

October 20, 2006

Alert: Taxpayers eligible for refunds on 2006 tax returns
IRS concedes on long-distance telephone tax issue

If your organization paid for long-distance and bundled telephone services between March 1, 2003 and July 31, 2006 you will be eligible to claim federal excise tax (FET) refunds on your 2006 federal income tax return. FET on local telephone service remains in effect. However, you must claim these refunds on your 2006 return to receive them or you will lose the opportunity to do so.

What happened:

The U.S. Treasury Department and the Internal Revenue Service announced on May 25, 2006 that it will follow a series of court decisions ruling that long-distance phone service is not a "taxable toll telephone service" as defined by Federal Excise Tax statute. The IRS has been ordered to pay back these taxes for the past three years, and has already stopped taxing these services.

Business refunds/credits:

Corporations, partnerships, S corporations, estates and trusts, and tax-exempt organizations are all eligible for the FET refunds/credits (individuals are also eligible for a small refund). These entities can request refunds/credits *only for taxes actually paid* on long-distance services billed during the 3/1/03-7/31/06 period. **Claims must be documented with records and receipts of amounts paid.**

Claiming refunds/credits:

Taxpayers may request a refund of the FET related to long-distance or bundled telephone services only on the 2006 federal income tax return.

Since all claims must be documented, it is important that you contact your AGH tax professional soon so that your organization can properly prepare to claim this refund on the 2006 tax return.

Note: This information is provided to you as a courtesy. It is not intended to be advice specific to your situation. For further guidance, please contact your AGH tax professional.

Pursuant to federal regulations imposed on practitioners who render tax advice ("Circular 230"), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purposes of: (i) avoiding tax penalties that may be imposed by the IRS, or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

AGH endeavors to keep clients informed of changes in the financial and regulatory environment. However, we cannot be sure that all matters will be brought to the attention of all clients for whom the matter might be pertinent.