

Dial up this phone-tax credit

by G. Patrick Kelley

What are you going to do with your part of \$10 billion? If you are Joe or Jane Taxpayer and telephone customer, chances are that you are eligible to receive part of the broadest tax refund in U.S. history.

The Internal Revenue Service estimates that up to 160 million returns will request a portion of the refund.

PHONE-TAX CREDIT - Millions are expected to take advantage of the phone-tax credit. CNS Photo Illustration by Michael Weiss.

Here's the deal. If you paid for long-distance phone service between Feb. 28, 2003, and July 31, 2006, you've got a refund coming. It's called the "telephone excise tax refund."

And, it's what is called a refundable credit. That means you get it whether you end up owing the IRS a balance or not. If you owe, the refund will reduce what you owe.

If you have a refund coming the money will be added - between \$30 and \$60 - depending on how many dependents you've got.

"It's the first time the government has tried to return taxes that they've collected," said IRS spokesman Chris Kerns.

The federal excise tax was enacted 1898 to help fund the Spanish-American War by taxing luxury items. One of those was phone service, because only the very wealthy had phones and could afford to pay the tax.

The tax was never repealed, even after telephone use spread to the masses. Kerns said the taxing formula was based on call length and the distance between conversing parties.

But with changes in the industry, like cell phones and bundled charges, the tax rate was based on call minutes alone.

Opponents sued, saying that change made the tax invalid, and the courts agreed with them.

In May 2006, after losing a series of federal court cases, the IRS said it would stop collecting the 3 percent tax and ordered telephone companies to stop charging it by Aug. 1, 2006.

The folks who took the IRS to court wanted restitution, and this year is your one and only chance, unless, "In the future, you can go back and refile your return, if you amend it," Kerns said.

Because most people don't keep 41 months of phone bills around, the government and phone industry came up with a reimbursement formula, Kerns said. Here's how it worked out:

- If you file your return as a single person with only yourself as a dependent, you get to claim a \$30 credit on line 71 of your 1040.

- If you file with one dependent, you can claim \$30.

- If you file with two dependents, your claim is \$40.

- If you file with three dependents, the refund is \$50.

- If you file married with four or more dependents, the refund is \$60.

So the most you can get is \$60, unless you're one of those people who saves all their bills in boxes in the attic. You can claim the tax as it appears on your bill between Feb. 28, 2003 and July 31, 2006 - called the "actual amount," said Robert Fay, a certified public accountant in Canton, Ohio. Not only that, but if you have those bills, "They will pay you interest on that," Fay said

But if you're claiming the tax from your bills, you can't use line 71 on the tax form, you have to complete form 8913.

"My impression is that 99 percent of families will be claiming the standard amount," Fay said. It's much more of a boon for businesses, which are more likely to keep track of those bills.

The IRS doesn't recommend that method for individuals, either.

"The easiest way for eligible taxpayers to get their money back is to use the standard amounts," said IRS Commissioner Mark W. Everson. "These amounts save taxpayers from locating 41 months of old phone bills and analyzing these bills to determine the taxes paid. We believe the standard amounts are both reasonable and fair."

There's another target group - most likely college students and senior citizens - the IRS is trying to get the message to. "The IRS estimates that between 10 million and 30 million people in the country are not required

to file a tax return," Kerns said.

But if those people had a phone during the specified time, they will still be eligible to get the refund. "That's the hardest group for us to get to," Kerns said.

Those people can file for the refund by filling out a form 1040 EZ-T.

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