believe in equal internet access for everyone.

Opponents argue that allowing internet service providers to charge different prices for different services [spurs innovation, encourages companies to expand their infrastructure, and keeps consumer costs at bay.](#)

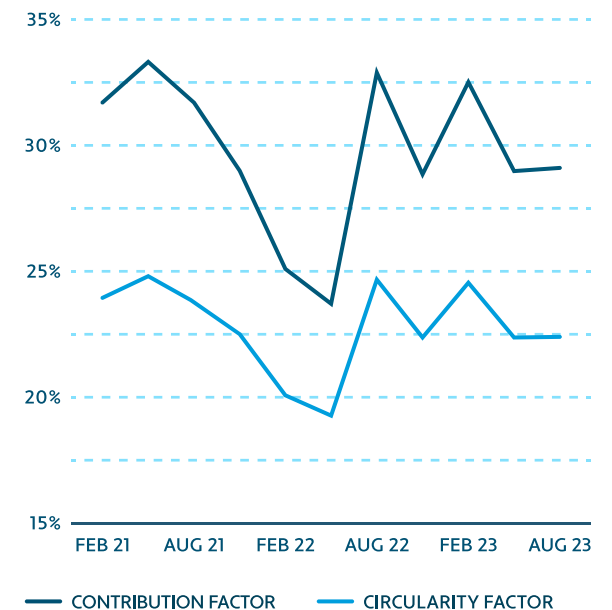
A [net neutrality bill](#) introduced in both houses of Congress in 2022 would have reclassified internet service as a Title II telecommunications service, making it an essential utility, and giving the FCC control over broadband. The bill didn't make it out of committee.

The FCC, lacking a fifth commissioner, remains deadlocked on most major issues including net neutrality. It's likely President Biden's nominee for the seat, Gigi Sohn, would have tipped the scale toward net neutrality. Sohn withdrew from consideration in March 2023.

Currently, internet service providers aren't required to pay into the FUSF, but they might be in the future if internet service is reclassified as a necessary utility. Potentially impacted businesses must continue to prepare for a decision either way so they're not caught off guard.

## CONTRIBUTION AND CIRCULARITY FACTORS

Contribution and circularity factors are percentages used when calculating Federal Universal Service Fund obligations and annual true-up



Source: [USAC](#)

# California consolidates communications taxes but can it avoid complications?

In addition to federal communications taxes, there's a complex overload of communications taxes in many states. **Some states** are trickier than others when it comes to communications fees. Until recently, California required businesses to fund up to seven telecommunications services programs, each with its own fee based on a percentage of revenues. To make matters more complicated, the number of fees changed throughout the year depending on the state budget.

Effective April 1, 2023, the California Public Utilities Commission **consolidated most communications fees** to fund **six programs**. Landline, VoIP, and wireless phone carriers now must calculate a flat-rate fee of \$1.11 per access line.

Sounds like a simple solution, right? Not necessarily.

Tax authorities like per-line surcharges because they help them predict how much revenue they'll receive. But with all the technologies that exist today and the **multitude of ways states define products and services**, it can be tough to define

what qualifies as a line. That's especially true when we start looking at virtual services. Plus, many communications services don't require a line at all. This also requires VoIP providers to utilize a billing platform capable of tracking this line-count detail for their customer accounts.

## VoIP DEFINITIONS

### STATIC VoIP

Calls are made from a fixed address, which makes it feasible to identify the origination point

### NOMADIC VoIP

Subscribers can make calls from any broadband internet connection – meaning a call may originate from, or terminate at, any location

### NON-INTERCONNECTED VoIP

Allows users to contact other users operating the same VoIP software but doesn't allow calls from the public switched telephone network

### INTERCONNECTED VoIP

Generally allows users to make and receive calls from a regular telephone network

Source: [Avalara](#)

