REPORT OF THE
JOINT SUBCOMMITTEE STUDYING

The Taxation of Public Service Corporations

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

House Document No. 37

COMMONWEALTH OF VIRGINIA
RICHMOND
1988

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Report of the
Joint Subcommittee Studying
The Taxation of Public Service Corporations
To

The Governor and the General Assembly of Virginia
Richmond, Virginia
1988

TO: Honorable Gerald L. Baliles, Governor of Virginia,
and
The General Assembly of Virginia

INTRODUCTION

Pursuant to House Joint Resolution No. 248, the 1987 Session of the General Assembly authorized a one-year extension of the joint subcommittee studying the way Virginia taxes public service corporations.

Delegate Lewis W. Parker, Jr., was elected Chairman and Senator Hunter B. Andrews was elected Vice Chairman. Other members of the General Assembly chosen from the Senate to serve on this subcommittee were Stanley C. Walker and Clive L. DuVal, 2d; and, from the House of Delegates, Charles C. Lacy, Jay W. DeBoer, and Walter A. Stosch. The Speaker of the House appointed J. Robert Cross of C&P Telephone Company of Virginia, and Bill D. Johnson, of Virginia Power, as the citizen members. The Secretary of Finance, Stuart W. Connock, was also a member of the subcommittee.

EXECUTIVE SUMMARY

The joint subcommittee has spent the last three years examining the way in which Virginia taxes its public service corporations. The joint subcommittee has also examined the tax burden imposed by Virginia, as compared to our neighboring and other southern states, as well as the environment in which our public service corporations operate. This year its efforts were focused on the telecommunications area. At the subcommittee's request, the State Corporation Commission (SCC) has examined the extent of competition in the telecommunications area. The SCC's study concluded that approximately two-thirds of all the revenue generated by companies in the telecommunications sector are derived from areas which are subject to competition. They concluded that three out of four categories of telecommunications companies (inter-exchange carriers, resellers, and cellular telephone companies) have 100% of their revenue in these areas which are subject to competition. The SCC reported that local telephone companies generate approximately one-third of their revenue from areas which are subject to competition.

After considering the extent of competition in the area, the unusually high tax burden imposed on public service corporations in Virginia, and the trend of some other states to switch to a corporate income tax on the telecommunications industry due to their competitive nature, the joint subcommittee makes the following recommendations:

1. Effective tax year 1990, repeal the current state gross receipts and pole line taxes imposed on all telephone and telegraph companies and impose the Virginia Corporate Income Tax.

2. Although total state taxes would not be greatly affected by this change, different segments of the industry would be impacted in very different ways. To cushion the impact upon those firms which would experience a dramatic increase or decrease in their tax liability, the following phase-in approach is recommended.

	Require Firms To Pay At Least	Those Firms Actually Paying the Corporate Income Tax Would Receive The Following Credit
1990	1.2% of gross receipts	80% x (Corporate Income Tax - 1.3% of gross receipts)
1991	1.1% of gross receipts	70% x (Corporate Income Tax - 1.3% of gross receipts)
1992	1.0% of gross receipts	60% x (Corporate Income Tax - 1.3% of gross receipts)
1993	0.9% of gross receipts	50% x (Corporate Income Tax - 1.3% of gross receipts)
1994	0.8% of gross receipts	50% x (Corporate Income Tax - 1.3% of gross receipts)
1995	0.7% of gross receipts	40% x (Corporate Income Tax - 1.3% of gross receipts)
1996	0.6% of gross receipts	30% x (Corporate Income Tax - 1.3% of gross receipts)
1997	0.5% of gross receipts	30% x (Corporate Income Tax - 1.3% of gross receipts)
1998	0.5% of gross receipts	20% x (Corporate Income Tax - 1.3% of gross receipts)
1999	0.5% of gross receipts	10% x (Corporate Income Tax - 1.3% of gross receipts)

3. To ensure that some state tax is paid by firms, regardless of profitability from one year to another, and to ensure that cooperatives pay at least some tax to the Commonwealth, a minimum tax of 0.5% of gross receipts is imposed on all telephone and telegraph companies.

4. The joint subcommittee recommends that the state gross receipts tax rollback, which was adopted by the 1976 Session and which is currently in the statute, be allowed to continue so that by tax year 1989 the state tax on power companies equals 2% of gross receipts.

5. Continue the study for one additional year to examine the local consumer utility tax and the extent of competition in the electric power industry.

The joint subcommittee believes that the telecommunications industry should be treated like all other companies which are subject to competition. Clearly, each year brings new changes and increased competition in the telecommunications area, and the subcommittee has recognized that it is unfair to penalize the public service corporations which are in the telecommunications area by imposing a gross receipts tax on them, while allowing other companies that compete with these telecommunications companies to be subject to a corporate income tax. The subcommittee believes that the time has come to bring equity into the field of telecommunications taxation by imposing a corporate net income tax so that all the competing companies are paying the same tax.

Although the Commonwealth would not be financially impacted by a switch from a gross receipts tax to a corporate income tax, different segments of the industry would be impacted differently. For example, the long distance carriers would receive a tax reduction while the local telephone companies would generally pay more under the income tax as compared to the gross receipts tax at 1.3%. Some companies, however, would experience a significant tax increase or decrease. In an attempt to reduce the impact on these firms, as well as to ensure the Commonwealth does not lose any revenue under this proposal, the subcommittee is recommending that the corporate income tax be phased in over a number of years.

Finally, the joint subcommittee is requesting an additional year of study to examine the local consumer utility tax, as well as the extent of competition in the electric power industry.

FINDINGS AND RECOMMENDATIONS

The joint subcommittee has examined the existing tax structure of public service corporations in Virginia and found that the gross receipts tax has been utilized since the late 1800's, and has undergone a great deal of tax rate changes, but there seems to be little rationale for why the rates are at the current levels, why utilities are taxed in the way they are, and why different types of utilities are subject to different gross receipts tax rates.

The joint subcommittee has reviewed the Mathews Commission Report of 1976 on public service corporation taxation and studied the legislation which was adopted subsequent to that study, which provided for the equalization and a five-year rollback in the gross receipts tax rates imposed on public service corporations. Public service corporations are approximately 3/4 of the way through their scheduled rate rollback, which were due to be completed in 1983. The rollback is currently in its fourth freeze and under the existing statutes they will be completed in tax year 1989 for electric, light and power companies and in tax year 1990 for telephone companies.

The joint subcommittee has also examined Virginia's public service corporation tax structure and compared it to that of the other southern states. The joint subcommittee found that there is little pattern in how other southern states tax public service corporations. The joint subcommittee found that most states impose a corporate income tax on public service corporations (12 of 14) while 10 of the 14 states impose a gross receipts tax. Eight states impose both a corporate income tax and a gross receipts tax on utilities. A number of states have a partial sales tax on some utility service with most of these states exempting residential use. Very few states impose the sales tax on all types of utility services. Very few states allow localities to impose a gross receipts tax and virtually no one in the South has a tax comparable either in concept or scope to Virginia's local consumer utility tax.

The joint subcommittee examined the tax burden imposed on Virginia's public service corporations to see how it compared to the other southern states. In summary, if one examines state taxes alone, Virginia ranks last of all the fifteen southern states in tax burden on public service corporations. If local taxes are included, Virginia's state and local tax burden ranks fourth among the fifteen southern states. Clearly, our state taxes are relatively low and our local taxes, especially the local consumer utility tax, are extremely high.

The joint subcommittee has also examined the changing nature of public service corporations and the environment in which they operate. The monopolistic environment of all public service corporations that we have known in the past has changed; however, the telecommunications industry and their operating environment has changed the most dramatically. The telecommunications firms in the interstate and inter lata markets compete with one another and are no longer monopolies. Almost all telecommunications firms are entering new markets, yet the tax structure that applies to these firms is still that which applied when they were pure monopolists.

The subcommittee requested the State Corporation Commission to provide a report on the extent of competition in the telecommunications area. The report is contained in Appendix B and shows that approximately two-thirds of the total revenue of the telecommunications industry is generated from business which could be obtained from at least one other provider. The SCC separates the telecommunications industry into four different areas. The report concludes that three of these areas are subject to competition. These three areas are the inter-exchange telephone companies which provide interstate and interlata telephone service; cellular telephone companies, and resellers. The final area is the local telephone companies. The SCC estimates 33% of their business is generated from areas which are subject to competition. Some of these areas include public telephones, installation of inside wiring, telephone directory revenue, paging, and interlata long distance service, to name a few areas of competition.

