

The Effects of the Sales and Use Tax Exemption For Qualifying Broadband Service Providers

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Overview

Original House Bill No. HB0097 (Enrolled Act No. 59) was signed by Governor Gordon into law on February 26, 2019. This act relates to taxation and revenue and provides for a sales and use tax exemption for the purchases of equipment used to provide broadband internet services in unserved areas. The act provides for a reporting requirement and an effective date of July 1, 2019. The broadband internet services equipment purchases exemption is located within the “economic incentive” group of sales and use tax exemptions in the Wyoming statutes [W.S. 39-15-105(a)(viii) and W.S. 39-16-105(a)(viii)]. This exemption has a sunset date of July 1, 2024.

The exemption is provided to broadband internet service providers and is for the purchase of equipment used to provide broadband internet services in unserved areas. “Unserved areas” is defined in W.S. 9-12-1501(e) as “an area in which there exists no fixed terrestrial broadband service, or in which the maximum fixed terrestrial broadband speed available:

- (i) To residential customers is at speeds less than twenty-five (25) megabits per second download and three (3) megabits per second upload;
- (ii) To a business corridor within a municipality:
 - (A) With a population of less than two thousand (2,000), is twenty-five (25) megabits per second download and three (3) megabits per second upload;
 - (B) With a population of two thousand (2,000) or more, is fifty (50) megabits per second download and five (5) megabits per second upload.
- (iii) To a business corridor in an unincorporated area of a county, is twenty-five (25) megabits per second download and three (3) megabits per second upload.”

Specific Reporting Requirements by Statute

Wyo. Stat. Ann. § 39-15-105(b)

“The Wyoming business council, the department of workforce services and the department of revenue shall jointly report to the joint revenue interim committee on or before December 1 of each year that the exemption is in effect. If requested by the department of revenue, any person utilizing the exemption shall report to the department the amount of sales tax exempted, and the number of jobs created or impacted by the utilization of the exemption.”

This report is to evaluate the cumulative effects of the exemption from initiation of the exemption and shall include:

- (i) A history of employment in terms of the numbers of employees, full-time and part time employees, and rate of turnover classified by the 2007 edition, as amended, of the North American Industry Classification System (NAICS) code manufacturing section 31 -33 from information collected by the Department of Employment;
- (ii) A history of wages and benefit disaggregated by gender for each job category; and
- (iii) A comprehensive history of taxes paid to the state of Wyoming.

Findings

This year represents the second report in a series of annual reports on the effects of this sales and use tax exemption. References to data contained in this report will be referred to as FY21 and will cover the period of July 1, 2020 through June 30, 2021.

The FY21 report is based on 29 surveys mailed on July 2, 2021 to a list of businesses obtained from the Wyoming Business Council that were identified as providers of broadband internet services. A cover letter sent with the survey informed the businesses that once completed, the response could be either mailed, submitted electronically or faxed to the Excise Tax Division for data processing. The Department attempted to contact internet providers who had not responded twice prior to August 27, 2021 which was the closing date of the survey. The Department of Revenue received eight responses, of the eight responses received, three of those respondents reported exempt purchases of broadband equipment and five of those businesses reported not claiming an exemption.

Exemption Cost

Based on survey responses for FY21, there was \$11,256,954.69 in exempt purchases made by the businesses surveyed. Applying the statewide sales and use tax rate average of 5.35%, this amounts to \$602,247.08 in unrealized sales and use tax revenue by the State of Wyoming as a result of this exemption.

The single user with the highest utilization of the exemption reported \$7.8M in exempt purchases, representing 69.19% of the total exemptions utilization. Figure 1 illustrates each respondent's percentage of exempt purchases in FY21.