# Communications



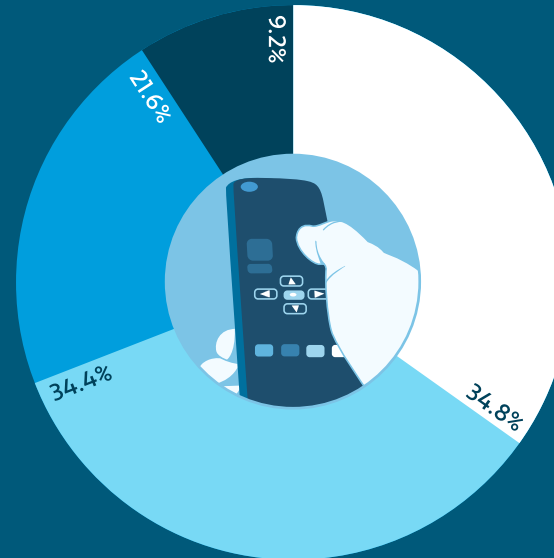
# 7M+

Over 7 million U.S. customers receive internet via WISPs, the fastest-growing sector of the broadband industry

SOURCE: [WISPA](#)

Streaming viewership surpassed cable TV for the first time in July 2022

SOURCE: [Nielsen](#)



# 34.8%

STREAMING

# 34.4%

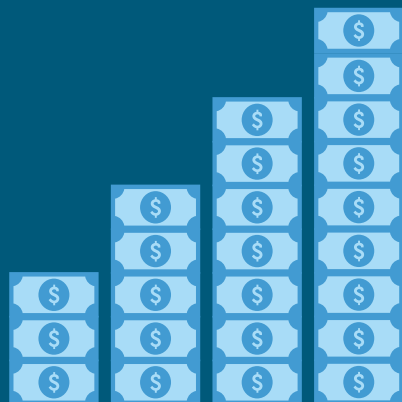
CABLE

# 21.6%

BROADCAST

# 9.2%

OTHER



# \$29B

The value of the global CPaaS market is expected to climb to \$29 billion by 2025, up 80% from 2022

SOURCE: [Juniper Research](#)

# 95%

of global enterprises will adopt API-enabled CPaaS solutions by 2025

SOURCE: [Forbes](#)



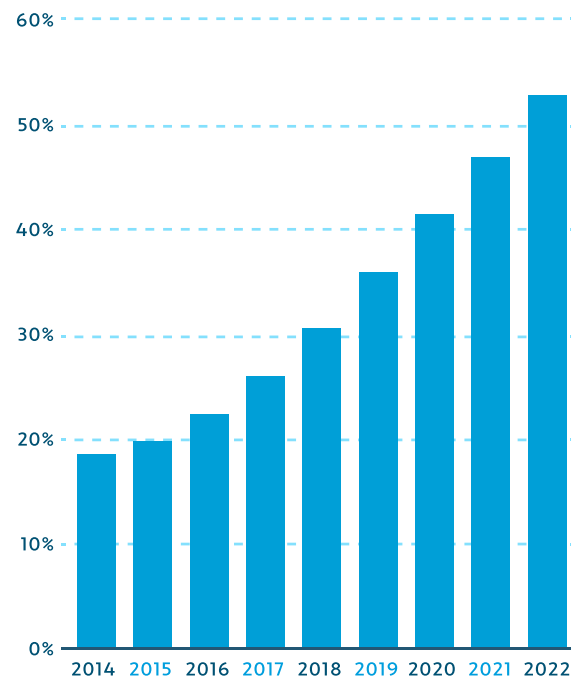
# Will the rise of ad-based streaming lead to new state taxes?

For some time, streaming companies such as Netflix, Hulu, and Prime Video have been able to kick back and reap revenues from a growing collective of cord-cutters. Fewer than **half** of U.S. households access cable, satellite, or traditional paid TV. By 2027, that proportion is expected to approach one-third. **Streaming viewership surpassed cable TV** for the first time in July 2022 and is holding strong at **more than 34% of TV usage**.

However, the rate of growth for subscription-based streaming services is **slowing**. That has streaming companies **turning their attention to new revenue models**, including ad-supported content. And wherever there's a new pot of money, you'll find state and local tax jurisdictions that want a cut.

Netflix launched a lower-cost, ad-supported plan to subscribers in 12 countries in November 2022. Analysts predict its Basic with Ads service could eventually attract **between 15 million and 30 million customers** in the U.S. **Disney+ followed**

## SHARE OF U.S. HOUSEHOLDS WITHOUT A TRADITIONAL TV SUBSCRIPTION



Source: [Statista](#)

**suit with its ad-supported tier** in the U.S. in December 2022, and announced it would roll out in other countries in 2023. Reports speculate that Amazon is in the early stages of introducing an **ad-supported tier for Prime Video**.

