



## New Long Distance Telephone Tax Refund

Dear Business Client:

We want to alert you to an issue which will need to be reflected on your 2006 federal corporation, partnership, trust, estate and/or tax exempt income tax returns. In May of 2006 the IRS announced that businesses who paid the federal long-distance telephone excise tax (reported on most bills as the 3% excise tax) can request a refund on their 2006 federal income tax returns (forms 1120, 1120S, 1065, 1041 and 990-T). There are special provisions for business entities that do not otherwise file a federal income tax return (municipalities; and not-for-profits that do not file a 990-T), which are explained below. The refund period extends from March, 2003 through July, 2006, a period of 41 months, and applies to excise taxes paid on telephone services billed to customers after February 28, 2003. Businesses have two options for determining their long-distance telephone excise tax refunds.

**Option 1** uses a sampling approach based on your April, 2006 and September, 2006 telephone bills to determine a long-distance excise tax percentage. This percentage is then applied to your total telephone bill expenses for the 41 month period to determine the amount of the refund. However, the allowable refund from this method is capped at 2% of the total telephone expense for businesses with 250 or fewer employees, and 1% for businesses with more than 250 employees.

**Option 2** uses the actual tax paid on phone bills for the 41 month period and can only be used if you have the actual phone bills to substantiate the amounts of federal long-distance telephone excise tax. In situations where excise tax is charged for both local and long-distance services, only the excise taxes attributable to long-distance charges are available for the refund.

Please note that any refund of excise taxes received will be included in income in the year received if the taxes were originally deducted as a business expense in the year paid or accrued.

**Business Entities Who Do Not Otherwise File an Income Tax Return** must file Form 990-T in order to claim the refund. However, they need to only complete the sections for name, address, federal identification number and refund amount and write "Filed Pursuant to IRS Notice 2006-50" on top of Form 990-T. In addition, the actual amount of the refund is calculated on Form 8913 which needs to be attached to Form 990-T.

For whichever option chosen, the amount of the refund will be requested on the appropriate 2006 federal income tax return for your entity. Please let us know if you would like us to assist you in determining how this refund opportunity applies to you.

If you have any questions please call your ODMD client service partner.