ISSUE COMMENTARY
JANUARY 2025

Florida's Digital Tax Trap: How the Communications Services Tax Stifles Innovation

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Executive Summary

Florida's Communications Services Tax (CST), enacted in 2001 to simplify the taxation of communications services, has evolved into one of the nation's most burdensome and complex telecommunications taxes. With a combined state and local rate that can exceed 15% of a consumer's bill, Florida ranks among the most expensive states for communications services. This paper identifies three critical problems with the current CST system.

First, the tax's broad and ambiguous definition of "communications services" has enabled continuous expansion through administrative interpretation rather than legislative action, recently extending to services like celebrity video messages and online education platforms. Second, the variation in rates across Florida's 481 taxing jurisdictions creates significant administrative complexity and regional cost disparities. Third, despite generating over $608 million in revenue in 2023, CST proceeds are diverted to general funds rather than supporting critical communications infrastructure.

To address these challenges, this paper recommends three key reforms: extending the current CST rate freeze beyond 2026 to prevent jurisdictional rate increases, establishing clearer legislative definitions of taxable services to prevent administrative overreach, and mandating that CST revenues be dedicated first to communications infrastructure before general spending. These reforms would enhance regulatory certainty, protect consumers from rising costs, and ensure tax revenues support the infrastructure they were intended to fund.

Introduction

In 2001, the Florida Legislature enacted the Communications Services Tax (CST) Simplification Law, aiming to establish a "fair, efficient, and uniform method for taxing communications services sold in Florida."[1] Despite noble intentions, the CST has evolved into one of the nation's most regressive, investment-deterring, and anti-competitive taxes.

The impact on consumers is particularly severe. The CST has made Florida one of the most expensive states in America for essential communications services, placing a significant burden on residents and businesses alike. This outcome starkly contrasts the original goal of simplification and efficiency. Most concerning is the fact that poorly written definitions and ambiguities have led to more services being taxed than originally intended.

As a result, the CST now presents a significant obstacle to Florida's technological advancement and economic competitiveness, underscoring the urgent need for reform to align the tax with its initial objectives and the current needs of Florida's citizens and businesses.

What is Florida's CST?

In 2001, the Florida Legislature passed the Communications Services Tax (CST) Simplification Law, which authorized a broad tax to be levied against communications services, which the legislature defined as "the transmission, conveyance, or routing of voice, data, audio, video, or any other information or signals, including video services, to a point, or between or among points, by or through any electronic, radio, satellite, cable, optical, microwave, or other medium or method now in existence or hereafter devised, regardless of the protocol used for such transmission or conveyance."[2] In simple terms, the legislature wanted to tax the sending and receiving of information using any existing or future technology.

According to the *Florida Department of Revenue*, the list of taxable services includes:

- Local, long-distance, and toll telephone
- Voice over Internet Protocol (VoIP) telephone
- Video services (for example, television programming), whether provided by a cable, telephone, or other communications services provider
- Video streaming
- Direct-to-home satellite
- Mobile communications
- Private line services
- Pager and beeper
- Telephone charges made at a hotel or motel
- Facsimiles (fax), when not provided in the course of professional or advertising service
- Telex, telegram, and teletype[3]

Florida's Communications Services Tax (CST) consists of two components: a statewide rate of 7.44% and variable local rates across Florida's 481 taxing jurisdictions. These local rates create substantial disparities in consumer costs throughout the state. For instance, residents in unincorporated Alachua County face a local CST of 7.7%, while those in Lake Buena Vista pay just 0.3%.[4] These variations mean Floridians can pay hundreds of dollars more annually for identical services—including cell phone plans, internet access, and streaming subscriptions—based solely on their location rather than their consumption level.

Because of the CST, Florida is continually ranked one of the most expensive states for a wireless cell phone service or internet plan. According to The Tax Foundation, when all of Florida's taxes are accounted for, state and local taxes account for 15 percent of a user's bill. When accounting for federal taxes, that figure rises to 25 percent, making Florida the 14th most expensive state to have a wireless plan in the country.[5]

Gator-Sized Growth: The CST's Digital Creep

Given the broad definition of communications services in Florida's tax code, the Florida Department of Revenue (FDOR) has consistently and gradually expanded the scope of services subject to the Communications Services Tax (CST), frequently doing so through administrative rulings rather than through the legislative process. This pattern of expansion has accelerated with the rise of digital services. In a notable December 2023 decision, the

FDOR determined that "celebrity video messaging services" such as Cameo – where users pay celebrities to create personalized video messages – fall under the CST's purview. In the same ruling, they extended the tax to online educational courses, effectively treating these digital learning platforms as communications services rather than educational products.[6] These interpretations represent a significant departure from traditional understandings of communications services, which historically focused on telecommunications and cable services.

