

# Telephone Excise Tax Basics



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Despite the fact that the deadline for claiming your telephone excise tax refund is looming ever closer, much confusion still exists about the logistics of making the actual claim. While the IRS has outlined a simplified claims process for residential and individual telephone service, the more difficult task of defining a clear, concise claims process for businesses is still in the works.

Up until mid-September, the IRS was still soliciting suggestions from concerned parties about how to simplify this process. As such, we may not see finalized details and instructions until weeks before the 2006 income tax season begins.

Initiated in 1898 to support the Spanish-American War, the telephone excise tax has existed, albeit in various iterations, for most of the hundred-plus years since. As technologies have evolved, so too has the tax in terms of title and coverage.

In its early years, the tax was not a significant source of revenue for the government mainly due to the fact that ownership and usage of telephones was restricted to those wealthy enough to afford them. In its first year, it resulted in just over \$200K in revenue. But, twenty years later, after a brief hiatus due to a short-lived repeal, the newly defined tax was hauling in over \$6 million a year.

In 1999, a century after the Telephone Excise Tax's initial inception, it was costing individuals and companies throughout the U.S. over \$5 billion collectively. If we weren't so used to

paying taxes in so many shapes and forms, many of us would and should have been asking, “Is the Spanish-American War over yet?”

Thankfully, we're now starting to see what we can only hope is the beginning of the end where the Telephone Excise Tax is concerned. In 1998, a commission was formed to recommend policy regarding taxation of electronic commerce. In 2000, the commission recommended that the 3% tax be repealed. In addition, several recent federal court decisions have held that the tax does not apply to long-distance service as it is billed today.

As a direct result, the IRS is refunding the portion of the tax charged on long-distance calls. The IRS is also refunding taxes collected on “bundled” telephone service (i.e. plans that do not differentiate between long distance and local calls). The statute of limitations enables the IRS to confine the extent of this refund to the last three years, more specifically from February 28, 2003 to July 31, 2006.

While the IRS puts the finishing touches on the simple and seamless claim process, keep in mind that ultimately, the simplicity of the process will hinge mostly on one thing – how complete your records are for the qualifying services from the past three years.

Some telecom service providers are reportedly offering to provide you with records that you may be missing – for a fee, of course. Beyond that, if you are struggling to recover and compile all

applicable statements, you may want to enlist the services of a professional consultant who can help you locate and identify the necessary records and can also negotiate with telecom service providers for the required records.

In the end, you need to conduct a quick cost-benefit analysis to ensure that the process of claiming this one-time refund

doesn't eat up more resources than it restores. Your business needs you – if conducting business and recovering this refund is an either-or proposition, outsource that which is not your core competency and proceed with your business at hand.

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