

TAX COMPLIANCE & PLANNING TRENDS

Taxpayers Eligible for Refund of Excise Tax Paid on Long-Distance Telephone Service

The Internal Revenue Service announced May 25, 2006, that it will stop collecting the federal excise tax on long-distance telephone service. In addition, taxpayers will be eligible to file for refunds of all excise tax they have paid on long-distance service billed to them between Feb. 28, 2003, and Aug. 1, 2006. Interest will be paid on these refunds as well.

Background & Changes

The tax on telephone services was first imposed in 1898. The current rate is 3% of the charges billed for these services. The IRS announcement follows decisions in five federal appeals courts holding that the tax does not apply to long-distance service as it is billed today. Now, anyone who paid the long-distance telephone tax will receive the refund on their 2006 federal income tax return. This includes individuals, businesses and not-for-profit organizations.

Individual taxpayers may choose to figure their refund using either the actual amount of tax paid or a standard amount. The standard amounts that most long-distance customers can use to figure their refund range from \$30 to \$60, enabling millions of individual taxpayers to request the telephone tax refund without having to dig through old phone bills.

The standard amounts are based on the total number of exemptions claimed on the 2006 federal income tax return. The standard amounts are \$30 for a person filing a return with one exemption, \$40 for two exemptions, \$50 for three exemptions and \$60 for four or more exemptions. For example: A married couple filing a joint return with two dependent children (for a total of four exemptions) will be eligible for the maximum standard amount of \$60.

To receive the standard amount, eligible taxpayers need only to fill out one additional line on their regular 2006 return. The IRS is creating a special short form (Form 1040EZ-T) for those who are not required to file a regular return.

The standard amounts are based on actual telephone usage data, and the standard amount applicable to a family or other household reflects the long-distance phone tax paid by similarly sized families or households. Those who paid the long-distance tax on service billed after Feb. 28, 2003, and before Aug. 1, 2006, are eligible for a refund.

NOTE: Only *individuals* can use the standard amounts. Details on requesting the telephone tax refund will be included in all 2006 tax return materials. Or go to: www.irs.gov