



Multi-State Tax Tip

BDO Seidman, LLP
Accountants and Consultants

ISSUE: TELECOMMUNICATIONS EXCISE TAX

BACKGROUND & DETAILS:

A federal excise tax of 3% (“FET”) is imposed on charges for telecommunications services under Internal Revenue Code § 4251. Services subject to tax include:

- Telephone services (both local and toll); and
- Teletypewriter exchange services.

Most states also impose an excise tax on charges for telecommunications services. In certain jurisdictions, the combined FET, state and local taxes could result in up to four to five separate taxes on one bill. Although some states do not follow the federal exemptions, other exemptions may be obtained to reduce or eliminate the state and local excise tax.

RECOMMENDED ACTION:

Companies that are heavy users/consumers of telecommunications services (e.g., > \$750,000 of annual costs), companies with LAN/WANs or private networks, and companies with multi-state operations may be able to obtain exemptions from the FET and file refund claims for FET paid over the past three years.

HOW BDO SEIDMAN CAN HELP:

BDO Seidman helps taxpayers obtain exemption from the FET and file for potential refunds of federal and, in some cases, state and local taxes, imposed on charges for certain telecommunications services.

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