

IRS News Release

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Businesses and Tax-Exempts Can Use Formula for Telephone Tax Refund

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WASHINGTON — The Internal Revenue Service today announced a formula that will allow businesses and tax-exempt organizations to estimate their federal telephone excise tax refunds.

“The formula will provide a less burdensome option than gathering up to 41 months of old phone records,” said IRS Commissioner Mark W. Everson.

In May 2006, the IRS announced that individuals, businesses and tax-exempt organizations who paid the long-distance telephone excise tax can request the refund on their 2006 federal income tax returns.

“Businesses and tax-exempt organizations generally have more varied phone usage patterns than individuals,” Everson said. “The IRS has met with a number of businesses and tax-exempt organizations to understand their concerns. We believe we have developed a reasonable method for estimating telephone excise tax refund amounts while reducing burden.”

To request a refund, businesses (including sole proprietors, corporations, and partnerships) and tax-exempt organizations must complete Form 8913, Credit for Federal Telephone Excise Tax Paid. To complete this form, businesses and tax-exempt organizations may determine the actual amount of refundable long-distance telephone excise taxes they paid for the 41 months from March 2003 through July 2006, or use the formula to figure their refunds. Businesses should attach Form 8913 to their regular 2006 income tax returns. Tax-exempt organizations must attach it to Form 990-T.

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. The bills they should use are 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 bills (which included the excise tax for both local and long-distance service) and their September 2006 telephone bills (which only included the tax on local service). The difference between these two percentages should then be applied to the quarterly or annual telephone expenses to determine the amount of their refunds.

The refund is capped at 2 percent of the total telephone expenses for businesses and tax-exempt organizations with 250 or fewer employees – which covers more than 99 percent of

all businesses. The refund is capped at 1 percent for those with more than 250 employees. Most organizations in this category typically are able to figure the actual amount they paid in long-distance excise tax. However, the formula provides a more limited, but simpler, approach for those large employers who wish to use it.

For example, if a business has an April 2006 telephone bill of \$1,000, which includes Federal telephone excise tax of \$28, the tax percentage is 2.8 percent. If the September 2006 bill is \$1,100 including Federal telephone excise tax of \$16.50, the tax percentage is 1.5 percent. The business' long-distance excise tax percentage is 1.3 percent (2.8 percent for April minus 1.5 percent for September). The business multiplies 1.3 percent by its total phone expenses over the 41-month period to arrive at the amount of its refund. If this business had more than 250 employees, its refund would be limited to 1 percent of its total phone expenses for the period. If the business had 250 or fewer employees, the 2-percent cap would apply and would not limit the amount of the refund.

The IRS developed the formula after receiving public input and discussing the issue with business organizations, the Small Business Administration and representatives from the tax-exempt community.

The IRS already has provided individual taxpayers with the option to use standard amounts based on the number of exemptions allowed to that taxpayer. Individual taxpayers can request a \$30 refund with one exemption, \$40 for two exemptions, \$50 for three exemptions and \$60 for four or more exemptions.

Options for requesting this refund vary for sole proprietors, who file a Schedule C with the Form 1040, depending on the gross income reported on the Schedule C. Sole proprietors who report gross income of \$25,000 or less on their Schedule C may use the standard amounts or request a refund based on their actual expenses. Sole proprietors reporting more than \$25,000 of gross income have three options: they can use the standard amounts which cover both personal and business expenses, they can use the formula for their business expenses and actual for their personal ones, or they can choose to use actual amounts for both business and personal.

Similar rules depending on the amount of gross income reported on Schedule F or Schedule E apply to farmers and individual owners of rental property.

Trusts and fiduciaries may not use the standard amount available to individuals. They should use the formula to figure their refunds, or request the actual amount paid.

The Treasury Department announced in May that the government would stop collecting the federal excise tax on long-distance telephone service beginning Aug. 1, 2006 and provide refunds for taxes billed after Feb. 28, 2003.

Details on the telephone tax refund will be included in 2006 tax return materials and on IRS.gov.