



**Johnene K Marcum**

*Certified Public Accountant*

3520 Lowe St

Panama City FL 32405

850-785-3254

[Johnene@johnenemarcumcpa.com](mailto:Johnene@johnenemarcumcpa.com)

[www.JohneneMarcumCPA.com](http://www.JohneneMarcumCPA.com)

## **Telephone Tax Refund . . . Businesses and Tax-Exempts Can Use Formula**

The IRS, after receiving public input and discussing the issue with business organizations such as NATP, the Small Business Administration, and representatives from the tax-exempt community, have developed a formula that will allow businesses and tax-exempt organizations to estimate their federal telephone excise tax refunds as an alternative to using the actual amount paid.

Businesses and tax-exempt organizations can calculate their refund amounts by comparing two specific telephone bills from 2006 to determine the percentage of their telephone expenses attributable to the long-distance excise tax. The bills specified are those with statement dates in April 2006 and September 2006. To calculate, businesses and tax-exempt organizations must first figure the telephone tax as a percentage of their April 2006 telephone bill (which included the excise tax for both local and long-distance service) and their September 2006 telephone bill (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 two percent of the total telephone expenses for businesses and tax-exempt organizations with 250 or fewer employees. The refund is capped at one 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 bigger companies that 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 ( $\$28 / \$1,000$ ). If the September 2006 bill is \$1,100 including federal telephone excise tax of \$16.50, the tax percentage is 1.5 percent ( $\$16.50 / \$1,100$ ). 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 refund period to arrive at the amount of its refund.

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 choose to 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.

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: 1) They can use the standard amounts that cover both personal and business expenses; 2) They can use the formula for their business expenses and actual for their personal expenses; or 3) They can choose to use actual amounts for both business and personal.

Depending on the amount of gross income reported on Schedule F or Schedule E, similar rules 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.

Details on the telephone tax refund will be included in 2006 tax return materials and on the IRS website at [www.irs.gov](http://www.irs.gov).

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