# Revenue Estimating Conference
# Gross Receipts Tax/Communications Services Tax
# July 29, 2024
# Executive Summary

The Revenue Estimating Conference met on July 29, 2024, to adopt a new forecast for the Gross Receipts Tax and the State Sales Tax on Communications Services. Through June 2024, Gross Receipts Tax collections from all components (derived from separate taxes on electricity, gas and communications) came in $82.6 million (-5.6%) below the forecasted level. Collections from the separate State Sales Tax on Communications were $2.5 million (-0.4%) below the forecasted level. An adjustment that was similar-sized to the loss in FY 2023-24 was made to the new estimate for the Gross Receipts Tax in FY 2024-25. This lower starting point means the forecast has been revised downward over the entire 10-year horizon, though growth in later years remains largely consistent. The changes in the Gross Receipts Tax feed directly into the dollars available for PECO appropriations. The highlights for both Gross Receipts and the State Tax Component for Communications Services are detailed below.

| | Gross Receipts Tax All Sources | Diff from Prior Forecast | Growth Rate Forecast | | Communications Services Tax-State Tax Component* | Diff from Prior Forecast | Growth Rate Forecast |
|---|---|---|---|---|---|---|---|
| **FY 24-25** | 1363.42 | -83.51 | -2.92% | | 690.25 | 35.70 | 10.00% |
| **FY 25-26** | 1315.47 | -32.01 | -3.52% | | 711.02 | 36.82 | 3.01% |
| **FY 26-27** | 1319.58 | -20.68 | 0.31% | | 726.86 | 37.53 | 2.23% |
| **FY 27-28** | 1336.10 | -17.39 | 1.25% | | 738.89 | 38.01 | 1.66% |
| **FY 28-29** | 1340.51 | -16.11 | 0.33% | | 752.35 | 38.55 | 1.82% |
| **FY 29-30** | 1341.86 | -14.60 | 0.10% | | 765.56 | 39.06 | 1.76% |
| **FY 30-31** | 1345.35 | -14.06 | 0.26% | | 776.53 | 37.71 | 1.43% |
| **FY 31-32** | 1357.26 | -13.74 | 0.89% | | 787.43 | 35.25 | 1.40% |
| **FY 32-33** | 1370.20 | -13.66 | 0.95% | | 798.44 | 32.71 | 1.40% |
| **FY 33-34** | 1382.35 | n/a | 0.89% | | 808.94 | n/a | 1.32% |

*The CST State Tax Component Includes Direct-to-Home Satellite

**Gross Receipts Tax on Electricity and Natural Gas:** Since actual results for the last six months of the year came in below estimate, the new forecast for electricity was revised downward. The residential, commercial, and industrial price series for electricity-based collections did not see the increases assumed in the previous forecast. Prices for all three series were reduced in the first year and resumed the previous forecast thereafter. Consumption levels for the residential, commercial, and industrial components also fell below estimate in FY 2023-24. The growth path for residential consumption steps up in FY 2027-28 but is otherwise close to the old forecast. The growth path for commercial consumption is a little stronger in the early years of the forecast, as is the growth path for industrial consumption. However, the lower levels in FY 2023-24 lead to downward revisions to the consumption levels for all three throughout the 10-year horizon. Growth posts annual averages of

0.28 percent, 0.78 percent, and 0.18 percent for the residential, commercial, and industrial sectors, respectively.

For natural gas, projected residential prices are raised in the first years relative to the last forecast before returning to previous projections for the remainder of the period. Conversely, projected commercial prices were lowered in the first years relative to the last forecast before returning to previous projections. Upward adjustments were made to residential consumption throughout the forecast horizon, while commercial consumption remained at previous forecast levels. After initial declines in consumption growth during the first two years of the residential forecast and the first year of commercial, stable growth is anticipated at an annual average of 0.54 percent and 0.66 percent, respectively.

**State Communications Services Tax, Including Direct-to-Home Satellite Service (CST):** The overall forecast relies on generating separate growth rates for the cable, wireless, landline, other services, and direct-to-home satellite tax bases.

The primary positive driver of growth in CST has recently been the Other category. Other, which includes the increasingly popular streaming entertainment options, has shown eight years of double-digit growth due to new market entrants and continued content expansion. For FY 2023-24, the growth rate for Other came in close to the previous estimate (11.06% relative to 12.15%), allowing it to maintain its robust growth. While elevated growth is anticipated again this year, growth begins to slow in FY 2025-26 as the rapid-growth phase of the industry starts to ebb—declining from 6.04% growth in that year to an average of 2.79% in the last four years of the forecast.

Historically, the Wireless and Landline forecasts counter the positive growth seen in Cable and Other. However, while Cable was an area of growth, it has now experienced negative growth for six consecutive years. The new Cable forecast maintains the steady, slow decline of the previous forecast throughout. Collections from the Wireless category have been declining in large part due to the unbundling of communication services tied to cellphone plans. Even though FY 2022-23 showed unexpected growth, this was short lived as FY 2023-24 saw a slight decline. The adopted forecast for Wireless maintains this level for the first year before resuming the steady decline of the previous forecast that averages nearly -2.7% per year. In contrast, Landline is declining due to dated technology that is primarily associated with a particular demographic group and smaller businesses. Annual declines in the double-digits began in FY 2016-17 and continued through FY 2023-24. Beginning this year, the downward spiral continues but drops into the single digits, with an annual average of about -2.15% beginning in FY 2025-26. Satellite, or DHSS, experienced strong negative growth over the last six years partially due to the expiring contracts for exclusive content. The general shape of the previous forecast for DHSS was kept, albeit though with a slightly lower initial level. The declining trend continues through FY 2025-26, before a period of slow growth begins which peaks at 1.10% in FY 2028-29. Growth is then expected to slip to 1.04% in the last year of the forecast horizon. While there was minimal change in the forecasts for each tax base, a large downward revision in the forecasted share falling under the residential exemption produced the significant increase in the forecast related to the State Tax Component for Communications Services.

Gross Receipts CST is derived from two different tax rates plus a portion of direct-to-home satellite collections. First, a tax rate of 2.37% is applied to the cable, wireless, landline and miscellaneous services tax bases. Second, an additional tax rate of 0.15% is applied to the same tax bases, excluding landlines in residential households. The dollars generated by both of these tax rates, plus 20.7% of total direct-to-home satellite collections, comprise total Gross Receipts CST collections.

Sales CST Collections are generated by applying a tax rate of 4.92% against the cable, wireless, landline and miscellaneous services tax bases, coupled with 44.32% of total direct-to-home satellite collections. As part of the calculation, the landline tax base is reduced by the residential household telephone exemption for Sales Tax CST. Direct-to-home satellite service is taxed at an 11.44% rate. The tax revenue is distributed between Gross Receipts CST, Sales CST, and local governments.

**Local Communications Service Tax:** The local CST forecast applies an average local CST tax rate of 5.23% to the four major bases (cable, wireless, landline and miscellaneous services). Like the CST forecasts for Gross Receipts and Sales, the local forecast has little expected growth because of the reduction in the wireless base.