

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: August 20, 2019

TO: Honorable Members of the Rules, Elections and Intergovernmental Relations Committee

FROM: Sharon M. Tso ^{KEK}
Chief Legislative Analyst

Assignment No: 19-06-0650

SUBJECT: SB 344 Local Prepaid Mobile Telephony Services Collection Act

CLA RECOMMENDATION: Adopt the attached Resolution to include in the City's 2019-2020 State Legislative Program, SUPPORT for SB 344 (McGuire), which would extend the Local Prepaid Mobile Telephony Services Collection Act by one year to January 1, 2021, which currently suspends the authority of a city or county to impose a utility user tax on the consumption of prepaid communications service and any charge that applies to prepaid mobile telephony service and requires that the taxes be collected from the prepaid consumer by a seller at the same time of the retail sale.

SUMMARY

The City of Los Angeles collects approximately \$650 million in Utility Users' Taxes (UUT) each year under the categories of Electricity, Gas and Communications. Of this amount, approximately \$140 million is derived from Communications services users. Prior to 2014, UUT was not collected from consumers of prepaid telecommunications services, which at the time comprised approximately 30 percent of the wireless market. At that time, local governments were losing tax revenue when customers would switch from traditional postpaid contracts to often less expensive prepaid contracts.

During the States' 2013-14 Legislative Program, AB 1717, referred to as the Local Prepaid Mobile Telephony Services Collection Act, was introduced and signed into law. The law, which has a sunset date of January 1, 2020, requires that retailers of prepaid telecommunications services collect the UUT from the consumer at the same time that sales tax is collected at the point of sale. The law also provides that if prepaid mobile telephony services are sold in combination with mobile data services or any other services for a single price, then the local UUT charges apply to the entire price. Once collected, retailers remit the tax revenue to the State Board of Equalization for distribution.

SB 344 would extend the Local Prepaid Mobile Telephony Services Collection Act by one year to January 1, 2021. In addition, the bill would amend the existing law and provide that the local charges apply to the entire price unless the seller can identify the mobile data services and other services or products from its books and records kept in the ordinary course of business.

The League of California Cities reports the since the law's inception, 104 cities and counties have benefitted from approximately \$24 million in generated revenue. According to the City's

Office of Finance, the City collects approximately \$925,000 annually from taxes on prepaid telecommunications services. Should existing law not be amended, the City would cease to collect this revenue source.

BILL STATUS

02/19/19 Introduced
05/09/19 Senate Passed. Ordered to the Assembly.
07/09/19 Referred to Assembly Appropriations Committee.



Andrea M. Galvin
Analyst

Attachment: Resolution

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations, or policies proposed to or pending before a local, state, or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, the City of Los Angeles, as well as several other cities and counties in California, imposes a local utility users tax (UUT) which generates a total of approximately \$650 million in City revenue each year; and

WHEREAS, of the total UUT collected, the communications portion of the tax revenue is projected to account for approximately \$140 million in City revenue for 2019-20; and

WHEREAS, prior to 2014, cities and counties did not collect the UUT from consumers of prepaid telecommunications until a bill (AB 1717) was signed into law, known as the Local Prepaid Mobile Telephony Services Collection Act, requiring that prepaid telecommunications retailers collect the local UUT at the time that sales tax is collected at the point of sale; and

WHEREAS, the Local Prepaid Mobile Telephony Services Collection Act has a sunset date of January 1, 2020, at which time, the collection of the UUT for prepaid telecommunications services would end and California cities and counties would cease to collect their prepaid telecommunications services portion of UUT; and

WHEREAS, the City's Office of Finance estimates that the City of Los Angeles garners approximately \$925,000 in annual receipts from the UUT for prepaid telecommunications services which it would no longer collect should the sunset clause not be extended; and

WHEREAS; SB 344 (McGuire) would extend operation of the Local Prepaid Mobile Telephony Services Collection Act until January 1, 2021, requiring retailers to continue collecting and allow cities and counties to continue receiving UUT for prepaid communications services;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2019-20 State Legislative Program SUPPORT of SB 344 (McGuire) which would extend the sunset date of the Local Prepaid Mobile Telephony Services Collection Act for one additional year until January 1, 2021.