The joint subcommittee has also examined the growth of non-public service corporations which are competing with the public service corporation telephone companies. This situation has existed for years, but the subcommittee has found that it is escalating rapidly. Large corporations are building their own telecommunications networks which essentially bypass the traditional telephone network. Many companies sublease their long distance facilities to other entities to generate additional revenue. Clearly, the growing use of bypass systems on the most profitable segments of telephone service not only hurts the telephone company's business, but also raises the cost on the remaining customers since the most profitable business is essentially skimmed off the top.

The joint subcommittee believes the environment in which the telephone and telegraph companies operate has changed dramatically. The industry is clearly no longer a monopoly, but rather it has experienced steadily increasing amounts of competition. The relevant question is whether the Commonwealth should continue to tax this industry in the way it did when the industry was a monopoly; or, should the corporate income tax be extended to the telecommunications industry. If the corporate income tax is extended to the telecommunications industry, there would be a level playing field since both the traditional telecommunications companies as well as the non-traditional ones would be taxed in the same manner.

The joint subcommittee believes the time has come to recognize the competitive nature of the industry and recommends the corporate income tax be extended to the telecommunications industry in lieu of the state gross receipts and pole line taxes.

An examination by the subcommittee, based on actual 1986 revenue of the telecommunications industry, shows that a corporate income tax would generate slightly more revenue than a state gross receipts tax at 1.3% which is the tax rate that would be in effect in tax year 1990 if the rollbacks were to continue in their entirety. However, because some segments of the industry would be affected in different ways, with some firms experiencing a large increase in their tax liability and some experiencing a large decrease in their tax liability, the subcommittee recommends a phase-in approach. The joint subcommittee recommends that, effective for tax year 1990, the telecommunications firms become subject to the corporate income tax in lieu of the state gross receipts and pole line taxes. However, in each year there would be a minimum tax based on gross receipts imposed if such tax is greater than the corporate income tax. Moreover, to cushion the impact on those which experience a large increase in their tax liability, firms that are subject to the corporate income tax would receive a credit for a portion of their tax increase as a result of switching to a corporate income tax.

	Require Firms To Pay At Least	Those Firms Actually Paying the Corporate Income Tax Would Receive The Following Credit
1990	1.2% of gross receipts	80% x (Corporate Income Tax - 1.3% of gross receipts)
1991	1.1% of gross receipts	70% x (Corporate Income Tax - 1.3% of gross receipts)
1992	1.0% of gross receipts	60% x (Corporate Income Tax - 1.3% of gross receipts)
1993	0.9% of gross receipts	50% x (Corporate Income Tax - 1.3% of gross receipts)
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1999	0.5% of gross receipts	10% x (Corporate Income Tax - 1.3% of gross receipts)

The subcommittee has also examined the state gross receipts tax burden on the other public service corporations. In summary, the joint subcommittee has found that the tax burden imposed by the state and its localities imposes a relatively heavy tax burden on public service corporations at the current gross receipts tax rates. As a result, the joint subcommittee is recommending that the current rollbacks, which are in the statute, be allowed to continue so that by the year 1989 the electric, gas and water utility's gross receipts tax rate should decline to 2%.

The joint subcommittee has also studied the local consumer utility tax which comprises the largest portion of the tax burden imposed by Virginia and its localities on public service corporations. The joint subcommittee believes that many localities are using this tax to a much greater degree than they should and it is causing an inequitable situation in terms of tax burden, as well as hampering Virginia's economic development efforts. The joint subcommittee, however, is unable to offer a recommendation at this time, and is requesting that it be allowed to have one additional year of study to formulate a recommendation in this area. During this additional year of study, the joint subcommittee will also be examining the extent of competition in the electric and gas industry to determine if these industries should also be switched from a gross receipts tax to a corporate income tax.

The legislation recommended by the joint subcommittee is contained in Appendix E.

Respectfully submitted,

Lewis W. Parker, Jr., Chairman

Hunter B. Andrews, Vice Chairman

Charles C. Lacy

Jay W. DeBoer

Walter A. Stosch

Stanley C. Walker

Clive L. DuVal, 2d

Stuart W. Connock

J. Robert Cross

Bill D. Johnson

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

PUBLIC SERVICE TAXATION DIVISION

June 1, 1987

The assessment of State License Tax on telecommunication companies for the 1987 tax year has just been completed. These companies can be separated into four categories, each of which will be discussed individually.

The four categories are as follows:

1. Interexchange Telephone Companies
2. Local Telephone Companies
3. Cellular Telephone Companies
4. Resellers

1. Interexchange Telephone Companies provide long distance communication service, both interstate and intrastate-inter-lata. They are required to be incorporated as public service corporations, be certificated and file annual tax reports with the State Corporation Commission.

Currently, the Commission does not regulate these companies, however, the Commission does monitor their operation, requires tariffs for informative purposes, and may resume regulation if competition fails to meet the needs of the consumer.

Revenue earned by Interexchange Telephone Companies are derived primarily from three (3) sources:

1. Interstate toll service
2. Intrastate toll service
3. Sale for resale.

Revenues earned from the above sources are generated in a very competitive environment. It should be noted, however, that while the long distance business is competitive, there are numerous localities, particularly in rural areas, where consumers have only one choice of long distance carriers.

2. Local Telephone Companies operate basically in a monopolistic environment providing local telephone service in a certificated area. These companies can also provide access to interexchange companies in order to originate or terminate long distance telecommunication service. Local Telephone Companies can provide intra-lata long distance service within their certificated area.

Each company is incorporated as a Virginia public service corporation and is required to file annual tax reports with the State Corporation Commission.

A recent survey made by the Commission indicates that 33% of all revenue earned by companies within this category is from competitive related business. The services provided by the telephone companies which they consider competitive are as follows:

1. Installation of inside wiring
2. Mobile telephone service
3. Public telephone
4. Directory revenue
5. Interstate billing and collection
6. Intrastate billing and collection
7. Paging
8. Long distance revenue
9. Switched access revenue
10. Special access revenue
11. End user revenue
12. Intrastate access revenue

3. Cellular Telephone Companies are certificated by the State Corporation Commission and operate within assigned areas. Currently, only two companies of this type are assigned to a given area. These companies provide mobile telephone communications and can also provide service in areas where other telephone service is not available. Annual tax reports are required to be filed with the State Corporation Commission.

All revenues received would be considered as being from competitive sources.

4. Resellers provide long distance telecommunication services both inter and intra-state. Companies in this category purchase capacity from other carriers and resell their service. Competition is very intense and profit margin very small. The Commission does not regulate or certificate these companies, however, they are required to file an annual tax report with the State Corporation Commission.

I am attaching, for your information, a copy of the 1987 statement of state taxes on telephone companies and have indicated in the left margin the category that each company belongs.

It would appear from the information available that approximately 64% of all taxable revenue of telecommunication companies in Virginia is generated from a competitive environment.

1987 TAX YEAR

Type of Company	1987 Taxable Revenue	% Competitive	Competitive Revenue
Interexchange Companies	$1,113,093,767	100%	$1,113,093,767
Local Telephone Companies	1,304,845,707	* 33%	430,599,083
Cellular Telephone Companies	10,781,577	100%	10,781,577
Resellers	3,605,185	100%	3,605,185
Total	$2,432,326,236	64%	$1,558,079,612

* Data furnished by local telephone companies at the request of the State Corporation Commission and represents their best estimate of competitive vs non-competitive income and may not express the views of the Commission.

STATE TAXES ON TELEPHONE COMPANIES

A STATEMENT

Showing the Gross Earnings and Receipts for the year ending December 31, 1986, of Telephone Companies in the Commonwealth of Virginia and the State License Tax and the Special Tax for 1987, of such Companies, assessed by the State Corporation Commission of Virginia for the year 1987, pursuant to Title 58.1, Chapter 26, Articles 2 and 6, Code of Virginia.

