

Business Owners May Recoup Phone Tax, One-time Chance for Refund Emerges

by Bend Weekly News Sources

The telephone excise tax has finally been disconnected. First imposed in 1898 to help fund the Spanish-American War, the 3% tax on long-distance calls may be refunded to small business owners, thanks to an IRS decision to follow the five federal appeals courts' holdings that the tax does not apply to long-distance service as it's billed today. "Those interested in claiming the refund may either provide documentation on how much the tax cost them during the period spanning March 1, 2003 to August 1, 2006, or follow the estimation formula the IRS released in November," explains National Association of Enrolled Agents (NAEA) President-elect Diana Thompson, EA. "Whatever method they use, I encourage small business owners to take advantage of this one-time opportunity. The refunds will include interest and could be significant." Businesses and tax-exempt organizations can figure their refund amounts by comparing two telephone bills from this year to determine the percentage of their telephone expenses attributable to the long-distance excise tax. They should use the bill with a statement date in April 2006 and the bill with a statement date in September 2006. They must first figure the telephone tax as a percentage of their April 2006 telephone bill and their September 2006 telephone bill. The difference between these two percentages should then be applied to the quarterly or annual telephone expenses to determine the amount of their refunds. Claiming the refund requires completion of Form 8913, Credit for Federal Telephone Excise Tax Paid, which should be attached to the business' federal 2006 tax return. Tax-exempt organizations should attach the form to Form 990-T. Partnerships and S corporations using a Form 1065 or Form 1120S should write the refund amount on the designated line. Originally defined as a "luxury tax" back in the days when only the very wealthy had telephones, the excise tax was codified by Congress in 1965 and based on the time and distance of the call. By the late 1990's, the major carriers were all charging a flat per-minute rate for interstate calls and the mileage no longer made a difference in the charge. Once this discrepancy was identified, businesses started filing excise tax refund claims with the IRS. The IRS originally settled these claims for 30 to 40 cents on the dollar, but the ensuing federal court rulings have compelled the government to take it a step further. NAEA encourages affected business owners to make sure they are refunded all they are due and recommends consulting an enrolled agent with problems or questions regarding filing for the telephone excise tax refund.

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