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May 9, 2017

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In an attempt to help close a $3 billion deficit in the state's 2017-18 budget, Gov. Tom Wolf has proposed a computer services tax on Pennsylvania's technology sector. The proposal, informally known as the Pennsylvania "tech tax," would eliminate sales and use tax exemptions for computer services, along with those for other industries such as commercial storage and aircraft sales. Software consulting is analogous to development, said Brian Kennedy, spokesman for the Pittsburgh Technology Council, an advocacy group in Oakland.

In this category of computer services, companies or individuals write software for day-to-day operations or for resale as a standalone product. The proposal would levy a 6 percent state tax. In Allegheny County, which imposes a 1 percent local sales tax, that rate would reach 7 percent. "There are only three states that tax computer services this broadly to include software along with hardware consulting," Mr. Kennedy said. "But none of them come close to the rate at which Pennsylvania will tax these services."

In total, the sales tax expansion includes data processing, hosting and related services; custom computer programming services; computer system design services; computer facilities management services; and related services. According to the governor's spokesman, J.J. Abbott, Mr. Wolf has proposed tackling two-thirds of the deficit through spending cuts and "other savings." "The remainder of his package to address the deficit is focused on tax changes that close corporate loopholes and enacting a long-overdue severance tax on gas drilling," Mr. Abbott said.

Mr. Kennedy disagrees with that description. "To call it a loophole is not an accurate representation," he said. Currently, 15 states either fully or partially tax computer services, according to the Multistate Corporate Tax Guide. Of those, four states impose taxes on software consulting services, one of the greatest revenue drivers in computer taxation.

Connecticut taxes computer services at 1 percent, Hawaii and South Dakota at 4 percent, and New Mexico at 5 percent, according to a 2013 study by the Massachusetts Taxpayers Foundation. The independent research organization created a 50-state database to compare tech taxes after deserve state pension

Harrisburg Patriot-News
Wolf: Lt. Gov.'s mistreatment of staff investigation continues but 'you'll know' when it's done

Massachusetts' 2014 budget proposal introduced what would have been the most burdensome tech tax in the country, Mr. Kennedy said.

In Mr. Wolf's proposal, the administration notes that "any proposed tax changes will focus on ending special tax treatment for favored interests" and that the 2017-18 year will procure $359.9 million in taxes from computer services, which differs from the $330 million figure cited by the Pittsburgh Technology Council.

Mr. Kennedy said the group used the lower estimate because budget secretary Randy Albright listed it in his Feb. 7 presentation on the state budget. Comparatively, the Independent Fiscal Office, which provides nonpartisan analysis on revenue assessments by the state, projected the computer service taxes would yield $349 million in revenue. The proposed budget and its provisions, including the tech tax, must be negotiated and passed before the new fiscal year begins July 1.

Mr. Kennedy believes that the tax, if passed, would result in a direct loss of employees managing IT projects as well as a loss of local vendors, including software developing teams, which will see work go to companies in other states with a smaller tax burden. On May 3, state Rep. Mike Turzai, R-Marshall, issued a statement in opposition to the tax. "Pennsylvania has seen tremendous growth in the technology sector over the past two decades," he said. "These are good, family sustaining jobs that could easily be moved out of state."

According to the Pittsburgh Technology Council's 2016 State of the Industry Report, technology companies and those in related fields employed 302,535 individuals in southwestern Pennsylvania — up to 24 percent of the area's workforce. Paul J. Mathison — founder of Philadelphia-based research firm pjmathison, which helps consulting firms navigate issues in government — said "big box" consultancies would be affected. "It would be disruptive and costly to the Pennsylvania economy and jobs," he said. "They would easily relocate across the border over time."