YPE OF ›PANY.	NAME OF COMPANY	Location of the principal office or agency of the State.	Gross earnings and receipts in Virginia.	LICENSE TAX: On gross earnings and receipts at one and nine-sixteenths per cent.	LICENSE TAX: On gross earnings and receipts at one and six tenths per cent.	LICENSE TAX: At two dollars and twenty-five cents per mile of line or poles owned or operated in this state.	LICENSE TAX: Total License Tax.	Gross Receipts Subject to Special Tax.	Special Tax. eigth hundreths of one per cent.	Total State Taxes.
BREXCHANGE CARRIER	1. AT&T Communications of Virginia, Inc. 6000 Tax Supervisor Property Taxes P. O. Box 1329, Morristown, NJ 07960	Oakton	$ 411,750,746.00	$ 1,015.63	$ 6,586,971.94	$ 2,905.22	$ 6,590,892.79	$ 260,310,205.00	$ 208,248.16	$ 6,799,140.95
SELLER	2. Allnet Communication Services, Inc. 6001 Elizabeth Ragan, Dir. of Tax 30300 Telegraph Rd., Birmingham, MI 48010		499,169.00	1,015.63	6,946.70	0.00	7,962.33	0.00	0.00	7,962.33
AL TELEPHONE CO.	3. Amelia Telephone Corp. 6005 William E. Pace, Treasurer P. O. Box 158, Leesburg, AL 35983	Amelia	1,406,630.00	1,015.63	21,466.88	1,204.81	23,686.52	1,581,248.00	1,265.00	24,951.52
EREXCHANGE CARRIER	4. American Telephone And Telegraph Co. of Va. Tax Supervisor, Property Taxes 6010 P. O. Box 1329, Morristown, NJ 07960	Oakton	556,646,395.00	1,015.63	8,905,302.32	6,100.63	8,912,418.58	13,782,757.00	11,026.21	8,923,444.79
AL TELEPHONE CO.	5. Buggs Island Telephone Coop., Inc. 6015 M. Dale Tetterton, Jr., Mgr. P. O. Box 129, Bracey, VA 23919	Bracey	498,855.86	1,015.63	6,941.69	966.35	8,923.67	610,418.00	488.33	9,412.00
AL TELEPHONE CO.	6. Burke's Garden Telephone Company, Inc. 6020 Betty C. Hoge, Treasurer P. O. Box 428, Burke's Garden, VA 24608	Burke's Garden	65,641.07	1,015.63	10.26	67.27	1,093.16	65,641.07	52.51	1,145.67
EREXCHANGE CARRIER	7. Cable and Wireless Communications, Inc. 6119 Barbara Sweasy, Manager, Fin. Planning 1920 Aline Avenue, Vienna, VA 22180		9,773,474.00	1,015.63	155,335.58	1,992.69	158,343.90	4,845,346.00	3,876.28	162,220.18
AL TELEPHONE CO.	8. Central Telephone Company of Virginia 6025 Eugene R. Riddle, Gen Accting. Mgr. P. O. Box 6788, Charlottesville, VA 22906	Charlottesville	79,844,544.00	1,015.63	1,276,472.70	38,480.65	1,315,968.98	101,632,229.00	81,305.78	1,397,274.76

STATE TAXES EXTENDED ON TELEPHONE COMPANIES - CONTINUED

	NAME OF COMPANY	Location of the principal office or agency of the State.	Gross earnings and receipts in Virginia.	LICENSE TAX: On gross earnings and receipts at one and nine sixteenths per cent.	LICENSE TAX: On gross earnings and receipts at one and six tenths per cent.	LICENSE TAX: At two dollars and twenty five cents per mile of line or poles owned or operated in this state.	LICENSE TAX: Total License Tax.	Gross Receipts Subject to Special Tax.	Special Tax. eigth hundreths of one per cent	Total State Taxes.
:AL TELEPHONE CO.	9. Chesapeake and Potomac Telephone Co. of Va., J. Robert Cross, Asst. Comptroller-Virg6030 3011 Hungary Spring Rd., Richmond, VA 23228	Richmond	$1010,983,720.00	$ 1,015.63	$ 16,174,699.52	$ 162,459.43	$16,338,174.58*	$1153,159,080.00	$ 922,527.26	$17,260,701.84
AL TELEPHONE Co.	10. Citizens Telephone Cooperative James R. Newell, Manager Floyd, VA 24091	6035 Floyd	1,593,036.00	1,015.63	24,448.58	2,388.74	27,852.95	1,855,327.00	1,484.26	29,337.21
:AL TELEPHONE Co	11. Clifton Forge-Waynesboro Telephone Co. M. E. Yeago, Vice Pres.-Treas. P. O. Box 2008, Staunton, VA 24401	6040 Staunton	12,071,210.79	1,015.63	192,099.37	2,361.22	195,476.22*	15,465,179.77	12,372.14	207,848.36
LLULAR	12. Contel Cellular of Norfolk, Inc. Patricia A. Jordan, Tax Analyst 245 Perimeter Center Pkwy, Atlanta, GA 30346	6041 Norfolk	1,650,720.00	1,015.63	25,371.52	265.50	26,652.65	1,650,720.00	1,320.58	27,973.23
LLULAR	13. Contel Cellular of Richmond, Inc. Patricia A. Jordan, Tax Analyst 245 Perimeter Center Pkwy, Atlanta, GA 30346	6042 Richmond	2,476,709.00	1,015.63	38,588.62	175.50	39,779.75	2,476,709.00	1,981.43	41,761.18
CAL TELEPHONE CO.	14. Continental Telephone Company of Virginia George W. Rodgers, Property Tax Admin.6045 Tax Department, P. O. Box 401 Merrifield, VA 22116	Merrifield	135,764,662.00	1,015.63	2,171,194.59	53,005.55	2,225,215.77	165,770,405.00	132,616.32	2,357,832.09
AL TELEPHONE Co.	15. General Telephone Co. of The South Larry Cousin, Tax Accounting Mgr. P. O. Box 1412, Durham, NC 27702	6060 Bluefield	16,041,768.00	1,015.63	256,628.29	2,513.61	259,157.53	20,646,766.00	16,517.41	275,674.94
:AL TELEPHONE Co.	16. Highland Telephone Cooperative Theo A. Glover Jr., Secty.-Treas. P. O. Box 340, Monterey, VA 24465	6065 Monterey	216,081.34	1,015.63	2,417.30	270.00	3,702.93	283,460.07	226.77	3,929.70
SELLER	17. Ideal Z-Tel, Inc. Stephen Burke, Vice-Pres. P. O. Box 780, Everett, WA 98206	6062	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

STATE TAXES EXTENDED ON TELEPHONE COMPANIES - CONTINUED

	NAME OF COMPANY	Location of the principal office or agency of the State.	Gross earnings and receipts in Virginia.	LICENSE TAX: On gross earnings and receipts at one and nine sixteenths per cent.	LICENSE TAX: On gross earnings and receipts at one and six tenths per cent.	LICENSE TAX: At two dollars and twenty five cents per mile of line or poles owned or operated in this state.	LICENSE TAX: Total License Tax.	Gross Receipts Subject to Special Tax.	Special Tax. eigth hundreths of one per cent.	Total State Taxes.
ESELLER	18. Institutional Communications Co.-Va. (ICC) 6063 Attention: Mary Rouleau 2000 Corporate Ridge, Suite 475 McLean, VA 22102		$ 0.00	$ 0.00	$ 0.00	$ 71.57	$ 71.57	$ 0.00	$ 0.00	$ 71.57
ESELLER	19. Jarvis Communication Services, Inc. 6066 J. E. Bloom, President P. O. Box 505, Richmond, VA 23204	Richmond	71,407.00	1,015.63	102.51	0.00	1,118.14	0.00	0.00	1,118.14
INTERSTATE - LONG DISTANCE	20. Lightnet, Inc 6068 Richard Mitchell, Prop. Tax Specialist 600 East Jefferson St., Rockville, MD 20852		0.00	0.00	0.00	454.50	454.50	0.00	0.00	454.50
ERExCHANGE CARRIER	21. MCI Telecommunications Corporation 6072 David C. Mahida, Tax Mgr. 1133 19th St., NW; Washington, DC 20036	Richmond	88,705,326.00	1,015.63	1,418,245.22	1,962.68	1,421,223.53	26,921,492.00	21,537.19	1,442,760.72
CAL TELEPHONE CO.	22. Mountain Grove-Williamsville Telephone Co. 6080 Bonnie N. Smith, Treasurer P. O. Box 105, Williamsville, VA 24487	Williamsville	275,452.00	1,015.63	3,367.23	661.05	5,043.91	379,195.00	303.36	5,347.27
LLULAR	23. Newport News Cellular Telephone Co. 6083 Robert S. Darst, Controller P. O Box 4133, Greensboro, NC 27404		16,929.00	264.52	0.00	144.67	409.19	16,929.00	13.54	422.73
LLULAR	24. Norfolk Cellular Telephone Co. (Cellular One) 6022 Robert S Darst, Controller P. O Box 4133, Greensboro, NC 27404	Virginia Beach	2,029,843.00	1,015.63	31,437.49	133.88	32,587.00	2,029,843.00	1,623.87	34,210.87
CAL TELEPHONE CO.	25. North River Telephone Cooperative 6085 W. R. Fleming, Manager P. O. Box 8, Dayton, VA 22821	Dayton	142,294.93	1,015.63	1,236.72	401.58	2,653.93	228,317.88	182.65	2,836.58
CAL TELEPHONE CO.	26. Pembroke Telephone Cooperative 6090 Ross E. Martin, Manager Box 549, Pembroke, VA 24136	Pembroke	406,538.93	1,015.63	5,461.42	339.75	6,816.80	471,151.91	376.92	7,193.72