These companies hope to appeal to consumers looking to save because of concerns about the economy. In addition, they're vying for the attention of viewers who have more entertainment choices. Ad-supported streaming services that are free to watch have surged, and in-person events that were unavailable during the pandemic have returned.

Free and cheaper services mean **shrinking tax revenues for jurisdictions already struggling to keep up** with the shift from cable to streaming. States looking to recoup their losses have been watching to see what happens with **Maryland's digital advertising tax** (the first in the nation), which took effect January 2022. They'll need to wait longer. The Circuit Court for Anne Arundel

**PERCENTAGE OF U.S. HOUSEHOLDS SUBSCRIBING TO CABLE**



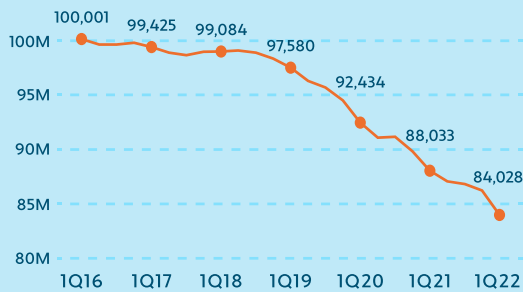
**AN ESTIMATED**



**U.S. CONSUMERS CANCELED THEIR CABLE SERVICE IN 2021**

Source: [The Motley Fool](#)

**PAY TV SUBSCRIBERS**



Source: [Next TV](#)

County ruled the law unconstitutional in October 2022, but the state appealed the decision, and on May 9, 2023, the Maryland Supreme Court determined the circuit court lacked jurisdiction to hear the case. The plaintiffs will need to “**exhaust all administrative remedies**” before bringing it back to the courts. See the [sales tax section](#) of this report for more details.

Despite all the hullabaloo over Maryland’s digital ad tax, jurisdictions realize they have to follow the dollars. With industry trends pointing to additional ad-supported streaming, states can’t afford to ignore taxing ads.

At the same time, expect to see further consolidation among streaming providers in 2023. [Discovery and WarnerMedia completed their merger in 2022](#), marrying the owners of Discovery+ and Max. (Max is the new name for HBO Max since the company [rebranded](#) on May 23, 2023.) But it’s not just the heavyweights banding together. As more small businesses are launching niche platforms aimed at specialized audiences, larger companies are buying them up. Eventually, viewers will be able to get more of the content they want from a single platform.



# Communications platform as a service snowballs

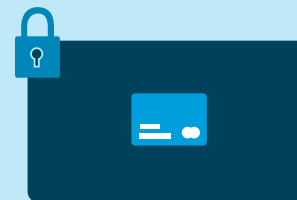
Businesses are turning to communications platform as a service (CPaaS) at the speed of a bullet train. According to Gartner, **95%** of global enterprises will adopt API-enabled CPaaS solutions by 2025. Experts valued the industry at more than \$16 billion in 2022 and predict it will climb to **\$29 billion** by 2025, making CPaaS one of the fastest-growing telecom sectors.

Companies use CPaaS to send customers text and voice messages including appointment reminders, purchase confirmations, and order tracking. B2B SaaS providers use CPaaS to add voice calling, video chat, and messaging into their CRM and marketing automation platforms. As more people work and learn from home, CPaaS is being used to deliver videoconferencing and wireless connectivity. Often, all these technologies are available in a single solution or an add-on module.