Such broad definitional interpretations raise several pressing concerns about administrative overreach and democratic accountability. The FDOR, as an unelected administrative body, has effectively gained the power to unilaterally expand Florida's tax base by classifying new types of digital services as taxable communications services. This authority allows them to impose new tax burdens on Florida residents and businesses without the traditional safeguards of legislative debate, public hearings, or voter accountability.

While the Florida Legislature deliberately crafted the CST Simplification Law with flexible language to accommodate technological evolution and protect state revenues, this foresight was likely intended to address genuine advances in communications technology – such as the transition from landlines to mobile phones or the emergence of digital cable services.

The legislature's original intent appears to have been to create a technology-neutral framework that would prevent tax avoidance through technological evolution, not to delegate fundamental tax policy decisions to administrative officials. The current situation, where FDOR can independently determine that services as diverse as celebrity greetings and online courses constitute taxable communications, seems to exceed this intended scope. This expansive interpretation threatens to transform what was meant to be a specific tax on communications services into a de facto general tax, accomplished through administrative fiat rather than legislative action. The situation highlights the delicate balance between administrative flexibility and legislative oversight in tax policy, particularly as digital services continue to evolve and blur traditional service categories.

Sunshine State Rate Freeze: Temporary Relief, Future Storm

Recognizing the problems associated with the variance across Florida's 481 taxing jurisdictions, the legislature passed piecemeal reforms to freeze local rate increases until 2026.[7] The legislature's decision to prevent municipalities from raising the local rate until 2026 not only ensures consumers' bills should remain stable, but it will also provide companies that are required to levy the CST greater clarity as they will have to re-calculate rates for individual municipalities that adjust rates for potentially just a few hundred customers, creating additional administrative costs for both businesses that ultimately is paid by the consumer.

When the rate cap expires in 2026, local municipalities will regain the authority to adjust their Communications Services Tax (CST) rates. Given that these governments have faced rate restrictions for several years while simultaneously experiencing budget constraints, many may view CST increases as an attractive revenue source. Without additional legislative safeguards, consumers could face higher bills as municipalities seek to maximize this proven revenue stream.

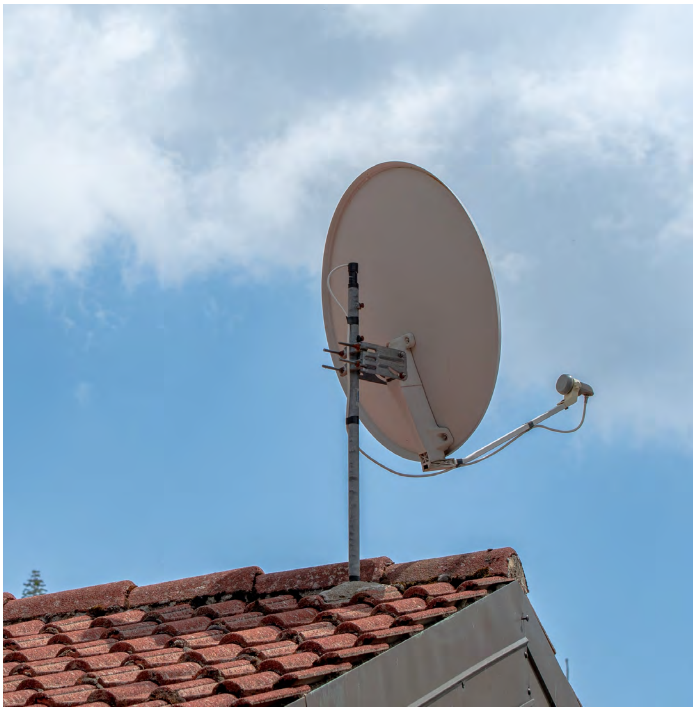
Florida's Tax Swamp: Lost CST Dollars

Since its inception, the CST has become a financial boon for Florida's municipal governments, providing them a valuable revenue stream. In the financial year 2023, the CST generated $608,238,706.65 for Florida's 481 taxing municipalities, up from $568,014,017.58 in 2022.[8] Critically, the Communications Services Tax Simplification Law does not require municipal governments to use these revenues to support communications services in their communities, such as maintaining public rights of way or investing in permitting offices that are critical for deploying fiber optic cable or building fixed wireless cell towers.