	NAME OF COMPANY	Location of the principal office or agency of the State.	Gross earnings and receipts in Virginia.	LICENSE TAX: On gross earnings and receipts at one and nine sixteenths per cent.	LICENSE TAX: On gross earnings and receipts at one and six tenths per cent.	LICENSE TAX: At two dollars and twenty five cents per mile of line or poles owned or operated in this state.	LICENSE TAX: Total License Tax.	Gross Receipts Subject to Special Tax.	Special Tax. eigth hundreths of one per cent.	Total State Taxes.
ocAL TELEPHONE Co.	27. Peoples Mutual Telephone Co. 6095 E. B. Fitzgerald Jr., President Gretna, VA 24557	Gretna	$ 1,471,747.92	$ 1,015.63	$ 22,507.97	$ 1,701.07	$ 25,224.67	$ 1,853,169.94	$ 1,482.54	$ 26,707.21
ESELLER	28. RCI Corporation 6099 Kornelijus G. Cieminis, Sr. Staff Analyst 100 Midtown Plaza, Rochester, NY 14646		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ocAL TELEPHONE Co.	29. Roanoke and Botetourt Telephone Co. 6100 Ira D. Layman, President P. O. Box 174, Daleville, VA 24083	Daleville	3,080,056.00	1,015.63	48,240.90	679.05	49,935.58	3,662,319.00	2,929.86	52,865.44
CAL TELEPHONE Co.	30. Scott County Telephone Cooperative, Inc. James W. McConnell, Mgr. 6105 P. O. Box 487, Gate City, VA 24251	Gate City	1,354,875.67	1,015.63	20,638.01	1,553.56	23,207.20	1,547,927.33	1,238.34	24,445.54
CAL TELEPHONE Co.	31. Shenandoah Telephone Co. 6110 Christopher E. French, Exec. Vice-Pres. Edinburg, VA 22824	Edinburg	3,137,913.48	1,015.63	49,166.62	3,319.72	53,501.97	6,753,526.47	5,402.82	58,904.79
ESELLER	32. SouthernNet Services, Inc. 6111 Tim Haer, Mgr. Accounting 61 Perimeter Park, N.E., Atlanta, GA 30341	Richmond	1,553,642.00	1,015.63	23,818.27	0.00	24,833.90	0.00	0.00	24,833.90
TEREXCHANGE CARRIER	33. SouthernNet of Virginia, Inc. 6115 Tim Haer, Mgr. Accounting 61 Perimeter Park, N.E., Atlanta, GA 30341	Richmond	0.00	0.00	0.00	697.05	697.05	0.00	0.00	697.05
SELLER	34. TMC of Tidewater 6117 Cahty Xenos, Tax Clerk 860 Greenbriar Circle, Suite 410 Chesapeake, VA 23320	Chesapeake	1,450,000.00	1,015.63	22,160.00	0.00	23,175.63	0.00	0.00	23,175.63
ESELLER	35. TMC of Tri Cities 6118 John H. White, Territorial Manager 210 E. Center St., Kingsport, TN 37660		30,967.05	483.86	0.00	0.00	483.86	0.00	0.00	483.86
TEREXCHANGE CARRIER	36. U. S. Sprint Communications Co. 6126 Don Schmitt, Tax Director Tax Department, P. O. Box 8490 Kansas City, MO 64114		27,952,521.00	1,015.63	446,200.34	1,113.44	448,329.41	5,520,741.00	4,416.59	452,746.00

STATE TAXES EXTENDED ON TELEPHONE COMPANIES - CONTINUED

	NAME OF COMPANY	Location of the principal office or agency of the State.	Gross earnings and receipts in Virginia.	LICENSE TAX: On gross earnings and receipts at one and nine-sixteenths per cent.	LICENSE TAX: On gross earnings and receipts at one and six-tenths per cent.	LICENSE TAX: At two dollars and twenty five cents per mile of line or poles owned or operated in this state.	LICENSE TAX: Total License Tax.	Gross Receipts Subject to Special Tax.	Special Tax. eigth hundreths of one per cent.	Total State Taxes.
CAL TELEPHONE CO.	37. United Inter Mountain Telephone Company 6125 Thomas W Sokol, Vice Pres. Finance 112 Sixth Street, Bristol, TN 37621	Bristol	$ 36,041,197.00	$ 1,015.63	$ 575,619.15	$ 11,984.20	$ 588,618.98	$ 38,368,725.00	$ 30,694.98	$ 619,313.96
'ER EXCHANGE CARRIER	38. United States Transmission Systems, Inc. 6131 Matthew J Healy, Tax Manager 100 Plaza Drive, Secaucus, NJ 07096	Richmond	18,265,305.00	1,015.63	291,204.88	810.00	293,030.51	5,253,665.00	4,202.93	297,233.44
CAL TELEPHONE CO.	39. Virginia Hot Springs Telephone Company 6135 Dennis H O'Hearn, General Mgr. P O. Box 699, Hot Springs, VA 24445	Hot Springs	449,602 00	1,015.63	6,154.91	196.61	7,367.15	563,489.00	450.79	7,817 94
ELLULAR	40. Washington DC SMSA Limited Partnership 6011 Russ Reed, Manager Tax 180 Mount Airy Road, Basking Ridge, NJ 07920	Richmond	2,164,600 00	1,015.63	33,593.60	236.25	34,845.48	2,164,600.00	1,731 68	36,577.16
ZLULAR	41. Washington/Baltimore Cellular Telephone Co. T/A Cellular One, Rick Murray, Sr. Acc6140 7855 Walker Drive, Suite 100 Greenbelt, MD 20770		2,442,696.00	1,015.63	38,043.14	211.50	39,270.27	2,442,696.00	1,954.16	41,224.43
		GRAND TOTAL ...	$2432,326,236.04	$ 35,279.00	$ 38,801,093.44	$ 301,829.30	$39,218,202.54	$1842,313,358.44	$ 1,473,850.66	$40,692,053.20
			* Tax Credits authorized by State Statutes				4,000.00			
							$39,214,202 54		$ 1,473,850.66	$40,688,053 20

STATE TAXES ON TELEGRAPH COMPANIES

A STATEMENT

Showing the State Tax extended on the Gross Earnings and Receipts for the year ending December 31, 1986, of Telegraph Companies in the Commonwealth of Virginia and the State License Tax and the Special Tax for 1987, of such Companies, assessed by the State Corporation Commission of Virginia for the year 1987, pursuant to Title 58.1, Chapter 26, Articles 2 and 6, Code of Virginia.

NAME OF COMPANY		Location of the principal office or agency of the State.	Gross Earnings and Receipts in Virginia.	LICENSE TAX: On gross earnings and receipts at three and five-eighths per cent.	LICENSE TAX: At two dollars and twenty five cents per mile of line or poles owned or operated in this State.	LICENSE TAX: Total License Tax.	Gross Receipts Subject to Special Tax.	Special Tax. eigth hundreths of one per cent.	Total State Taxes.
1. Western Union Telegraph Company T. F. Spock, Manager-State Taxes 1 Lake St. Road, Upper Saddle Riv., NJ 07458	7000		$ 825,763.00	$ 29,933.91	$ 206.39	$ 30,140.30	$ 825,763.00	$ 660.61	$ 30,800.91

COMMONWEALTH OF VIRGINIA
DEPARTMENT OF THE STATE CORPORATION COMMISSION

RICHMOND, VA.

This is to certify that the foregoing is a true copy of the assessment made for the year 1987 by the State Corporation Commission of Virginia of the real and personal property, of Telephone and Telegraph Companies, as of the first day of January, 1987; and of the State License Taxes and the Special Taxes of said corporations for the year 1987.

Teste:

Clerk of the Commission.

To the

BOARDS OF SUPERVISORS OF COUNTIES,
Chairman of Board, care of County Clerk;
Councils of Corporations
President of Town or City Council, care of Mayor;

COMMISSIONERS OF THE REVENUE OF COUNTIES AND CITIES;

TELEGRAPH COMPANIES;

TELEPHONE COMPANIES

DEAR SIRS:

The foregoing certified copy of assessments made by the State Coporation Commission of Virginia for the year 1987, is sent you in accordance with the provisions of Title 58.1, Chapter 26, Code of Virginia.