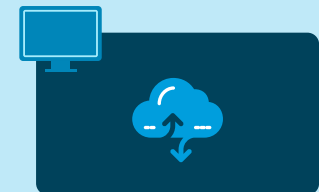
## WHAT BUSINESSES SHOULD WATCH FOR AS CPAAS CONTINUES TO EVOLVE:



1 | Improving customer messaging



2 | Increasing security



3 | Enabling flexible deployment



4 | Providing impressive availability



5 | Empowering advanced analytics

Source: *Forbes*



### BUSINESSES THAT USE CPAAS CLOUD-BASED SOLUTIONS:

- Don't have to spend money setting up their own infrastructure
- Only pay for the features they need and use

### EXAMPLES OF HOW CPAAS HELPS BUSINESSES CUT COSTS AND OPERATE MORE EFFICIENTLY:

- Automated appointment reminders reduce the cost of missed appointments
- Automated package delivery updates reduce the number of redelivery requests
- Support chatbots reduce costs associated with live support calls

Source: [Forbes](#)

Big players in the field include Twilio, Vonage, and Bandwidth. Google, Uber, and Zoom [use Bandwidth](#) to embed services into their software and applications. [Twilio's customers](#) include Airbnb, Coca-Cola, and Dell.

Plenty of startups also rely on CPaaS companies to add voice, messaging, and video to applications they create or host.

By using CPaaS, organizations may be [liable for a wide array of communications taxes](#). If you use CPaaS now or plan to integrate it into future products, it's crucial to [understand the impact on your compliance obligations](#) so you can take steps to reduce risk.

San Francisco is an example of a jurisdiction with a statute that could potentially pave the way for cashing in on CPaaS revenues. The city pioneered the consideration of an access line tax as an alternative to a 911 fee. Under the city's definition, an [access line](#) is "any connection whether by wire or by wireless technology, from a customer location to a provider of telephone communications services offered to the public for compensation." The broad definition could make it easier for the city to tax connections that use CPaaS and to collect fees from services that aren't actually 911 enabled. It also potentially helps the city avoid objections to using 911 fees to fund other first responder expenses that aren't directly related to 911 operations.

## Satellite and fixed wireless internet service providers drive more pervasive connectivity

Once primarily used on cruise ships and by backpackers hiking in the woods, satellite is becoming more mainstream. Not only are satellite services within reach for more consumers, thanks to innovation they're also becoming more exciting.

SpaceX reportedly has long-term plans to **develop and deploy broadband satellite to serve Mars**. The company's Starlink service currently provides internet access to **more than 1.5 million subscribers** on Earth, mostly in rural and remote places – which may feel like another planet when you're trying to get a signal.

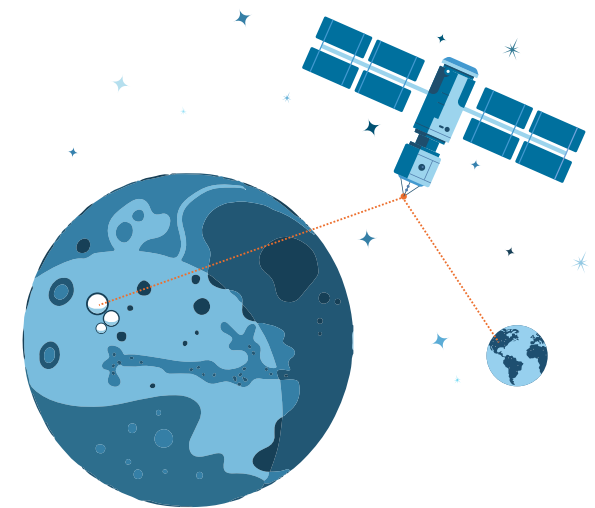
**T-Mobile is teaming up with Starlink** to enable customers to send messages from dead zones. The latest iPhones from Apple can already send messages via satellite in emergency situations thanks to the company's partnership with **Globalstar**.

Satellite-powered Wi-Fi on airplanes makes flying more enjoyable for passengers, while the flight crew stays on course thanks to GPS navigation.

Expect to see more advancements in satellite for aviation, as well as renewed controversy over the use of mobile phones during flight.

Although the continued spread of satellite will allow more people to connect when they're out and about, for those of us who live in urban areas, it's unlikely to change the connections we rely on at home. In this way, satellite differs from fixed wireless internet service providers (WISPs), which are breaking ground as the **fastest-growing sector** of the broadband industry.

While more than 7 million U.S. customers receive internet via these antenna-delivered services, most WISPs are small and medium-sized businesses with an average of 1,200 customers. Many tax incentives are available for WISPs to build out their networks to rural and underserved areas, expanding the availability of affordable internet services. As the category continues to grow, we'll likely see WISPs both complement and compete with other technologies.



