

**December 20, 2006**

**Alert Update: Long-distance telephone tax reversal**  
**Organizations now have a formula to estimate tax savings**

Earlier this year, we sent you an alert about the reversal of the long-distance telephone tax (see back). The IRS has recently published a formula for quickly estimating tax refunds for the period March 1, 2003 through July 31, 2006. For some organizations, the refund could be substantial. This formula will allow you to quickly determine the approximate size of your refund to see if it is worth your time to file.

If you have few separate phone companies, lines or bills, it may be worth your time to gather the exact amount; if your phone bills are complex, it may be more efficient to use the following estimating formula. In general, the higher your long-distance expenses, the more likely that you would exceed the formula's cap and would receive more benefit from tallying the actual excise tax paid versus using the formula.

As a reminder, filing for this refund can be done only on the 2006 federal income tax return.

**The formula\*:**

To use the formula, businesses and tax-exempt organizations follow these steps:

1. Take the phone bill with an April 2006 statement date and divide the total federal telephone excise tax by the total phone bill (including federal telephone excise taxes) to arrive at the percentage of the bill attributable to federal telephone excise tax. If you have more than one type of service or service provider (land line, fax, cell, local, long distance, bundled, etc.), combine all bills dated in April before making this computation. For this purpose, there is no need to separate the taxes paid on long-distance service from those paid on local service. April is a representative month during which the government was still collecting the excise tax on long-distance service.
2. Take the September 2006 phone bill and divide the total federal excise tax by the total phone bill to arrive at the percentage of that bill attributable to federal telephone excise tax. The percentage should be lower because the government was only collecting the federal excise tax on local telephone service.
3. Subtract the September percentage from the April percentage to arrive at the percentage that represents the federal long-distance tax. This is the percentage businesses and tax-exempt organizations will use to figure their refunds (capped as discussed below).

\* "Telephone Tax Refunds: Questions and Answers for Businesses and Tax-Exempt Organizations." *Internal Revenue Service: United States Department of the Treasury*.  
<http://www.irs.gov/newsroom/article/0,,id=164310,00.html>, accessed December 14, 2006.

4. Multiply the long-distance tax percentage by the total phone expenses shown on telephone bills dated after Feb. 28, 2003, and before Aug. 1, 2006. The refund is capped at 2 percent of phone expenses for small businesses (those with 250 or fewer employees) and one percent for large businesses (those with more than 250 employees). Use the number of employees for the pay period that included June 12, 2006. This is the number reported on Line 1, Form 941 (Employer's Quarterly Federal Tax Return) for the second calendar quarter of 2006. Interest is added to the refund amount.

**You should know:**

- If you were not in business or operating April 2006-Sept. 2006, you cannot use this formula.
- You can only request a refund for months in which the telephone tax was paid.