Respectfully,

George H. Bryant, Jr.

Clerk of the Commission.

Clerks of Counties and Mayors of Cities and Towns are requested to see that this assessment is promptly brought to the attention of their respective Boards of Supervisors or City or Town Councils.

TAX LIABILITY FOR TELECOMMUNICATIONS FIRMS IN VIRGINIA

Tax Year 1986 (actual) 1.6%	Tax Year 1987 (actual) 1.6%	Tax Year 1987 Estimated Corporate Income Tax	Tax Year 1987 Estimated Corporate Income Tax with .5% minimum tax
$36.4 million	$39.2 million	$32.7 million (- $6.5 million) (- 16.6%)	$33.3 million (- $5.9 million) (- 15.1%)

APPENDIX C

ESTIMATED TAX AT DECLINING RATES

(For Tax Year 1987)

Gross Receipts Tax at 1.5%	Gross Receipts Tax at 1.3%
$36.5 million	$31.6 million

Advantages and Disadvantages of Switching To A Corporate Income Tax For Telecommunications Firms

Advantages

1. Would recognize the competitive aspects of the telecommunications industry.

2. Reduce costs on the telecommunications industry, thereby allowing reduced prices which would combat the growing use of bypass systems (increasing amounts of telecommunication services provided by non-telecommunications firms).

3. Tax all firms providing telecommunications services the same rather than the current treatment.

4. Join a growing number of states which are switching from a gross receipts tax to an income tax.

Disadvantages

1. Would cause a small revenue loss as compared to the current 1.6% rate.

2. Revenue would be less predictable because of the volatility of a corporate income tax. This applies especially to the inter-exchange carriers.

3. Treat telecommunications firms differently from firms providing electric and natural gas service.

4. Although total state taxes would not be greatly affected, different segments of the industry would be impacted in different ways:

- Inter-exchange carriers would see their tax liability decrease significantly. Since some are not yet profitable these carriers would not pay any tax unless a minimum tax was established.

- The largest local exchange carriers would experience a large percentage increase in their tax liability.

- A few of the smaller companies would experience a tax increase approaching 100%, one would approach 200%. The cooperatives would experience a large decline in tax liability.

#

1988 SESSION

LD4038540

HOUSE JOINT RESOLUTION NO. 7

Offered January 14, 1988

Continuing the joint subcommittee studying the taxation of public service corporations.

Patron–Parker

Referred to the Committee on Rules

WHEREAS, Senate Joint Resolution No. 135 of the 1985 Session and House Joint Resolution No. 248 of the 1987 Session established a three-year study of the state and local taxation of all public service corporations; and

WHEREAS, the first two years of study were hampered by the untimely death of Sen. Edward E. Willey, its chairman, the resignation of the vice chairman to become the Secretary of Transportation and the resignation of another member for personal reasons; and

WHEREAS, the joint subcommittee has analyzed the state and local tax burden imposed on public service corporations as compared to that imposed by neighboring and Southern states, as well as the changing environment in which public service corporations operate, especially the telecommunications industry; and

WHEREAS, in 1987 the joint subcommittee has carefully studied and reviewed the telecommunications industry in particular and is unanimously recommending legislation which would extend the Virginia Corporate Income Tax to the telecommunications industry in lieu of the state gross receipts and pole line taxes; and

WHEREAS, it is apparent that other public service corporations are experiencing profound changes in the way they operate and the competition which they experience; and

WHEREAS, the joint subcommittee has also found that serious inequities exist in the local consumer utility tax; and

WHEREAS, the joint subcommittee believes that one more year of work is needed to examine the inequities in the local consumer utility tax and the extent of competition in the electric power industry; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the joint subcommittee studying the taxation of public service corporations is hereby continued. The members appointed pursuant to H.J.R. No 248, 1987 Session, shall continue to serve with vacancies to be filled by the same appointing authority specified in that resolution.

The joint subcommittee shall complete its work in time to submit recommendations to the 1989 Session of the General Assembly.

The indirect costs of this study are estimated to be $10,700; the direct costs of the study shall not exceed $7,200.

Official Use By Clerks

Agreed to By The House of Delegates		Agreed to By The Senate	
without amendment	☐	without amendment	☐
with amendment	☐	with amendment	☐
substitute	☐	substitute	☐
substitute w/amdt	☐	substitute w/amdt	☐
Date: ________		Date: ________	
Clerk of the House of Delegates		Clerk of the Senate	

LD1753540

HOUSE BILL NO. 417

Offered January 21, 1988

A BILL to amend and reenact §§ 58.1-333, 58.1-430, 58.1-608, 58.1-2600, 58.1-2605, 58.1-2608, 58.1-2629, 58.1-2631, 58.1-2633, 58.1-2640 and 58.1-2660 of the Code of Virginia; to amend the Code of Virginia by adding sections numbered 58.1-400.1 and 58.1-433; and to repeal §§ 58.1-2621, 58.1-2622, 58.1-2623, 58.1-2624 and 58.1-2625 of the Code of Virginia, relating to the extension of a corporate income tax to telecommunications companies and the repeal of the state gross receipts and pole line taxes.

Patrons—Parker, Stosch and DeBoer

Referred to the Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-333, 58.1-430, 58.1-608, 58.1-2600, 58.1-2605, 58.1-2608, 58.1-2629, 58.1-2631, 58.1-2633, 58.1-2640 and 58.1-2660 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding sections numbered 58.1-400.1 and 58.1-433 as follows:

§ 58.1-333. Tax credit for investments under the "Neighborhood Assistance Act of 1981". —Any business firm, as defined in § 63.1-321, shall be allowed a credit against the tax imposed by § 58.1-320 or Chapter 12 (§ 58.1-1200 et seq.) of Title 58.1, §§ 58.1-2501 ~~,~~ ~~58.1-2621~~ , ~~58.1-2622, 58.1-2623, 58.1-2624~~ and 58.1-2626 of an amount equal to 50% of the total sum invested under the Neighborhood Assistance Act of 1981 (§ 63.1-320 et seq.) during the taxable year, such credit not to exceed $175,000 annually. No tax credit of less than fifty dollars shall be granted, nor shall a tax credit be granted to any business firm for investments if such activity is part of its normal course of business as defined in § 63.1-321. Any tax credit not usable for the taxable year the investment was made may be carried over to the extent usable for the next five succeding taxable years or until the full credit is utilized, whichever is sooner. Credits granted to a partnership or S corporation shall be passed through to the partners or shareholders, respectively.

§ 58.1-400.1. Minimum tax on telecommunications companies.—A. A telecommunications company shall be subject to a minimum tax at the applicable rate on its gross receipts for the calendar year which ends during the taxable year if the tax imposed by § 58.1-400 is less than the minimum tax imposed by this section. The applicable rate of tax for each calendar year is:

Calendar Year	*Tax Rate*
1989	*1.2%*
1990	*1.2%*
1991	*1.0%*
1992	*0.9%*
1993	*0.8%*
1994	*0.7%*
1995	*0.6%*

For all calendar years after 1995, the minimum tax shall be imposed at the rate of 0.5% of gross receipts.

B. In the case of an income tax return for a period of less than twelve months the minimum tax shall be based on the gross receipts for the calendar year which ends during the taxable period or, if none, the most recent calendar year which ended before the taxable period. The minimum tax shall be prorated by the number of months in the taxable period.

C. The State Corporation Commission shall certify annually to the Department the name, address, and gross receipts for each telecommunications company.

D. The following words and terms, when used in this section, shall have the following *meaning:*

"Gross receipts" means all revenue from business done within the Commonwealth, including the proportionate part of interstate revenue attributable to the Commonwealth if such inclusion will result in annual gross receipts exceeding $5 million, with the following deductions:

1. Revenue billed on behalf of another such telephone company or person to the extent such revenues are later paid over to or settled with that company or person; and

2. Revenues from carrier access charges received from a telephone company which is holding a certificate of public convenience and necessity from the State Corporation Commission or from a telephone utility company providing interstate communications service, together with all revenue from billing and collection amounting to less than $500,000 per year, and all revenues from shared network facilities agreements established under federal court order and like revenue received by other local exchange carriers.

"Telecommunications company" means a telephone company, telegraph company or other person operating the apparatus necessary to communicate by telephone or telegraph.

