



Telephone Excise Tax Refund

Editor Bill Henson asked me not to write too many articles on Income Tax, and I agree with him. Locally-written articles on Small Business Entrepreneurship make more sense for yc magazine and its readership.

But here's an income tax story that will get a lot of interest, and it's just too interesting a story to pass up.

It's called the Telephone Tax Refund, and it's a one-time thing just for this Tax Season. It will affect all of us.

Think of your telephone bill. Somewhere there is a line called Federal Excise Tax. The amount is not very much—maybe \$3.16.

You never knew what the tax was for, but you probably figured somebody somewhere knew what they were doing, and in any event the amount was small relative to the total bill. So you paid it without thinking.

Turns out that this tax was enacted to help fund the Spanish-American War in the 1890's. That's the 19th Century, folks—the war that gave us "Remember the Maine", and "You may fire when ready, Gridley", and Teddy Roosevelt and his Rough Riders charging up San Juan Hill.

The United States did not implement an Income Tax system until 1907, and the Federal Government needed a way to generate revenue to pay for the war.

Telephones were spreading across the country in the 1890's, and so adding a tax to the long-distance part of the telephone bill seemed like a good idea.

The war eventually ended, but the Telephone Excise Tax never did.

It became The Tax That Would Not Die.

Some folks who did read that line on the phone bill challenged this tax, and after the case made its way through the court system, the ruling required the Federal government to give back some of the tax.

Thus, the Telephone Excise Tax Refund. I think this is bad tax law, and I have been told IRS doesn't like it either. But it's a legal obligation required by the Courts, and we're all going to get a little money back.

The Refund will be based on a 41-month period from March 1, 2003 through July 31, 2006. Yes, the Excise Tax lived for more than 100 years, but these 41 months are the only period covered by the Court Order.

Anyone filing for the Refund must certify that they indeed paid the tax during this period. They won't have to include the phone bills with the return, but if they are audited, they'd better be able to produce those bills!

The Refund is based on Long-Distance charges only, because the Tax applied only to Long-Distance. Charges for bundled services, prepaid cards, and wireless phones qualify for the Refund.

Here's how it's going to work. Most individuals will file using a standard table based on the number of personal exemptions claimed on the 06 tax return.

IRS studies indicate that number of exemptions is the best predictor of the Rebate amount, which sounds reasonable.

The Rebate will range from \$30 to \$60, and if dependents are included in this count, they would not be eligible for a Refund of their own, even if they paid.

Dependent members who paid their own bills can certainly get a refund—they just can't be included in someone else's refund, and they must file a new form created for this purpose.

So far, all of this applies only to individuals. But businesses, not-for-profit organizations, churches, and pretty much any organization that paid the Excise Tax during the 41 month period will also qualify.

They will all use a different procedure specified in IRS Form 8913, which is the new form.

This form provides two ways for an organization to calculate its refund. The short way is to divide the Excise Tax by the total amount of the bill for the months of April, 2006 and September, 2006.

September's percentage is subtracted from April's percentage and is then compared to 2% for organizations with less than 250 employees, or 1% for organizations with greater than 250 employees.

You then take the smaller of the two figures, so the amount of the Refund is really capped at 2% under this method.

The other method is to calculate the actual tax paid over the 41-month period.

IRS's newly-published instructions estimate 14 hours to do the record-keeping and to prepare the form...

I saved the best for last. IRS estimates the total amount of the Refund for individuals to approach \$10,000,000,000. That's Billion, with a B.

They haven't published estimates for the organization Rebate.

And here's a final thought: IRS is about to be swamped with returns from all kinds of organizations that have never had to file a return before.

Churches are just one example. America has millions of churches, most of which are exempt from tax filings, and some of which may not have Tax ID numbers.

Now extend that concept to all the other organizations that have paid tax on long-distance charges—or will claim that they have paid tax—and all of them will want their Refund.

Happy Tax Filing!

1171 Market Street, Suite 206, Fort Mill, SC 29708

Phone 803 802 7676

www.beaconsmallbiz.com

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