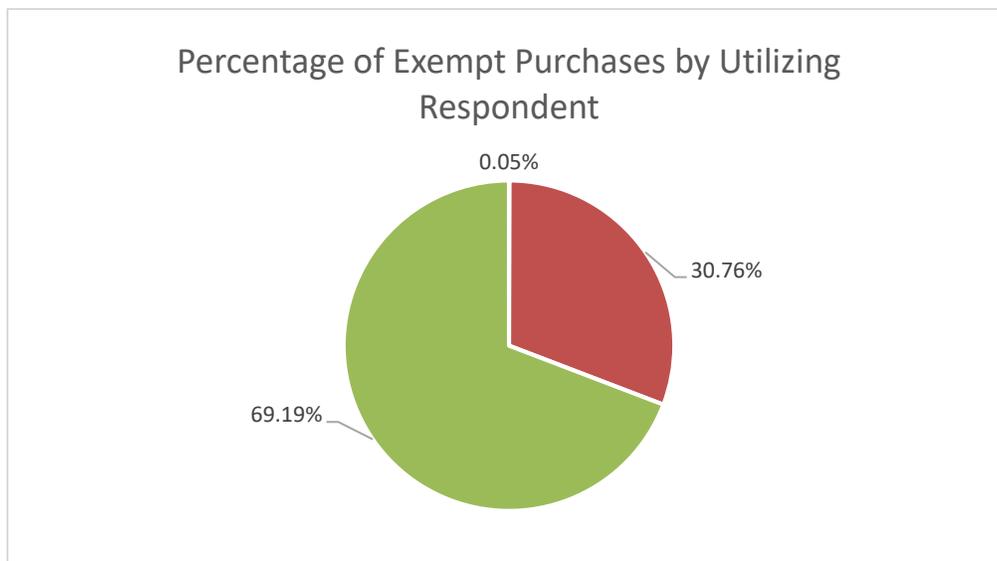


Figure 1: Percentage of Exempt Purchases by Respondent

Employment

Of those businesses providing broadband internet services surveyed, a total of 1114 persons were employed: 1075 in full-time positions and 39 part-time positions (these and all figures following do not include the owner/officer classification). Figure 2 illustrates the total reported employment.

By occupational classification, 145 people held supervisory roles; 146 engaged in administrative capacities; 500 employees were in customer support services; 161 were skilled laborers; and the remaining 162 were unskilled laborers. Figure 2 details the number of employees by occupational classification. In FY21, administrative services positions as well as skilled labor positions showed an increase of 16 and 57 positions respectively. Supervisor/Manager positions decreased from 194 positions in FY20 to 145 positions in FY21. Positions in customer service and unskilled labor also showed a decrease in positions of 82 and 11 positions respectively.

	<i>FY20</i>	<i>FY21</i>
<i>Supervisor/Manager</i>	194	145
<i>Administrative Svcs</i>	130	146
<i>Customer Service</i>	582	500
<i>Skilled Labor</i>	104	161
<i>Unskilled Labor</i>	173	162
<i>Total</i>	1183	1114

Figure 2: Number of Employees by Occupational Classification

Figure 3 compares the same figures as a percentage of the workforce.

	<i>FY20</i>	<i>FY21</i>
<i>Supervisor/Manager</i>	16.40%	13.02%
<i>Administrative Svcs</i>	10.99%	13.11%
<i>Customer Service</i>	49.20%	44.88%
<i>Skilled Labor</i>	8.79%	14.45%
<i>Unskilled Labor</i>	14.62%	14.54%

Figure 3: Percentage of Employees by Occupational Classification

By gender, 817 were male and 297 were female; men accounted for 73.3% of the workforce. Of the 297 women holding positions: 37 were supervisory/managerial; 66 were administrative support, 162 were in customer support services roles and the remaining 14 were skilled laborers and 18 unskilled laborers. Unskilled labor positions in FY21 was the only area that showed an increase of women from 7 positions in FY20 to 18 positions in FY21. Figure 4, on page 5, illustrates the number of men and women as segments of the total workforce.