§ 58.1-430. Tax credit for investments under the "Neighborhood Assistance Act of 1981." –Any business firm, as defined in § 63.1-321, shall be allowed a credit against the tax imposed by § 58.1-400 or Chapter 12 (§ 58.1-1200 et seq.) of Title 58.1, §§ 58.1-2501 ~~,~~ ~~58.1-2621~~ ~~,58.1-2622,~~ ~~58.1-2623,~~ ~~58.1-2624~~ and 58.1-2626 of an amount equal to 50% of the total sum invested under the Neighborhood such credit not to exceed $175,000 annually. No tax credit of less than fifty dollars shall be granted, nor shall a tax credit be granted to any business firm for investments if such activity is a part of its normal course of business as defined in § 63.1-321. Any tax credit not usable for the taxable year the investment was made may be carried over to the extent usable for the next five succeeding taxable years or until the full credit is utilized, whichever is sooner. Credits granted to a partnership or Subchapter S corporation shall be passed through to the partners or shareholders, respectively.

§ 58.1-433. Telecommunications income tax credit.–Any telephone company, telegraph company or other person operating the apparatus necessary to communicate by telephone or telegraph shall receive the following credit against the tax imposed by § 58.1-400:

Taxable Year	*Tax Credit*
1989	*80% of the amount by which the tax imposed by § 58.1-400 exceeds 1.3% of gross receipts.*
1990	*70% of the amount by which the tax imposed by § 58.1-400 exceeds 1.3% of gross receipts.*
1991	*60% of the amount by which the tax imposed by § 58.1-400 exceeds 1.3% of gross receipts.*
1992 and 1993	*50% of the amount by which the tax imposed by § 58.1-400 exceeds 1.3% of gross receipts.*
1994	*40% of the amount by which the tax imposed by § 58.1-400 exceeds 1.3% of gross receipts.*
1995 and 1996	*30% of the amount by which the tax imposed by § 58.1-400 exceeds 1.3% of gross receipts.*
1997	*20% of the amount by which the tax imposed by § 58.1-400 exceeds 1.3% of gross receipts.*
1998	*10% of the amount by which the tax imposed by § 58.1-400 exceeds 1.3% of gross receipts.*

In no event shall the credit allowed under this section exceed the tax imposed by § 58.1-400. The provisions of § 58.1-400.1 shall be applied in computing gross receipts for *purposes of this section.*

§ 58.1-608. Exclusions and exemptions.–The tax imposed by this chapter or pursuant to the authority granted in §§ 58.1-605 and 58.1-606 shall not apply to the following:

1. (a) Industrial materials for future processing, manufacturing, refining, or conversion into articles of tangible personal property for resale where such industrial materials either enter into the production of or become a component part of the finished product; (b) industrial materials that are coated upon or impregnated into the product at any stage of its processing, manufacture, refining, or conversion for resale; (c) machinery or tools or repair parts therefor or replacements thereof, fuel, power, energy, or supplies, used directly in processing, manufacturing, refining, mining or conversion of products for sale or resale; (d) materials, containers, labels, sacks, cans, boxes, drums or bags for future use for packaging tangible personal property for shipment or sale; or (e) equipment, printing or supplies used directly to produce a publication described in subdivision 13 whether it is ultimately sold at retail or for resale or distribution at no cost. Machinery, tools and equipment, or repair parts therefor or replacements thereof, shall be exempt if the preponderance of their use is used directly in processing, manufacturing, refining, mining or conversion of products for sale or resale.

2. Professional, insurance, or personal service transactions which involve sales as inconsequential elements for which no separate charges are made, nor services rendered by repairmen for which a separate charge is made.

3. Commercial feeds, seeds, plants, fertilizers, liming materials, breeding and other livestock, semen, breeding fees, baby chicks, turkey poults, agricultural chemicals, fuel for drying or curing crops, baler twine, containers for fruit and vegetables, farm machinery, all other tangible personal property, except for structural construction materials, necessary for use in agricultural production for market and sold to or purchased by a farmer or contractor to be affixed to real property owned or leased by a farmer; agricultural supplies provided the same are sold to and purchased by farmers for use in agricultural production, including fish and worm farming for market.

4. Every agricultural commodity or kind of seafood sold or distributed by any person to any other person who purchases not for direct consumption but for the purpose of acquiring raw products for use or consumption in the process of preparing, finishing, or manufacturing such agricultural or seafood commodity for the ultimate retail consumer trade, except when such agricultural or seafood commodity is actually sold or distributed as a marketable or finished product to the ultimate consumer. The term "agricultural commodity," for the purposes of this subdivision, shall mean horticultural, poultry, and farm products, and livestock and livestock products.

5. Livestock and livestock products, poultry and poultry products, farm and agricultural products, when produced by the farmer and used or consumed by him and the members of his family.

6. Motor vehicle fuels which are subject to the tax imposed by Chapter 21. Persons who are refunded any such motor fuel tax or special fuel tax shall, however, be subject to the tax imposed by this chapter, unless such taxes would be specifically exempted pursuant to any provision of this section.

7. Motor vehicles, trailers, and semitrailers, mobile homes and travel trailers.

8. Gas, electricity, or water when delivered to consumers through mains, lines, or pipes.

9. Artificial or propane gas, firewood, coal or home heating oil used for domestic consumption. "Domestic consumption" means the use of artificial or propane gas, firewood, coal or home heating oil by an individual purchaser for other than business, commercial or industrial purposes. The Tax Commissioner shall establish by rule and regulation a system for use by dealers in classifying individual purchases for domestic or nondomestic use based on the principal usage of such gas, wood, coal or oil. Any person making a nondomestic purchase and paying the tax pursuant to this chapter who uses any portion of such purchase for domestic use may, between the first day or the first month and the fifteenth day of the fourth month following the year of purchase, apply for a refund of the

30. Catalogs, letters, brochures, reports, and similar printed materials, administrative supplies, the envelopes, containers and labels used for packaging and ma same, and paper furnished to a printer for fabrication into such printed materials, w stored for twelve months or less in the Commonwealth and distributed for use without th Commonwealth. As used in this subdivision, "administrative supplies" shall include, but not be limited to, letterhead, envelopes, and other stationery, invoices, billing forms, payroll forms, price lists, time cards, computer cards, and similar supplies.

31. Motor fuels and special fuels for use in a boat or boats or a ship or ships, upon which a motor fuel tax is refunded pursuant to § 58.1-2113, and upon which a special fuel tax is refunded pursuant to § 58.1-2122.

32. Meals furnished by restaurants or food service operators to employees as a part of wages.

33. Special equipment installed on a motor vehicle when purchased by a handicapped person to enable such person to operate such motor vehicle.

34. Sales by a government agency of the official flags of the United States, the Commonwealth of Virginia, or of any county, city or town.

35. Materials furnished by the State Board of Elections pursuant to subdivision (8), (9), or (10) of § 24.1-23.

36. Books and other reading materials for use by nonprofit organizations organized solely to distribute such books and reading materials to school-age children.

37. Machinery or tools or repair parts therefor or replacements thereof, fuel, power, energy or supplies, and cereal grains and other feed ingredients, including, but not limited to, drugs, vitamins, minerals, nonprotein nitrogen, and other supplements or additives, used directly in making feed for sale or resale. Making of feed shall include the mixing of liquid ingredients.

38. Tangible personal property, except property used in any form of recording and reproducing services, purchased by churches organized not for profit and (i) which are exempt from taxation under § 501 (c) (3) of the Internal Revenue Code or (ii) whose real property is exempt from local taxation pursuant to the provisions of § 58.1-3606, for use (i) in religious worship services by a congregation or church membership while meeting together in a single location, and (ii) in the libraries, offices, meeting or counseling rooms or other rooms in the public church buildings used in carrying out the work of the church and its related ministries, including kindergarten, elementary and secondary schools. The exemption for such churches shall also include baptistries; bulletins, programs, newspapers and newsletters which do not contain paid advertising and are used in carrying out the work of the church; gifts for distribution outside the public church building; and food, disposable serving items, cleaning supplies and teaching materials used in the operation of camps or conference centers by the church or an organization composed of churches that are exempt under this subdivision and which are used in carrying out the work of the church or churches.

39. Tangible personal property including machinery, tools, repair parts, or replacements thereof, and supplies and materials used directly in maintaining and preparing textile products for rental or leasing by an industrial processor engaged in the commercial leasing or renting of laundered textile products.

40. Historical documents, maps, rare books and manuscripts acquired by a nonprofit state historical society which maintains a research library open to the public for research and educational purposes without charge.

41. Sales of tangible personal property to a nonsectarian youth organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and sponsoring a national or international camping assembly within this Commonwealth for seven continuous days or more with attendance in excess of 20,000, which sale of tangible personal property is for use or consumption at such camping assembly.

