



Fact Sheet

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One-Time Tax Refund Available to Long-Distance Telephone Customers

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This year, telephone customers can request a one-time refund of taxes they paid on long-distance and bundled telephone service. Individuals, businesses and tax-exempt organizations can request this refund as a credit on their 2006 federal income tax returns.

Over 146 million individuals and more than 14 million businesses and tax-exempt organizations are expected to request the refund. This includes millions of people and organizations who don't normally file returns, for example, low-income individuals (many of them senior citizens), churches and small charities. The government estimates that telephone excise tax refunds totaling \$10 billion will be paid to individuals and another \$5 billion to businesses and tax-exempt organizations.

The refund covers the three-percent tax paid on long-distance and bundled service billed after Feb. 28, 2003 and before Aug. 1, 2006. Several recent federal court decisions held that the tax does not apply to long-distance service as it is billed today. For that reason, the government stopped collecting the tax on service billed after July 2006 and authorized refunds of the taxes billed during the previous 41 months.

The federal excise tax continues to apply to local-only telephone service. Likewise, various state and local taxes and fees paid by telephone customers are unaffected and thus, not eligible for the refund.

Federal long-distance excise taxes paid on land line, cell phone, fax and Voice over Internet Protocol (VoIP) service qualify for the refund. This includes bundled service — local and long-distance service provided under a plan that does not separately list the charge for local service. Bundled service includes, for example, phone plans that provide both local and long-distance service for either a flat monthly fee or a charge that varies with the time for which the service is used.

Taxpayers can base their refund requests on the actual amount of tax paid. To do this, they must fill out Form 8913, Credit for Federal Telephone Excise Tax Paid. Individuals and businesses should attach it to their regular 2006 income-tax returns. Tax-exempt organizations should attach it to Form 990-T.

But many people don't want to dig through 41 months of old phone bills or lack the records they need to figure the actual amount of tax paid. For that reason, the government created a standard amount that individuals can use to request the telephone excise tax refund. The

amount is based on the number of personal and dependency exemptions an individual is eligible to claim on their tax returns. The standard amounts are

- 1 exemption — \$30;
- 2 exemptions — \$40;
- 3 exemptions — \$50; or
- 4 exemptions — \$60.

The standard amount is optional. To choose it, taxpayers fill in one line on their federal income tax returns. The line, labeled “Credit for federal telephone excise tax paid,” is:

- Form 1040, Line 71;
- Form 1040A, Line 42; or
- Form 1040EZ, Line 9.

There is no standard amount for businesses and tax-exempt organizations, because they typically have more varied phone usage patterns than individuals. Instead, they can choose to use a special formula (also called the estimation method) to estimate the actual amount of tax on long-distance and bundled service they paid.

The formula is optional. It makes it easier by basing the estimate on just two monthly phone bills (April 2006 and September 2006). Individuals reporting more than \$25,000 of gross business, farm and rental income can choose the formula. It is also available to any partnership, corporation, estate, trust or tax-exempt organization.

For millions of people not required to file a regular income-tax return, the IRS has created a special short form for requesting the telephone excise tax refund. It is Form 1040EZ-T and is used exclusively for this purpose. Form 1040EZ-T can also be filed electronically for free via the Free File link on IRS.gov beginning in mid-January.

Form 1040EZ-T can be used to request a refund with either the actual amount of tax paid or the standard amount. Those choosing actual amounts must attach Form 8913.

The IRS wants to make it as easy as possible for taxpayers to get the refund they deserve. Accordingly, the agency has created a Web page devoted entirely to the refund. To get answers to frequently-asked questions, download forms and get other helpful tips, visit the federal excise tax refund link on the front page of IRS.gov.