
Detailed Fiscal Analysis

The bill would subject prepaid authorization numbers used to make telephone calls or prepaid telephone calling cards to the state sales tax at the time of sale. Ohio currently applies the sales tax on these items at the point of use. Taxing at point of sale offers ease of administration. The state would not have to identify and assess the use tax on the value of each call made with the prepaid number/phone cards, and the entire value of the purchase would be captured by taxing at the point of sale. A number of telephone cards are either partially used or are sold as collectors items and not used at all. Point of sale would tax the entire price of the card, not just the "used" portion.

Recent industry figures project a gain of approximately \$245,000 in revenues if taxation takes place at point of sale.¹ The exact amount of revenues gained, if any, is uncertain. Any gains that may be realized by point of sale taxation could be offset by a loss of revenues from point of use taxation. Cards purchased in Ohio would be taxable regardless of where they were used, while cards purchased out of state but used here would be free of Ohio sales tax. In addition, many prepaid cards can be "recharged" after initial purchase. The usage (or re-use) of these cards would no longer be taxable and would represent a further loss of revenues.

Prepaid phone cards may also be purchased via the Internet or by mail order. If the vendor/seller of the pre-paid cards has nexus in Ohio, the sales are subject to taxation (AT&T, for instance). Vendors lacking nexus would not be responsible for submitting or assessing sales tax. Sales of this nature pose a potentially large loss of revenues, especially when one considers the increasing popularity of the Internet.

The exact gain (or loss) in revenues depends upon the extent to which purchase exceeds use, the prevalence of rechargeable cards, the manner in which the sales transaction takes place (retail vs. mail order vs. Internet) and the frequency of its occurrence. Given that these factors remain unknown, it would be impossible to project the monetary impact of this change in taxation.

The projected cost of implementing a change in the taxation of prepaid cards and numbers is estimated to be approximately \$64,000. This would cover the cost of printing and mailing notification to all vendors of record in the Department of Taxation and does not include any estimate of losses (gains) in tax revenues. The Department may choose to notify only those vendors who normally deal in these items, which would decrease this initial cost.

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¹ MCI Telecommunications Corporation. Position Paper presented by David Berger of the Tax Legislative Affairs Department.