42. Watercraft as defined in § 58.1-1401.

43. Tangible personal property used in and about a marine terminal under the

supervision of the Virginia Port Authority for handling cargo, merchandise, freight and equipment. This exemption shall apply to agents, lessees, sublessees or users of tangible personal property owned by or leased to the Virginia Port Authority.

44. Tangible personal property purchased for use or consumption by (i) a nonprofit museum of fine arts which is located on property owned by a city in Virginia and which receives more than one-half its operating budget from appropriations by the city or (ii) a nonprofit science-technology museum which receives operating funds from the Commonwealth in an amount which represents at least ten percent of such museum's operating budget.

45. Tangible personal property sold or leased for use in nonprofit nutrition programs for the elderly qualifying under 42 U.S.C. § 3030 (e) through 3030 (g), as amended, as administered by the Virginia Department for the Aging, and the food and food products sold under such programs to elderly persons.

46. Tangible personal property bought, sold or used by Virginia Federation of Humane Societies or any chartered, not-for-profit organization incorporated under the laws of this Commonwealth and organized for the purpose of preventing cruelty to animals and promoting humane care of animals, when such property is used for the operation of such organizations or the construction or maintenance of animal shelters.

47. Sales by prisoners confined in state correctional facilities of artistic products personally made by the prisoners as authorized by § 53.1-46.

48. Tangible personal property purchased for use by a nonprofit, nonstock corporation which receives no financial aid from the Commonwealth or the federal government and is organized exclusively for the purpose of operating, at no charge to the pupils, a combination boarding and day school for the severely physically handicapped children and young adults of the Commonwealth.

49. Tangible nonmedical personal property purchased by a nonprofit organization organized exclusively for the purpose of providing housing and ancillary assistance for children suffering from leukemia or oncological diseases, for other ill children, and for the families of such children during periods of medical treatment of such children at any hospital in the Commonwealth.

50. Tangible personal property purchased by a voluntary health organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and organized exclusively for the purpose of providing direct therapeutic and rehabilitative services, such as speech therapy, physical therapy, and camping and recreational activities, to the children and adults of the Commonwealth regardless of the nature of their disease or socio-economic position.

51. Machinery or tools and repair parts therefor or replacements thereof, fuel, power, energy or supplies, used directly in the harvesting of forest products for sale or for use as a component part of a product to be sold.

52. Certified pollution control equipment and facilities as defined in § 58.1-3660.

53. Tangible personal property for use or consumption by the Virginia Department for the Visually Handicapped or any nominee, as defined in § 63.1-142, of such Department. (Also see § 63.1-164, which provides a more detailed explanation of the exemption.)

54. Parts, tires, meters and dispatch radios sold or leased to taxicab operators for use or consumption directly in the rendition of their services.

55. Tangible personal property purchased for the use or consumption of a nonstock corporation, exempt from taxation under § 501 (c) (3) of the Internal Revenue Code, whose principal activity is conducted on real property owned by any city in the Commonwealth, organized exclusively for the purpose of operating, managing, promoting and improving a public park and museum for recreational and educational purposes.

56. Special typewriters and computers and related parts and supplies specifically designed for those products used by handicapped persons to communicate when such equipment is prescribed by a licensed physician.

57. Advertising as defined by subdivision 23 of § 58.1-602.

58. Tangible personal property purchased for charitable or educational purposes by an organization exempt under § 501 (c) (3) of the Internal Revenue Code and organized exclusively (i) to care for the spiritual needs of American Indians, (ii) to communicate to the non-Indian the values, customs, philosophy and special needs of the American Indian, (iii) to meet the urgent needs of American Indians through nationwide charitable distribution programs, and (iv) to encourage awareness of American Indian arts, crafts and customs provided such property is distributed by the organization through its nationwide charitable distribution program.

59. Tangible personal property withdrawn from inventory and donated to (i) an organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code, or (ii) the Commonwealth, any political subdivision of the Commonwealth, or any school, agency or instrumentality thereof.

60. Tangible personal property purchased by an organization which is exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and which is organized primarily to distribute, during the Christmas season, food, toys, and clothing to persons in financial need, provided such tangible personal property is distributed at no cost to financially needy persons.

61. Tangible personal property, including food and food products, purchased for use or consumption by a residential youth shelter organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code provided such organization is organized exclusively for maintaining and operating group homes for the shelter and care of abused and neglected children in the Commonwealth on a long-term or short-term basis.

62. Tangible personal property sold or leased to a foundation which exclusively provides either training and education of any type or duration for employees of governmental law-enforcement and corrections agencies or education of the public in citizen cooperation with public authorities in crime prevention and solution, provided such foundation is conducted not for profit.

63. Tangible personal property purchased for use, consumption, or sale at retail by an elementary or secondary school conducted not for profit, or Parent Teacher Association or other group associated with an elementary or secondary school conducted not for profit for use in fund-raising activities, the net proceeds (gross receipts less direct expenses) of which are contributed directly to the school or used to purchase certified school equipment; and certified school equipment purchased by such groups for contribution directly to the school. For the purposes of this subdivision, "certified school equipment" shall mean that equipment for which the Parent Teacher Association or other group has received certification from the school that it will accept a donation of equipment. The certification provided by the school shall be in accordance with regulations promulgated by the Tax Commissioner. Notwithstanding the other provisions of this subdivision, the tax shall not apply to the sale of class rings, school photographs. and other fund-raising programs from which an elementary or secondary school conducted not for profit receives a commission or the net proceeds after the payment of vendors and other direct expenses.

64. High speed electrostatic duplicators or any other duplicators which have a printing capacity of 4,000 impressions or more per hour purchased or leased by persons engaged primarily in the printing or photocopying of products for sale or resale.

65. Tangible personal property purchased with food coupons issued by the United States Department of Agriculture under the Food Stamp Program or drafts issued through the Virginia Special Supplemental Food Program for Women, Infants, and Children.

66. Tangible personal property purchased for use or consumption by health maintenance organizations licensed under Chapter 43 (§ 38.2-4300 et seq.) of Title 38.2 which are exempt from taxation under § 501 (c) (3) of the Internal Revenue Code.

67. Tangible personal property purchased for use or consumption by an organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and organized exclusively for the purpose of providing education, training, services, and assistance in independent living to foster care children and youth without families.

68. Tangible personal property for use or consumption by a nonprofit nonstock corporation, which is exempt from taxation under § 501 (c) (3) of the Internal Revenue Code, and which is organized under the laws of the Commonwealth exclusively for the purpose of conducting a clinic furnishing free health care services by licensed physicians and dentists.

§ 58.1-2600. Definitions.–As used in this chapter:

"Certificated motor vehicle carrier" means a common carrier by motor vehicle operating over regular routes under a certificate of public convenience and necessity issued by the Commission. A transit company or bus company that is owned or operated directly or indirectly by a political subdivision of this Commonwealth shall not be deemed a "certificated motor vehicle carrier" for the purposes of this chapter and shall not be subject to the imposition of the tax imposed in § 58.1-2650, nor shall such transit company or bus company thereby be subject to the imposition of local property levies.

"Commission" means the State Corporation Commission which is hereby designated pursuant to Article X, § 2 of the Constitution of Virginia as the central state agency responsible for the assessment of the real and personal property of all public service corporations, except those public service corporations for which the Department of Taxation is so designated, upon which the Commonwealth levies a license tax measured by the gross receipts of such corporations. *The State Corporation Commission shall also assess the property of each telephone company, telegraph company or other person operating the apparatus necessary to communicate by telephone or telegraph.*

"Department" means the Department of Taxation which is hereby designated pursuant to Article X, § 2 of the Constitution of Virginia as the central state agency to assess the real and personal property of railroads and pipeline transmission companies as defined herein.

"Estimated tax" means the amount of tax which a public service corporation estimates as being imposed by Article 2 (§ 58.1-2620 et seq.) of this chapter for the tax year as measured by the gross receipts received in the taxable year.

"Freight car company" includes every car trust, mercantile or other company or person not domiciled in this Commonwealth owning stock cars, furniture cars, fruit cars, tank cars or other similar cars. Such term shall not include a company operating a line as a railroad.

"Gross receipts" means the total of all revenue derived in the Commonwealth, including but not limited to, income from the provision or performance of a service or the performance of incidental operations not necessarily associated with the particular service performed, without deductions for expenses or other adjustments. Such term shall not, however, include interest, dividends, investment income or receipts from the sale of real property or other assets except inventory of goods held for sale or resale.

"Pipeline distribution company" means a corporation, other than a pipeline transmission company, which transmits, by means of a pipeline, natural gas, manufactured gas or crude petroleum and the products or by-products thereof to a purchaser for purposes of furnishing heat or light.