Mr. Mathison noted that his firm is not representing any consulting companies in this area of debate. Through Pittsburgh Technology Council's efforts in opposition to the proposed tax, at least 1,500 companies sent letters to legislators, Mr. Kennedy said. – ***Pittsburgh Post-Gazette***

Cable and satellite television service would not be taxed in Louisiana under the latest proposal by Gov. John Bel Edwards and the chairman of the House Democratic Caucus to raise revenue in a state facing a $1.3 billion budget deficit in mid-2018. But Internet-based video services such as Netflix and Hulu, as well as satellite radio, Spotify and possibly Amazon Prime subscriptions, would be taxed, according members of the Edwards administration.

Edwards and Rep. Gene Reynolds of Minden are working on a plan to expand state sales tax to new services and industries. The House committee that oversees tax policy is scheduled to vote on the proposal Tuesday (May 9).

The latest version of their proposal no longer extends sales tax to cable, satellite or services such as Roku, Google Chromecast, Apple TV, Sling TV and cable's video-on-demand services that let consumers view conventional channels and internet streaming on a television set. But Netflix, Hulu, satellite radio, Spotify and possibly Amazon Prime subscriptions would be taxed, said Kimberly Robinson, Edwards' revenue secretary.

Other types of services -- everything from massages and landscaping to certain types of debt collection and insurance appraisals -- also would be newly subjected to state and local sales taxes. All the new taxes would go into place Oct. 1, according to the legislation.

The legislative measure containing these changes, **House Bill 655** by Reynolds, has been rewritten to remove all references to "streaming." But Robinson said the administration and Reynolds are still working out the exact language to capture subscription-based services such as Netflix while not taxing devices such as Roku.

The aim is to apply the sales tax to any service that has essentially replaced the conventional video store that rented and sold videos, she said. The legislation specifically calls for movies, photographs, mobile applications, games, books, music, other audio products and "printed matter" to be subject to sales taxes if they are "electronically or digitally delivered."

In rewriting the measure, Reynolds and the governor's staff also decided not to tax surveys of "immovable property" such as land. For example, if a family hired a person to survey a piece of property in a new subdivision where they might build a house, that service would not be taxed, under the rewritten version of the bill. Repairs and adjustments to industrial property have also been taken off the list of taxable services.

Louisiana isn't the only state to look at taxing Netflix, Amazon Prime, Hulu, Spotify and similar services. Pennsylvania implemented a similar tax last year. Several California cities and Alabama have also considered "Netflix tax".

The expansion of the sales tax to these services is an attempt to adjust to consumer purchasing patterns. People used to buy or rent videos at a retail store and pay sales tax on the transaction. Now, they are streaming that content online and not paying sales tax. "Most state sales tax laws are really old and outdated. They were written in the 1930s," said John Buhl, media manager with the Tax Foundation, a nonpartisan, conservative think tank during an interview in April. "As the economy changes, we are seeing states' sales tax bases shrink."

Louisiana has the highest average sales tax in the country when both local and state taxes rates are considered. But the state portion of the sales tax is scheduled to drop on June 30, 2018, from 5 percent to 4 percent. It is thought that expanding the sales tax to new areas such as housekeeping, landscaping and streaming subscriptions could make up for some of the lost revenue when the higher rate expires.

Outside of streaming services, here are some other items that Reynolds' bill would tax: Data processing, including some payroll and some business accounting services. This also would apply to word processing, data entry, data production and data search, whether done by a human being or machine; security services; telephone answering services; information services, including electronic data retrieval and specialized news services such as those for financial information. Newspaper, radio and television stations approved by the Federal Communications Commission would be excluded. – ***New Orleans Times-Picayune***

It’s no surprise that Ajit Pai, the new chairman of the Federal Communications Commission, wants to gut net neutrality.

What is shocking is that the proposal he released last week could not only weaken the net neutrality rules but get rid of them entirely. Pai’s proposal envisions even tearing up provisions that nearly everyone agrees on, like the one that bars internet providers from blocking access to particular sites and services. “He’s abdicating the FCC’s role entirely in protecting consumers and competition,” said Gigi Sohn, a fellow at the Open Society Foundations who previously was a counsel to Pai’s predecessor, Tom Wheeler.