Instead, funds are collected by the FDOR, and deposited into the state's general fund, before being distributed to municipalities that are free to use revenues "for any public purpose," such as funding general government operations. Placing CST revenues into the general fund creates several issues. Firstly, it becomes impossible to track their use once it has been collected from companies that are required to collect the tax. This creates significant transparency issues, meaning Floridians have little idea where their taxpayer dollars go. Secondly, allowing municipalities to spend CST revenue on general operating expenses as opposed to supporting critical infrastructure, such as permitting or inspecting rights of way, means that the upkeep of critical communication infrastructure is often deferred and investments in permitting offices that are critical to the upkeep and buildout of new networks are not made.

The diversion of CST revenues into general funds creates a cascade of infrastructure delays that particularly impact Florida's digital development. When permitting offices and inspection departments are underfunded, providers face significant obstacles in deploying and maintaining communications infrastructure. These bureaucratic bottlenecks are especially damaging in rural and underserved communities, where residents already lag behind urban areas in connectivity rates. Without dedicated funding for essential oversight functions, municipal governments struggle to efficiently process permits and conduct timely inspections of completed work, effectively slowing the rollout of critical innovations like high-speed broadband and advanced wireless services to Florida consumers. This in turn disincentivizes investment in Florida and prevents the closure of the digital divide in the state.

The current misallocation of CST revenues represents a significant departure from Florida's historical approach to funding com-



munications infrastructure. Prior to the CST's implementation in 2001, municipalities operated under a more targeted funding model established in the 1940s. This system consisted of carefully designated revenue streams from various taxes and franchise fees, each tied to specific infrastructure needs. These dedicated funding sources ensured that local governments maintained robust permitting offices, conducted timely inspections, and properly maintained public rights-of-way—all critical components for communications infrastructure deployment.

The pre-2001 framework reflected a clear understanding that communications services require ongoing municipal support and oversight. Franchise fees paid by service providers directly funded the maintenance of utility poles, underground conduits, and other essential infrastructure. Local taxes were specifically earmarked for permitting offices that facilitated new construction and expansion projects. Most importantly, these revenue streams could not be diverted to general government operations, ensuring that infrastructure maintenance and oversight remained properly funded regardless of other budgetary pressures.

This historical model's effectiveness stemmed from its direct connection between revenue collection and infrastructure support. When providers paid fees to use public rights-of-way, those funds were required to support the infrastructure they were using. This created a transparent, accountable system where taxpayers and service providers could see exactly how their money supported critical communications infrastructure. The shift to the CST's general fund model has obscured this clear line of accountability, making it harder to ensure that communications infrastructure receives the consistent support it once did.

Florida Municipalities Generating Least CST Revenue

Jurisdiction	CST Revenue 2023
Bascom - Jackson Co.	$35,311.36
Jacob City - Jackson Co.	$54,448.66
Esto - Holmes Co.	$72,933.75
Flagler Bch - Volusia Co.	$74,710.98
Worthington Sprgs - Union Co.	$75,942.80
Wausau - Washington Co.	$83,400.00
Ebro - Washington Co.	$88,185.00
Fanning Sprgs - Levy Co.	$97,826.16
Hillcrest Heights - Polk Co.	$102,524.55
Horseshoe Bch - Dixie Co.	$113,802.26