"Pipeline transmission company" means a corporation authorized to transmit natural gas, manufactured gas or crude petroleum and the products or by-products thereof in the public service by means of a pipeline or pipelines from one point to another when such gas or petroleum is not for sale to an ultimate consumer for purposes of furnishing heat or light.

~~"Pole line or conduits" include buried cable and wire, submarine cable and other property used in lieu of, but serving the same function as, pole line or conduits.~~

"Tax Commissioner" means the chief executive officer of the Department of Taxation or his designee.

"Tax year" means the twelve-month period beginning on January 1 and ending on December 31 of the same calendar year, such year also being the tax assessment year or the year in which the tax levied under this chapter shall be paid.

"Taxable year" means the calendar year preceding the tax year, upon which the gross receipts are computed as a basis for the payment of the tax levied pursuant to this chapter.

For purposes of this chapter the terms "license tax" and "franchise tax" shall be synonymous.

§ 58.1-2605. Commission to determine license and recordation tax savings and adjust rates accordingly.–The Commission, in the conduct of its annual review procedures and in all requests for rate increases by public utilities, shall determine that resultant savings in license taxes realized by all ~~telephone,~~ water, heat, light and power companies as a result of amendments to § ~~§ 58.1-2623 and 58.1-2625~~ *58.1-2626* enacted during the 1976 Session of the General Assembly ~~,~~ *and* the savings in recordation taxes realized by such companies as the result of the amendments to § 58.1-803 enacted during the 1977 Session of the General Assembly ~~and the resultant savings in license taxes realized by all telephone companies as a result of amendments to § 58.1-2623 enacted during the 1979 Session of the General Assembly~~ .

During each ~~and every~~ review of rates of a public service company the Commission shall establish rates and charges for such public service company which reflect all savings realized by the public service company from the tax reductions referred to in this section in order that the consumer will receive the benefit of these tax reductions.

§ 58.1-2608. State taxation of railroads, telephone and telegraph companies.–Every railway company , *telephone company, or telegraph company or other person operating the apparatus necessary to communicate by telephone or telegraph* shall pay to the Commonwealth the income tax imposed by Chapter 3 (§ 58.1-300 et seq.) of Title 58.1.

Nothing herein contained shall exempt such corporations from the tax on capital not otherwise taxed levied under Chapter 11 (§ 58.1-1100 et seq.), the annual fee and the annual state franchise tax on domestic corporations, both levied under Chapter 28 (§ 58.1-2800 et seq.) or from assessment for street and other local improvements which shall be authorized by law, or from the county, city, town, or magisterial district levies hereinafter provided for.

§ 58.1-2629. License taxes of corporations commencing business.–A. Companies or persons otherwise taxable under §§ ~~58.1-2621, 58.1-2622, 58.1-2623, 58.1-2624, 58.1-2625,~~ 58.1-2626 or ~~§~~ 58.1-2627.1 but which begin business on or after the beginning of the tax year shall pay a license tax, the measure of which shall be an estimate of the gross receipts of such company or person for the year or for that part of the year in which it begins business. Such estimate shall be reported to the Commission on forms furnished by the Commission within thirty days after beginning business and the license tax measured thereby and assessed by the Commission shall be paid into the state treasury within thirty days after such assessment is made or by June 1 of the year if such assessment is made more than thirty days prior to June 1.

B. Any company or person subject to the provisions of subsection A shall, for the immediately following tax year, pay the license tax measured by an estimate of the gross receipts for the year beginning January 1 of the year following the year in which it began business. Such estimate of gross receipts shall be reported to the Commission within the time requirements prescribed by § 58.1-2628.

C. Every estimate made under this section shall be subject to review by the Commission after the close of the year for which such estimate is made and any variance between the estimate and the actual gross receipts shall be adjusted by the Commission by order of refund or the assessment of additional license tax depending upon whether such estimate was in excess of or less than the actual gross receipts of such taxpayer for such year.

§ 58.1-2631. Gross receipts in cases of consolidation or merger.– Whenever there is a consolidation or merger of corporations taxable under §§ ~~58.1-2621, 58.1-2622, 58.1-2623, 58.1-2624, 58.1-2625,~~ 58.1-2626 or ~~§~~ 58.1-2627.1, liability for the license tax imposed by this chapter shall attach to the corporation thus formed and the gross receipts which shall be used for measuring the license tax of the corporation thus formed shall include the gross receipts of the corporations which were consolidated or merged.

§ 58.1-2633. Assessment by Commission.–A. The Commission shall assess the value of t property subject to local taxation of each ~~company or person taxable under § § 58.1-2621 , 58.1-2622, 58.1-2623, 58.1-2624, 58.1-2625, or § 58.1-2626~~ *telegraph, telephone, water, heat, light and power company, except a pipeline transmission company taxed pursuant to § 58.1-2627.1* , and shall assess the license tax levied hereon *if such company is subject to the license tax under this article* .

B. Should any such taxpayer fail to make the reports required by this article on or before April 15 of each year, the Commission shall assess the value of the property of such taxpayer, and its gross receipts upon the best and most reliable information that can be obtained by the Commission.

C. In making such assessment, the Commission may require such taxpayer or its officers and employees to appear with such documents and papers as the Commission deems necessary.

§ 58.1-2640. Declarations of estimated tax required; contents, etc.– A. Every public service corporation which is subject to a state license tax imposed by §§ ~~58.1-2621, 58.1-2622, 58.1-2623, 58.1-2624, 58.1-2625,~~ 58.1-2626 or § 58.1-2627.1 shall make a declaration of estimated tax for the taxable year if the tax imposed by this chapter, for the tax year, can reasonably be expected to exceed $500.

Such declaration shall contain such pertinent information as the Commission may by forms or regulations prescribe.

B. A public service corporation with a taxable year of less than twelve months shall make a declaration in accordance with regulations prescribed by the Commission.

§ 58.1-2660. Special revenue tax; levy.–In addition to any other taxes upon the subjects of taxation listed herein, there is hereby levied, subject to the provisions of § 58.1-2664, special regulatory revenue tax equal to two-tenths of one percent of the gross receipts suc corporation receives from business done within the Commonwealth upon:

1. Corporations furnishing water, heat, light or power, either by means of electricity, gas or steam; telegraph line apparatus necessary to communicate by telecommunications in the Commonwealth;

3. Incorporated telephone companies owning and operating a telephone line in the Commonwealth whose gross receipts from business done within the Commonwealth exceed $50,000 ~~or whose number of miles of poles exceeds 400 miles~~ or a company, the majority of stock or other property of which is owned or controlled by another telephone company, whose gross receipts ~~or number of pole miles~~ exceed the amounts set forth herein;

4. Common carriers of property by motor vehicle;

5. The Virginia Pilots' Association;

6. Railroads, except those exempt by virtue of federal law from the payment of state taxes, subject to the provisions of § 58.1-2661; and

7. Common carriers of passengers by motor vehicle, except urban and suburban bus lines, a majority of whose passengers use the buses for traveling a daily distance of not more than forty miles measured one way between their place of work, school or recreation and their place of abode.

2. That §§ 58.1-2621, 58.1-2622, 58.1-2623, 58.1-2624 and 58.1-2625 of the Code of Virginia are repealed effective for tax years 1990 and after.

3. That §§ 58.1-333, 58.1-430, 58.1-2600, 58.1-2605, 58.1-2608, 58.1-2629, 58.1-2631, 58.1-2633, 58.1-2640 and 58.1-2660 shall become effective for tax years 1990 and after.

4. That the remaining provisions of this act shall be effective for taxable years beginning on and after January 1, 1989.

5. If a telegraph or telephone company has a taxable year for federal income tax purposes which includes January 1, 1989, and ends on a day other than December 31, 1989, such company shall file a Virginia income tax return for such taxable year. The tax for such taxable year shall be the tax computed as otherwise provided in this act, including the

provisions of §§ 58.1-400.1 and 58.1-433, multiplied by a fraction the numerator of which is the number of months in such taxable year in 1989 and the denominator of which is the number of months in such taxable year.

6. That the 1995 Session of the Virginia General Assembly is requested to establish a joint subcommittee to study whether it is feasible to phase out the state gross receipts tax on telecommunications firm prior to tax year 2,000.

Official Use By Clerks

Passed By The House of Delegates		Passed By The Senate	
without amendment	☐	without amendment	☐
with amendment	☐	with amendment	☐
substitute	☐	substitute	☐
substitute w/amdt	☐	substitute w/amdt	☐

Date: ____________________ Date: ____________________

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Clerk of the House of Delegates Clerk of the Senate