Pai, a former Verizon lawyer who has long supported big broadband providers, is no fan of net neutrality, the principle that internet providers should treat all traffic on their networks equally. He vociferously opposed the FCC’s move two years ago under Wheeler to enact strong Open Internet rules. And he’s made clear repeatedly since then that he would try to overturn those rules the first chance he got. With a Republican majority now in control of the commission, he has that chance. Still, the proposal he put forward was breathtaking.

Net neutrality establishes certain “bright lines” when it comes to how broadband providers handle internet traffic. Not only do they prohibit providers from blocking access to particular sites or services but they also bar them from slowing access to such sites and services. And they prohibit providers from establishing so-called fast lanes that would provide faster or more reliable access to particular sites and services, whether those offered by the providers themselves or by partners that pay for the privilege. In addition to these bright lines, the rules require providers to disclose to customers the steps they take to manage their networks.

There’s been pretty wide agreement across the political aisle for more than a decade of the need for some form of net neutrality rules. And the big broadband providers have generally said they plan to adhere to them.

But Pai’s proposal questions whether any of those rules should remain in place. We “seek comment on whether we should keep, modify, or eliminate the bright line and transparency rules,” Pai’s proposal states. When agencies such as the FCC pose questions like that, they’re attempting to lay the foundation for a potential policy shift. “He doesn’t flat out propose it, but that’s the clear implication,” said Sohn, who had a close-up view of the rule-making process during her time at the FCC. “It leans so heavily toward no rules at all.”

That kind of move would be radical and dangerous. Right now, for example, the net neutrality rules require broadband providers to let you access any legal site or service you want to get to on the internet. In the future, though, if the proposal moves in the direction Pai is forecasting, providers would have the right to block women from accessing Planned Parenthood’s website, say, or conservative groups from visiting Ann Coulter’s website.

It was concerns about such threats that led to the net neutrality rules in the first place and the effort under Wheeler — after the courts had twice struck down the rules — to ground them in strong legal authority. Wheeler's effort was broadly popular; the FCC received some 4 million comments — the most it had ever received for any issue — backing the move. Net neutrality backers are betting that people will come out again to defend those rules.

"Very few people want the cable and phone companies telling them where they can go on the internet," said Matt Wood, a policy director at Free Press, a consumer advocacy group that has long backed net neutrality. If Pai's proposal was shocking, his justifications for it ranged from the misleading to the flat-out false.

Pai argues, for example, that Wheeler's net neutrality rules represented a radical departure for the FCC, moving it from a "light-touch" regulatory regime that had allowed the internet to thrive over the last 20 years to an outdated and "heavy-handed" one that's put the internet under government control. There's so much wrong with this argument that's hard to know where to start. The FCC's net neutrality rules don't represent some kind of government takeover of the internet. Internet users and internet companies such as Facebook, Netflix or Apple aren't affected by them. Instead, they solely govern the behavior or the companies that provide the on-ramps to the internet, the broadband providers. Even then, the rules are an example of "light touch" regulation, exempting providers from numerous provisions.

But that was just one of Pai's misleading justifications. Relying on industry-backed studies, he also argued that investment in broadband has declined over the last two years thanks to the net neutrality rules. But according to a study authored by Free Press, in the two-year period following the passage of the new rules, investment by the broadband providers that are public companies is actually up compared with the two-year period immediately before they were passed. At companies such as Comcast, investment is up significantly. Meanwhile, companies such as Charter have said that the rules have had no impact on their investments.

So, it's time to fight again for net neutrality. Pick up the phone, fire off an email. Let the FCC and your congressional representatives know how important it is. Because the opponents of net neutrality, backed by the big broadband interests, are determined to get rid of it and won't let the truth stand in their way. – ***San Jose Mercury News***

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