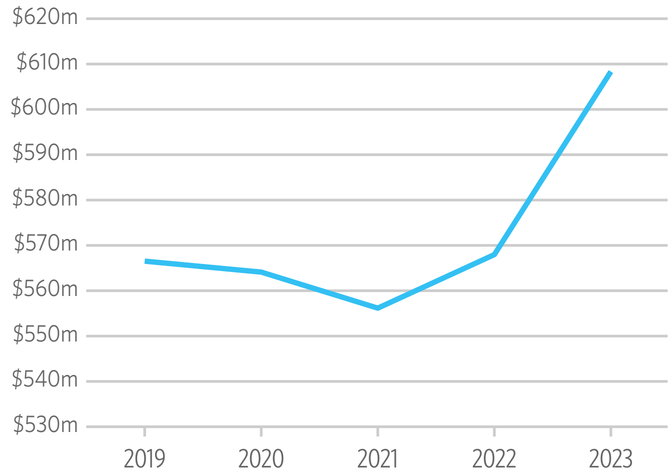
Source: Florida Department of Revenue

Florida Municipalities Generating Most CST Revenue

Jurisdiction	CST Revenue 2023
Jacksonville - Duval Co.	$587,965,054.98
Miami-Dade Unincorp Area - Miami-Dade Co.	$532,877,037.55
Hillsborough Unincorp Area - Hillsborough Co.	$491,550,998.50
Miami - Miami-Dade Co.	$434,574,448.47
Orange Unincorp Area - Orange Co.	$373,868,274.10
Palm Bch Unincorp Area - Palm Bch Co.	$364,261,041.96
Tampa - Hillsborough Co.	$336,981,782.76
Orlando - Orange Co.	$279,084,683.52
Pasco Unincorp Area - Pasco Co.	$248,978,115.76
Fort Lauderdale - Broward Co.	$222,852,214.75

Source: Florida Department of Revenue

CST Paid to Jurisdictions



Policy Recommendations

1. Extend CST Freeze

The looming expiration of Florida's CST rate freeze in 2026 threatens to unleash a wave of municipal tax increases across the state's 481 taxing jurisdictions. Without legislative action to extend this freeze, local governments, many facing budget pressures from years of rate restrictions, may view CST increases as an attractive revenue source. This could result in significantly higher bills for Florida families already burdened by one of the nation's highest communications tax rates. Extending the rate freeze beyond 2026 serves dual purposes. First, it protects consumers from potential cost increases during a period when digital connectivity has become essential for work, education, and daily life. Second, it provides crucial operational stability for service providers, who would otherwise face the complex administrative burden of calculating and implementing different rates across hundreds of jurisdictions. This regulatory certainty enables providers to focus resources on infrastructure investment and service improvements rather than managing tax compliance across a patchwork of constantly changing local rates.

2. Provide A Clear Definition of Taxable Services

Florida's overly broad definition of communications services has enabled a concerning pattern of tax expansion through administrative interpretation rather than legislative action. The Florida Department of Revenue has leveraged this definitional ambiguity to extend the CST's reach far beyond traditional telecommunications, recently capturing services as diverse as celebrity video messages and online education platforms. This mission creep not

only represents a departure from the legislature's original intent but also raises serious questions about democratic accountability in tax policy.

To curb this administrative overreach, the legislature must establish more precise, technology-specific definitions of taxable communications services.

This reformed framework should explicitly require legislative approval before the CST can be applied to emerging digital services or technologies. Such a change would restore proper legislative oversight, provide businesses with greater regulatory certainty, and protect consumers from unexpected tax obligations on innovative services. Moreover, clearer definitions would help distinguish between genuine communications services and digital products that merely use communications infrastructure as a delivery mechanism, ensuring the CST remains true to its original purpose rather than becoming a de facto digital service.

3. Dedicate CST Revenues to Support Communications Infrastructure

The current practice of channeling over $600 million in annual CST revenue into municipal general funds represents a significant departure from responsible tax policy. Without earmarking requirements, these substantial telecommunications tax revenues—paid specifically by Florida's communications consumers—can be diverted to any government function, regardless of its connection to communications infrastructure. This misalignment between tax collection and spending not only obscures the true use of consumer payments but also undermines critical infrastructure development.

The legislature should establish strict revenue dedication requirements to restore the CST's accountability and purpose. Such reform would mandate the municipalities to allocate CST funds first to maintain the right of way and ensure a communications-reliant infrastructure before directing any surplus to general operations.

This "First-Dollar" approach would ensure adequate funding for vital services like permitting offices, rights-of-way inspections, and infrastructure maintenance—functions that directly impact the speed and efficiency of communications service deployment. By reconnecting CST revenue with communications infrastructure, Florida can accelerate digital development while providing taxpayers with transparency about how their communications tax dollars support the services they use.

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