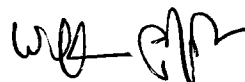


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: **June 1, 2006**

To: Antonio R. Villaraigosa, Mayor
Eric Garcetti, Council President
Bernard C. Parks, Chair, Budget and Finance Committee

From: William T Fujioka, City Administrative Officer



Subject: **FEDERAL EXCISE TAX AND CITY TELEPHONE USERS' TAX**

On May 25, the IRS announced it will discontinue the application of the federal excise tax on time-only long distance services. The City's telephone tax ordinance is linked to the federal excise tax, and about two-thirds of the \$270 million in telephone tax revenue may be at risk.

The IRS says state and local taxes paid by telephone customers are unaffected. We have requested the City Attorney to review the IRS announcement to determine how the change to the federal excise tax will impact the City's telephone tax ordinance.

The City's Communications Tax Equity Task Force is currently developing various options to help resolve some of the existing litigation between California cities and the wireless carriers. The impact of the federal excise tax changes on the City's telephone tax also needs clarification. The task force will expedite discussion with the wireless carriers and will report back to the Mayor and Council within the next few weeks with specific policy recommendations to address current telephone tax related issues.

WTF:JSS:16060006C

Copy: Marcus Allen, Mayor's Office
Karen Sisson, Mayor's Office
Rockard J. Delgadillo, City Attorney
Gerry Miller, Chief Legislative Analyst
Members, Communications Tax Equity Task Force