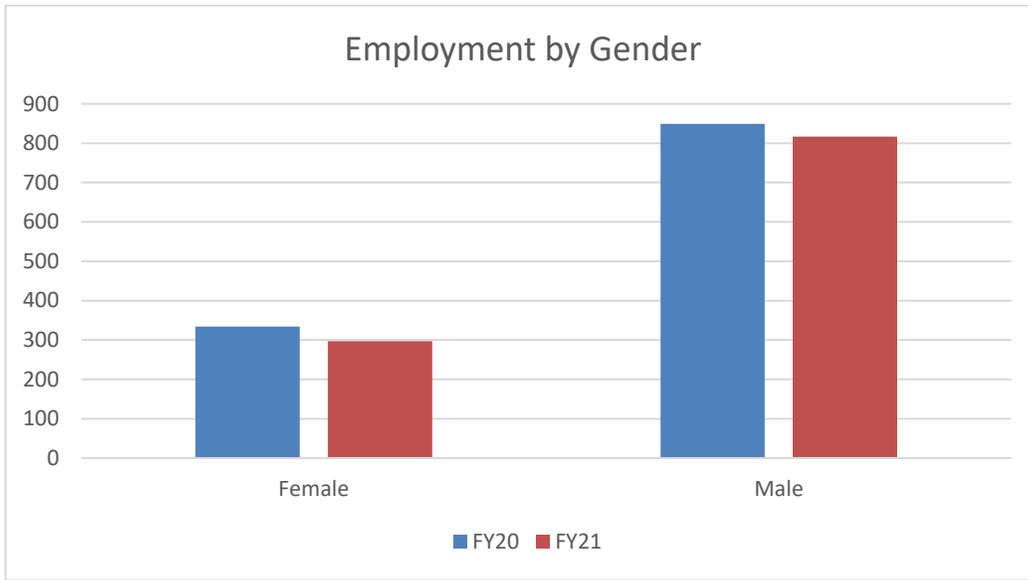


Figure 4: Employment by Gender

Wages

According to the information provided, the average wage across the industry was \$27.72 per hour. Per occupational classification, employee wages in supervisor/manager positions fell from \$43.32 in FY20 to \$42.92 in FY21. Likewise, wages for customer service positions also fell from \$19.91 in FY20 to \$18.67 in FY21. However, wages for administrative service positions increased from \$24.63 in FY20 to \$30.96 in FY21. Wages in skilled labor increased from \$29.72 in FY20 to \$40.75 in FY21. Wages for unskilled labor also increased from \$21.47 in FY20 to \$26.19 in FY21. Figure 5 details the average wage per occupational classification. Figure 6 on page 6 illustrates the average annual wage per occupation classification per year.

	<i>FY20</i>	<i>FY21</i>
<i>Supervisor/Manager</i>	\$43.32	\$42.92
<i>Administrative Svcs</i>	\$24.63	\$30.96
<i>Customer Service</i>	\$19.91	\$18.67
<i>Skilled Labor</i>	\$29.72	\$40.75
<i>Unskilled Labor</i>	\$21.47	\$26.19
<i>Average</i>	\$25.36	\$27.72

Figure 5: Average Wage by Occupational Classification

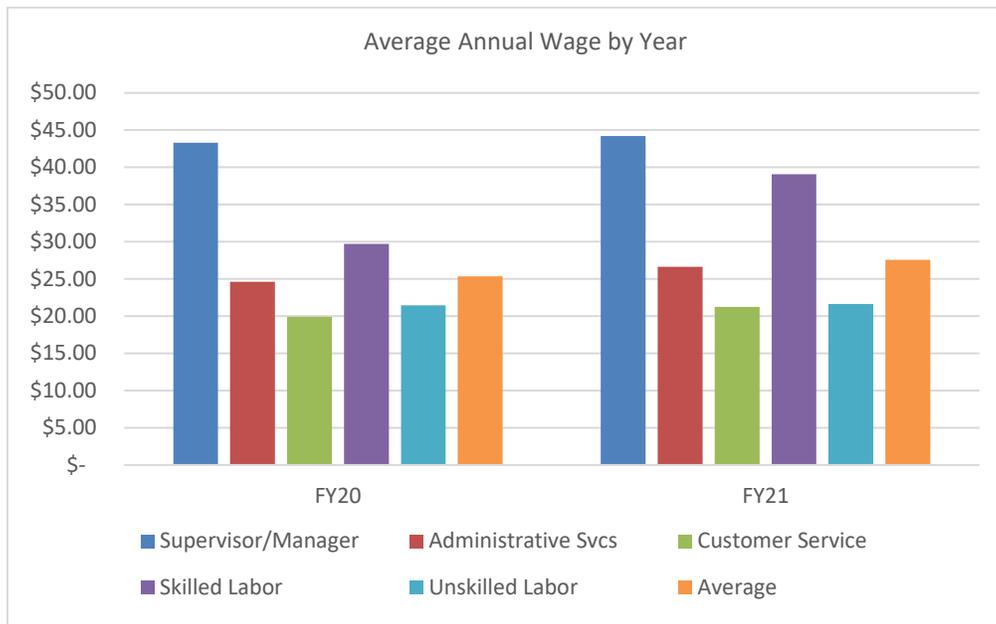


Figure 6: Average Wage by Year

FY21 shows men’s wages generally out-perform women’s wages in all categories except customer service positions where women’s wages on average were \$19.62 and men’s wages on average were \$18.21. Men in administrative positions were paid an average of \$35.10 per hour, whereas women were paid an average of \$25.94 per hour or 26% lower than men’s wages. Skilled labor shows men were paid \$41.07 per hour, and women were paid \$37.43 per hour or 9% lower. In unskilled labor positions, men were paid an average of \$22.21 per hour with women earning an average of \$19.11 per hour or 14% lower than men’s wages. Figure 7 compares men’s and women’s wages by occupational classification and also provides the percentage of women’s wages compared to men’s wages in similar positions.