**1.5M+**  
STARLINK  
USERS

Source: *Next Big Future*

## Other issues likely to affect the communications industry in 2023

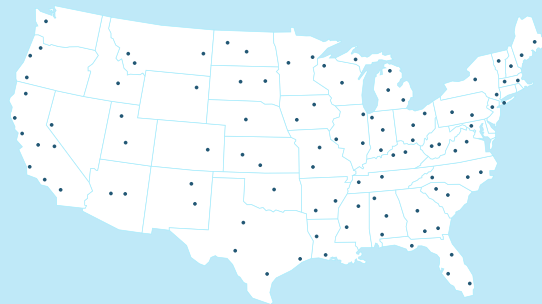
### 988 SUICIDE AND CRISIS LIFELINE OPENS DOOR TO NEW STATE REGULATORY FEES

As of July 16, 2022, telecommunications carriers and interconnected VoIP service providers in the U.S. and its major territories are required to direct 988 calls and texts to the [Suicide and Crisis Lifeline](#). The Federal Communications Commission authorized the three-digit dialing code in 2020 to connect those in crisis with suicide prevention and mental health counselors. In doing so, [federal authorities made it possible for states to collect regulatory fees](#), similar to the method used to finance 911 and poison control.

Several states have already approved legislation. The new regulatory fees are likely to make an already complex landscape of communications taxes and fees even more complicated. States originally intended per-line, per-month public utility fees to be a fixed source of income. But these days, defining what actually constitutes a line is fuzzy due to a myriad of new technologies.

# 200+

crisis centers make up the 988 Suicide and Crisis Lifeline, a national network that helps thousands of people overcome crisis situations every day



Source: [Federal Communications Commission](#)

To stay compliant, businesses will need to have systems in place to handle the new fees and potentially increased volume of tax calculations and returns. If you provide VoIP services nationwide, for example, you probably file many returns for 911 fees. With the addition of 988, you'll likely have more returns to file.

**AS NEW TECHNOLOGIES ARE DEVELOPED, COMPLIANCE COMPLEXITY WILL INCREASE**

Communications technologies have evolved way past traditional voice and cable. New technologies are being rolled into more and more products and services to enhance entertainment, productivity, cloud computing, and networking. As companies seek to keep pace with innovation, they make way for increased regulatory enforcement and may become responsible for communications taxes. For example, more businesses will become liable for communications taxes in the coming year due to the proliferation of CPaaS into devices and platforms.

Nothing about the communications industry is static and there's a likelihood we'll see developments next year and beyond that we can't predict.

"This is an exciting time for the communications industry. We see growth and innovation in all areas. The winners are consumers who get more choice, better service, and cutting-edge communications technologies for use in their personal and professional lives," says Lacoﬀ.

"The natural next step for leaders in the communications segment is to evaluate their tech stack, platforms, and processes to ensure they're prepared to handle today's compliance challenges as well as what lies ahead. Simply put, communications tax compliance software allows businesses to devote their attention to innovating and helps them stay in good standing with authorities regardless of what lies beyond the horizon," Lacoﬀ adds.

"This is an exciting time for the communications industry. We see growth and innovation in all areas. ... The natural next step for leaders in the communications segment is to ... ensure they're prepared to handle today's compliance challenges as well as what lies ahead."

## LEARN MORE

Staying on top of the latest developments in the communications industry can make it easier for you to make strategic decisions. Explore what's happening in other industries, and with tax compliance in general, by visiting our website:

[AVALARA.COM](https://www.avalara.com)

# Looking ahead

It's impossible to cover every tax change in one report, so we aimed to spotlight the biggest headlines impacting the tax landscape ... and your business. Learn more about compliance issues affecting the communications industry in our guide, [The proliferation of communications tax](#).

## FOR MORE RESOURCES:

- Stop by the [Avalara Tax Desk](#) for breaking tax news
- Read about VAT changes in the [EU and U.K.](#)
- Check out the [Avalara resource center](#) for extensive tax compliance content
- Learn how tax changes mentioned in this report may affect your obligations with a free [sales tax risk assessment](#)

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