

Telephone Excise Tax Refund Available

In May 2006, the courts ruled that the federal telephone excise tax was not applicable to long-distance services. As a result of the ruling, phone companies were ordered to stop collecting the excise tax as of August 2006. In addition, all eligible individuals, businesses, and tax-exempt organizations that paid the excise tax are entitled to a one-time refund. The refund is limited to the excise tax paid on long-distance services that were billed after February 28, 2003 and before August 1, 2006. The refund must be requested on the 2006 federal income tax return and again, only applies to the portion of federal excise tax that applies to long-distance services. This refund is predicted to be the most wide-reaching in IRS history – more than 160 million filers may request it.

Individuals can claim a standard amount ranging from \$30 to \$60 based on the number of exemptions claimed on their tax return. In most cases, this will be the method used. However, individuals also have the option to request a refund of the actual amount of federal excise tax on long-distance service from March 2003 through July 2006.

There are two different methods that can be used by businesses and tax-exempt organizations to calculate the refund. The organization may either determine the actual amount of refundable long-distance telephone excise tax or it may use an IRS formula to calculate its refund. In order to use the formula, an organization must compare its April 2006 telephone bill to its September 2006 bill to determine the percentage of the telephone expense attributable to the long-distance excise tax. The percentage is then applied to the telephone expense from March 2003 through July 2006. Businesses and tax-exempt organizations must complete Form 8913, Credit for Federal Telephone Excise Tax Paid, in order to claim the credit. The completed Form 8913 must be attached to the entity's federal income tax return for 2006. Tax-exempt organizations must attach the form to a Form 990-T. In most cases, the formula will be the preferred method of calculation.

In short, if you paid federal telephone excise tax on long-distance service you are entitled to a refund. The above is an overview of the general rules. There are specific definitions and limitations not discussed in this release. What method you use to calculate your refund and the amount of the refund will depend on your individual situation, as will the amount of refund you receive.

The IRS has posted information regarding the refund on its website, www.irs.gov, in a separate Telephone Excise Tax Refund section. The section includes answers to frequently asked questions, forms and instructions. It also has various examples showing how to compute the refund. In one IRS example where the telephone expense averaged \$10,000 a year, the total refund was \$444.

If you have further questions or need us to assist with your calculation, please contact Donna A. Hubert, CPA at 312-384-4238 or at dhubert@legacycpas.com.