	FY20			FY21		
	M	F	%Earnings	M	F	% Earnings
Supervisor/Manager	\$43.45	\$43.05	99%	\$42.96	\$42.79	100%
Administrative Svcs	\$25.85	\$23.68	92%	\$35.10	\$25.94	74%
Customer Service	\$20.88	\$17.66	85%	\$18.21	\$19.62	108%
Skilled Labor	\$29.58	\$30.52	103%	\$41.07	\$37.43	91%
Unskilled Labor	\$21.68	\$16.55	76%	\$22.21	\$19.11	86%

Figure 7: Men and Woman Wages per Occupational Classification

Benefits

Of the six respondents with full-time employees residing in Wyoming, five businesses offered full benefits packages consisting of health, dental and vision coverage, prescription and retirement 401(k) options to the full-time employee, one respondent offered a benefits package that did not include a prescription plan. No benefits were offered to the part-time employees.

Turnover

Respondents reported varying degrees of turnover. Figure 8 illustrates the turnover rate per occupational classification, as well as the average turnover rate for the year for the combined occupational classifications. FY21 showed a sharp increase in turnover of 19.61% compared to 8.64% in FY20. The Department of Workforce Services published the 2020 third quarter turnover rate of 43.5% for all industries. As of the writing of this report, no other turnover rates have been published in order to make a comparison across all industries for 2020.

	<i>FY20</i>	<i>FY21</i>
<i>Supervisor/Manager</i>	3.80%	7.53%
<i>Administrative Svcs</i>	5.57%	21.57%
<i>Customer Service</i>	18.76%*	21.94%
<i>Skilled Labor</i>	3.94%	9.50%
<i>Unskilled Labor</i>	11.14%	37.51%
<i>Average</i>	8.64%	19.61%

Figure 8: Turnover Rate per Occupational Classification

* Respondent reported turnover in customer service as seasonal turnover for part time positions.

Survey Process and Costs

All surveys were sent in the mail. The primary expense associated with this report is the time spent following up with the respondents, reviewing and analyzing the data received, as well as the preparation of this report. The Department estimates office personnel expended 40 to 50 hours over the course of several weeks on this endeavor.

Wyoming Business Council Regional Project Assessment System (RPAS) Manufacturing sales tax incentive economic analysis

The Department of Revenue requested this information from the Wyoming Business Council.

The Wyoming Business Council informed the Department that they have determined the RPAS component is redundant to the REMI model provided by A&I and therefore did not provide the report. Additionally, the person responsible for the RPAS report moved on to another opportunity so the Business Council is without the capability to provide the RPAS report this year.

REMI Analyses: Economic Impacts

The analyses of the economic impacts of the sales and use tax exemptions for purchases of equipment by a telecommunications service provider, video programming service provider, or provider of internet access used to provide broadband internet service was prepared using the Regional Economic Models, Inc. (REMI) PI+ model. REMI PI+ is the next generation Policy Insight model built exclusively for Wyoming. It is an integrated model that combines the best features of the input-output, general equilibrium, econometric, and economic geography methodologies. PI+ is also a dynamic rather than a static model allowing for year-by-year analysis of the total regional effects of any specific policy.

Table 4: Economic Impact of **Sales & Use Tax Exemption Removal** for Broadband Internet Providers

Category <i>(Change from Baseline)</i>	2021	2022	2023	2024	2025	Average 2021-2030
Total Employment - Jobs	-2	-3	-3	-4	-4	-4
Population - Individuals	-1	-2	-2	-3	-3	-3
Wages and Salaries	-\$0.1	-\$0.2	-\$0.2	-\$0.2	-\$0.2	-\$0.2
Personal Income	-\$0.2	-\$0.2	-\$0.3	-\$0.3	-\$0.3	-\$0.3
Disposable Personal Income	-\$0.2	-\$0.2	-\$0.2	-\$0.3	-\$0.3	-\$0.3
Gross Domestic Product	-\$0.3	-\$0.4	-\$0.4	-\$0.5	-\$0.5	-\$0.5
Output	-\$0.5	-\$0.7	-\$0.8	-\$0.9	-\$1.0	-\$1.0
Sales & Use Tax Revenue	-\$0.006	-\$0.008	-\$0.008	-\$0.010	-\$0.010	-\$0.009
Property Tax Revenue	-\$0.002	-\$0.002	-\$0.003	-\$0.003	-\$0.003	-\$0.003
<i>Note: All dollar amounts are expressed as millions of fixed (2020) dollars.</i>						

