

**The enclosed is an excerpt from a Wall Street Journal article printed on August 1, 2006**

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By Robert Guy Matthews

### **Companies Discover It Isn't Easy to Claim Phone-Tax Refunds**

First, the good news: The Internal Revenue Service Plans to refund \$13 billion in phone taxes to businesses and consumers following court rulings that the taxes were illegal. The bad news: Getting more than a nominal refund could cost a bundle.

Lee Mayer, managing partner at Quality Staffing LLC, a Belmont, Calif., agency that provides drivers to businesses, figures that the IRS owes his company \$25,000 in refunds for taxes levied on long-distance calls over the past three years. But to prove that to the IRS, he says, he'll have to spend a couple of thousand dollars to buy the old monthly bills from his wireless carrier, Sprint Nextel Corp., and have an outside firm sift through the mountain of data to calculate the refund.

Mr. Mayer says he is annoyed to have to furnish such detailed proof, considering that the courts have ruled the IRS shouldn't have imposed the tax in the first place. "What can you say?" he says. "You are dealing with a government entity."

Sean Kevelighan, spokesman for economic and tax policy for the Treasury Department, says the government recognizes that recovering old bills is a tedious process but that it is necessary to prevent fraud.

The Treasury Department, after a series of court rulings against the government, announced in May that it would stop collecting the 3% excise tax on long-distance telephone service and refund billions of dollars to 25 million businesses and 150 million individuals – virtually all the businesses and individuals who filed tax returns during the period in question. Although the tax dates back to the Spanish-American War, the agency said, under the statute of limitations, it would refund only taxes imposed starting March 2003 through mid-2006.

For consumers, getting the refund will be fairly simple. The IRS is likely to set an amount – probably from \$30 to \$70, depending on usage and the number of telephones in the household - that taxpayers can get without documentation, says David R. Williams, an IRS official overseeing the refund effort. Mr. Williams says the IRS's initial calculations show that most consumers have shelled out less than \$70 in telephone taxes since 2003.

The IRS and the phone companies are discussing how to come up with an easiest way for them to calculate the average refunds that households are due. Those and other details are still being worked out, he says.

It seems likely to be much more complicated for businesses to get the money. The now defunct tax was based on the length and the distance of each call; businesses often have hundreds or even thousands of phones, both land-lines and wireless. Calculating the refund is especially daunting for small businesses that might not have archives of old phone records going back several years. Most phone companies supply the records but charge for them.

Big companies say figuring it all out is a headache. "This is a monumental task and for us requires quite a substantial investigation," says John Simely, a spokesman for Wal-Mart Stores Inc., which has 4,000 stores, 1.4 million employees and thousands of phone lines provided by several different phone companies.

Jake Siewert, a spokesman for Alcoa Inc., the worlds largest aluminum company in terms of output, says the company "can't even guess" what it might be entitled to in refunds and has staff working on it.

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To simplify the refund process, the IRS plans to include a special line on 2006 tax returns that businesses can use to claim their refunds. Businesses can reduce their tax payments by the amount of their claim; they won't have to wait for the government to issue a separate check.

Still, Mr. Kevelighan says, businesses are going to have to foot the cost of locating old bills and calculating the refunds. He says the IRS and Treasury officials are talking with phone companies and business taxpayers to come up with the easiest formula. As with all IRS tax deduction claims, businesses wouldn't need to send the proof to the IRS along with their tax returns, but they would have to show what method they used to come up with the claimed amount. And if the IRS conducts an audit, the businesses would need to provide the old phone bills as proof.

As a way to offset some of the cost, the IRS said it would pay both individuals and businesses some interest, but the rate is still being worked out.

Most phone companies say they have little choice but to charge a fee for providing invoices, considering the cost of retrieving them from storage and sending them out. Nextel, for example, is charging \$2.50 an invoice for the last 13 months, and \$15 for any invoice older than 13 months, says Travis Sowders, spokesman for Sprint Nextel. Sprint will charge \$5 per monthly bill.

BellSouth Corp. will charge \$5 per monthly bill, largely because the retrieval process involves manually combing through records kept on computer tapes in storage, says Bill McClosky, a company spokesman.

Other carriers say they will charge both businesses and individuals to retrieve old bills but declined to say how much. Carolyn Tyler, spokeswoman for Verizon Communications Inc.'s Verizon Business, says requests will be handled on a customer-by-customer basis. Because of the number of businesses calling for information, she says Verizon has posted answers to frequently asked questions on its Web site.