

Telephone Tax Refund Questions and Answers

What is the telephone tax refund?

The telephone tax refund is a one-time payment available on your 2006 federal income tax return, designed to refund previously collected long-distance federal excise taxes. It is available to anyone who paid long-distance taxes on landline, cell phone or Voice over Internet Protocol (VoIP) service.

Why is the government refunding these taxes?

Several recent federal court decisions have held that the tax does not apply to long-distance service as it is billed today. The IRS is following these decisions and refunding the portion of the tax charged on long-distance calls. The IRS is also refunding taxes collected on telephone service under plans that do not differentiate between long distance and local calls.

The telephone tax continues to apply to local-only service, and the IRS is not refunding taxes charged on local-only service.

The IRS will refund to you the taxes on long-distance service billed to you for the period after Feb 28, 2003 and before Aug 1, 2006. Taxpayers should request this refund next year when they file their 2006 tax returns.

How do I get the telephone tax refund?

In general, anyone who paid the long-distance telephone tax will get the refund on their 2006 federal income tax return. This includes individuals, businesses and nonprofit organizations. The 2006 return is usually filed during 2007.

The IRS is making it easier for taxpayers by offering a standard refund amount between \$30 and \$60, so they don't need to gather old phone bills. Taxpayers who choose the standard amount will only need to fill out one line on their tax returns. The standard amount is based on actual telephone usage data and the amount applicable to a family or other household reflects the long-distance phone tax paid by similarly sized families or households. Using this amount is the easiest way for taxpayers to get their refunds and avoid gathering 41 months of old phone records.

Businesses and nonprofits must fill out the new Form 8913 and base their refund requests on the actual amount of tax they paid. The IRS is considering an estimation method that businesses and nonprofits could use for figuring the tax paid and is asking for public suggestions on potential methodologies that are both accurate and relatively easy for taxpayers to use. Comments should be e-mailed to Telephone.Tax@irs.gov and must be received by Sept. 15, 2006.

Who is eligible to request the telephone tax refund?

In general, any individual, business or nonprofit organization that paid long-distance tax for service billed after Feb 28, 2003 and before Aug 1, 2006 is eligible to request the refund.

What is the standard amount?

Individual taxpayers can take a standard amount from \$30 to \$60 based on the number of exemptions claimed on their tax return. For those claiming:

- **one exemption**, the standard refund amount is: **\$30**
- **two exemptions**, the standard refund amount is: **\$40**
- **three exemptions**, the standard refund amount is: **\$50**
- **four exemptions or more**, the standard refund amount is: **\$60**

The instructions to the 2006 1040 tax forms will provide more information on how to determine the correct number of exemptions. (Because the term, "exemptions" does not appear on Form 1040EZ, people who fill out this form should follow the instructions carefully.)

The standard amount is based on actual telephone usage data, and the amount applicable to a family or other household reflects the long-distance phone tax paid by similarly sized families or households. Using this amount is the easiest way for taxpayers to get their refund and avoid gathering 41 months of old phone records.

What forms do I file to request the refund?

For many individual taxpayers who want to take the standard amount, there are no additional forms to file, and they only need to fill out one additional line on their regular income-tax return.

Individuals choosing the standard amount can simply fill in the amount on Form 1040, Form 1040A, Form 1040NR or Form 1040EZ. People who don't need to file a return can use a new, simple form (Form 1040EZ-T) to choose the standard amount.

Taking the standard amount is optional. It is also the easiest way to get refunds. A married couple filing a joint return with two dependent children, for example, will be eligible for the maximum standard amount of \$60.

Individuals who decide not to use the standard amount must figure their refund using the actual amount of tax they paid. To choose this option, taxpayers can fill out Form 8913 and attach it to their regular income-tax returns (Forms 1040, 1040A, 1040NR or 1040EZ, or the new simple Form 1040EZ-T for people who don't need to file a regular income-tax return).

The standard amount is not available to businesses and nonprofits. Accordingly, they must fill out Form 8913 and base their refund requests on the actual amount of tax they paid. Businesses should attach this form to the income-tax returns they normally file -- Form 1120, Form 1120S, Form 1065 or Form 1041. Nonprofits, including churches, charities and other tax-exempt organizations, attach it to Form 990-T. The IRS is considering an estimation method businesses and nonprofits can use for figuring out the amounts to be included on Form 8913.