The economic impact of the **removal of the sales tax exemption** for purchases of equipment by a telecommunications service provider, video programming service provider, or provider of internet access used to provide broadband internet service was modeled in REMI as an increase in the production costs for the telecommunications industry of \$1.0 million per year beginning in 2020 (see Table 4). This exemption removal would result in an average annual loss of 4 jobs and a decrease in GDP of \$0.5 million per year over the period of 2021 to 2030 when compared to the baseline scenario.

Key Definitions

Total Employment comprises estimates of the number of non-farm jobs, full-time plus part-time, by place of work. Full-time and part-time jobs are counted at equal weight. Includes direct, indirect, and induced jobs.

Population reflects mid-year estimates of people, including survivors from the previous year, births, special populations, and three types of migrants (economic, international, and retired).

Wages and Salaries are the monetary remuneration of employees, including the compensation of corporate officers; commissions, tips, and bonuses; voluntary employee contributions to certain deferred compensation plans, such as 401(k) plans; and receipts in kind that represent income. Wages and salaries disbursements are affected by changes in Wage Rate and Employment.

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons

with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

Disposable Personal Income equals personal income minus personal taxes.

Gross Domestic Product or **GDP** is the market value of goods and services produced by labor and property. It is often referred to as "value added" and is equal to its gross output (sales or receipts and other operating income, plus inventory change) minus its intermediate inputs (consumption of goods and services purchased from other industries or imported).

Output is the amount of production, including all intermediate goods purchased as well as value-added (compensation and profit). Output can also be thought of as sales or supply or simply price multiplied by quantity ($P \times Q$).

Sales & Use Tax Revenue includes the state imposed 4% tax rate and local optional taxes. The tax rate of 5.3% applied in the estimation is a population weighted county average.

Property Tax Revenue includes taxes from residential, commercial, industrial, and agricultural properties. The tax rate of 65 mills applied in the estimation is the statewide average.

About the REMI PI+ Model

The REMI PI+ model incorporates aspects of four major modeling approaches: **Input-Output**, **General Equilibrium**, **Econometric**, and **Economic Geography**. Each of these methodologies has distinct advantages as well as limitations when used alone. The REMI integrated modeling approach builds on the strengths of each of these approaches.

The REMI model at its core has the inter-industry relationships found in **Input-Output models**. As a result, the industry structure of a particular region is captured within the model, as well as transactions between industries. Changes that affect industry sectors that are highly interconnected to the rest of the economy will often have a greater economic impact than those for industries that are not closely linked to the regional economy.

General Equilibrium is reached when supply and demand are balanced. This tends to occur in the long run, as prices, production, consumption, imports, exports, and other changes occur to stabilize the economic system. For example, if real wages in a region rise relative to the U.S., this will tend to attract economic migrants to the region until relative real wage rates equalize. The general equilibrium properties are necessary to evaluate changes such as tax policies that may have an effect on regional prices and competitiveness.

REMI is sometimes called an "**Econometric model**," as the underlying equations and responses are estimated using advanced statistical techniques. The estimates are used to quantify the structural relationships in the model. The speed of economic responses is also estimated, since different adjustment periods will result in different policy recommendations and even different economic outcomes.

The **New Economic Geography** features represent the spatial dimension of the economy. Transportation costs and accessibility are important economic determinants of interregional trade and the productivity benefits that occur due to industry clustering and labor market access. Firms benefit having access to a large, specialized labor pool and from having access to specialized intermediate inputs from supplying firms. The productivity and competitiveness benefits of labor and industry concentrations are called agglomeration economies, and are modeled in the economic geography equations.

The primary national, state, and county data source for REMI PI+ is the Bureau of Economic Analysis (BEA) State Personal Income (SPI) and Local Area Personal Income (LAPI) series (which also include employment and total population at both the state and county level). REMI also relies on numerous other data sources including the Bureau of Labor Statistics, Energy Information Administration, Center for Disease Control and Prevention, National Center for Health Statistics, and the Department of Defense. *Source: remi.com.*

