

California extends tax on phones to fund high-speed internet

AP By ADAM BEAM October 8, 2021



Photo FILE - In this June 5, 2020, file photo, AT&T workers deploy fiber optic lines for a cell phone tower station in the Chinatown neighborhood of Los Angeles. California Gov. Gavin Newsom signed a pair of bills on Friday Oct. 8, 2021, that extend a state tax on phone bills to pay for high-speed internet connections in unserved areas of the state. The laws don't increase the tax, but makes it easier for regulators to change how the tax is collected, which could increase the tax for cell phone customers. (AP Photo/Damian Dovarganes, File) Damian Dovarganes AP

SACRAMENTO, Calif. (AP) — Californians could have higher cellphone bills after Gov. Gavin Newsom signed two laws on Friday aimed at giving the state more money to build high-speed internet connections in unserved areas.

California is one of 41 states that collect a tax on phone bills and uses the money to build high-speed internet connections. The laws Newsom signed Friday make sure the state will keep collecting that tax — and collect more of it.

The laws don't increase the tax, but it extends the tax, which was scheduled to expire at the end of next year. The laws make it easier for state regulators to change how the tax is collected, which will likely lead to people paying more on their cellphone bills. And the laws let the state collect more of the tax than it could before, up to \$150 million per year.

The new laws are the final pieces of Democrats' plan this year to make high-speed internet available to more people. Democratic leaders were prompted by the pandemic, which put the state's broadband access into sharper focus once all of the state's school children had to learn from home for most of the year.

“We kept saying there is a digital divide and then the pandemic happens and everybody realizes it,” said Sunne Wright McPeak, president and CEO of the California Emerging Technology Fund, which supported the legislation. “Not only did the pandemic spotlight the digital divide, it revealed a digital cliff, with families falling off into deeper poverty and greater isolation if they weren't connected to the internet.”

The laws were designed to shore up what has become a dwindling source of revenue for state broadband projects. State policy is for 98% of the state to have access to high-speed internet by next year. While the state has met that goal for urban areas, just 82.7% of rural households have access to high-speed internet, according to the California Public Utilities Commission.

California has six “universal service programs” designed to benefit people who are deaf, disabled, low-income and live in rural areas. For 30 years, these programs have been funded by a tax on phone bills. But while more people have phones in California than ever before, the money from the tax has been declining.

That’s because the tax doesn’t apply to text messages, data or voicemail, cutting out a significant portion of the way people communicate on their phones. In 2012, about \$15.4 billion in phone bills were subject to the tax. By 2020, the tax applied to just \$6.433 billion in phone bills, according to the California Public Utilities Commission.

People with traditional landlines end up paying a lot more of the tax than people with cellphones — who by far outnumber landline customers. A typical landline customer might pay close to \$3, while a cell phone customer would pay 30 cents or less, according to the California Public Utilities Commission.

State regulators are considering a new tax that would be a flat fee for all phones in the state. The laws Newsom signed Wednesday makes it easier for them to do that.

“This is huge news that will make a significant positive difference in the lives of Californians,” said Sen. Lena Gonzalez, a Democrat from Long Beach and author of one of the laws. “Enacting [SB 4](#) and [AB 14](#) means that children will no longer have to do their homework outside of fast-food restaurants.”

Republicans and some taxpayer groups, including the California Taxpayers Association, opposed these new laws because they argued lawmakers did not need to raise taxes to pay for high-speed internet projects.

California had a substantial budget surplus this year, and over the summer the state Legislature approved a new operating budget that included \$6 billion for high-speed internet projects. But most of that spending is federal money that must all be spent by 2026. The taxes extended by the new laws Newsom signed on Friday will provide funding for projects well beyond that date.