How did the government come up with the standard amounts?

Telephone industry and IRS data were used to determine the refundable standard amounts. Telephone industry data showed that long distance spending correlated directly with the number of persons in a household; therefore, a scaled refund structure was selected based on the number of exemptions claimed on the tax return.

Can I e-file to get this refund?

Yes. Virtually anyone who files an individual return qualifies for electronic filing, and the telephone tax refund is one of many tax benefits that can be reported on an e-filed return. Whether you file electronically or on paper, you can get your refund even faster by having it deposited directly into your checking or savings account.

I don't have to file an income-tax return. How do I get the telephone tax refund?

For those people who do not otherwise have to file a tax return, there is a new simple form (1040EZ-T) that can be used to get this refund. If you choose the standard amount, all you need to do is fill out this simple form using the number of exemptions you are eligible to claim. For example, a married couple with two dependent children (for a total of four exemptions) will be eligible for the maximum standard amount of \$60.

If you decide not to use the standard amount, you must figure your refund using the actual amount of tax paid. To choose this option, you must fill out an additional form (Form 8913) and attach it to Form 1040EZ-T.

Do internet long-distance plans qualify for the refund?

Yes. If you paid the federal excise tax on your long-distance internet plan, you can request the telephone tax refund.

Why do I only get a refund for the past few years?

Under the applicable statute of limitations in the Internal Revenue Code, the IRS is generally not permitted to refund taxes that were paid more than three years before the date on which the refund program was announced. Accordingly, the telephone tax refund is available for long-distance taxes billed after Feb. 28, 2003, and before Aug. 1, 2006.

How do I determine how much federal excise tax I have paid on my long-distance service?

Taxpayers who choose to base their refund requests on the actual amount of tax paid should review their phone bills since Feb. 28, 2003. Taxes paid on local-only service are not eligible for the refund. In general, federal excise taxes paid on other types of service qualify. Federal access charges and state or local taxes and charges are not eligible for the refund.

On the other hand, taxpayers who choose the standard amount need not determine the amount of tax they paid. The standard amount is based on actual telephone usage data, and the amount applicable to a family or other household

reflects the long-distance phone tax paid by similarly sized families or households. Using this amount is the easiest way for taxpayers to get their refund and avoid gathering 41 months of old phone records.

What if I don't know whether I paid this long-distance tax and I don't have my phone bills?

To get the telephone tax refund, you must have paid the tax. If you don't have your telephone bills, the only way to be sure if you paid the tax for long distance is to check with your service provider.

Who do I call?

Instructions for requesting this refund will be included with your tax forms and at irs.gov. Therefore, most people will not need to call the IRS. If you decide to figure the actual amount and need to obtain copies of your phone bills, you should contact your phone service provider. Telephone companies may charge for copies of past bills.

What do I have to do now?

In most cases, nothing. Taxpayers will request this refund on their 2006 return. Accordingly, the IRS will begin accepting refund requests in January 2007.

The only decision you have to make is whether to use the standard amount or the amount of tax you actually paid. To take the standard amount, you don't need to do anything now. You can figure it when you fill out your 2006 return.

If you are considering using the actual expense method, you may want to start gathering your phone bills since Feb. 28, 2003. As with any other line item on your return, starting early and keeping good records always makes the tax-preparation process easier.

Will the IRS pay interest on the refunded telephone tax?

The standard amount includes interest. The IRS will issue guidance later this year relating to the payment of interest where the actual expense method is used.

How do I decide if it's better for me to use the actual or take the standard amount?

You can use whichever method gives you the larger refund. The standard amount is based on actual telephone usage data and the amount applicable to a family or other household reflects the long-distance phone tax paid by similarly sized families or households. Using this amount is the easiest way for taxpayers to get their refund and avoid gathering 41 months of old phone records.

Do I have to itemize to claim this refund?

No. Because this is a refund of taxes previously paid, it does not matter whether you itemize or take the standard deduction.

Will I get a separate check?

No. The telephone tax refund will be treated as a one-time payment on your 2006 return. Accordingly, it will reduce the amount you owe on your return or increase the amount of your refund.

What is the total amount the government expects to refund?

Economists at the U.S. Department of the Treasury estimate the amount refunded to individuals will be about \$10 billion.