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Understanding Regulated and Non-regulated Charges to Your Phone Bills

By Karen Thatcher

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Thatcher

Unfortunately the subject of taxes as it applies to your telecom bills is broad enough to warrant a lengthy discussion.

In Part I of this subject, we'll take a close look at the regulated and non-regulated charges to your bills. In Part II, I'll cover a few "rules of thumb" of just how taxes are applied to these charges, and a few tips on how to recover money due to incorrect taxation to certain business entities or non-profit groups.

The charges for local telecommunications services include both regulated and non-regulated types. Taxes are assessed on both. You can find most of these specific charges contained in the "summary" section of your bill.

Regulated Charges

Tariffs are developed and filed by the Local Exchange Carrier with the state and public utility commission. After approval, these public documents define rules under which regulated services will be provided, and the charges that will be applied.

Once approved, tariffs have the weight of law, and deviations require special approvals by the utility commissions. For detailed information on tariffs, visit CCMI. (Center for Communications Management Information) The following are services regulated by tariffs in most states:

Connections to the central office (CO) and any local usage charges (excludes wireless)

Service enhancements are usually regulated. In several states, however, centrex-like services are now unregulated and such deregulation is becoming more common.

White-pages directory services (except bold listings)

Operator services provided by local exchange companies

Service initiation, changes, repair, and the like are usually regulated. The expression of such charges

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may be a "price list" of specific items, or it may be expressed as time and material "rates" for categories of work.

Some standard kinds of studies are priced through regulation. Detail of local usage or message units are typical examples.

Most "other" services

Non-Regulated Charges

Various price schedules and rates are applied to non-regulated offerings, in accordance with current business and competitive conditions. Keep in mind that all non-regulated charges are subject to rapid change and negotiation, although some are traditionally fixed for a year at a time.

Prices and rates for non-regulated items must be obtained from suppliers. The following services are

unregulated in most states:

Terminal and switching equipment, and ancillary items.

Pay telephones.

Some service enhancements, such as wire maintenance and voice mail boxes

Directory advertising, bold listings, street directories

Sale of "foreign" directories.

Many kinds of studies and some technical service matters, some corridor and other services.

In Part II, we will look at the taxes – federal, state and local – that are imposed on both the regulated, and non-regulated portions of your bills. Included will be the three "rules-of-thumb" for taxes, along with the specifics on what these taxes are and the purpose for which they are paid, and, who is exempt from them.

Karen Thatcher is President of TelCon Associates, a 30 year old telecom consulting and management firm. TelCon Associates helps companies gain control and reduce telecom/IT spending through a guaranteed cost-reduction consulting process. To receive a free CD-ROM entitled, Telecom Tips and Strategies for Businesses, visit www.telconassociates.com

Understanding the Taxes Imposed on Your Telecom Bills

By Karen Thatcher

Understanding the Taxes Imposed on Your Telecom Bills by Karen Thatcher

This issue contains the second part of a two-part article on regulated and non-regulated charges and taxes placed on them. Unfortunately the subject of taxes as it applies to your telecom bills is broad enough to warrant a lengthy discussion.

In Part I, we covered the regulated and non-regulated charges that will appear on your bills. This issue

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will describe the different kinds of taxes that you will find, what they are paid for and who is exempt from them.

Taxes and tax-like charges can add as much as 25%, and more, to local telephone charges in some jurisdictions. This is an area to which no rules are universally applicable, so all generalities have exceptions. That being said, there are three "rules-of-thumb" which can be useful in understanding the taxes placed on your bills.

1. Generally, the four types of taxes include service fees and charges; franchise tax or surcharges; sales use or special taxes; and federal excise tax.

2. Taxes are not uniformly imposed on all services.

3. Some categories of users are exempt from some taxes.

Let's take a closer look at specific taxes you'll encounter on your bills.

Specific Service Fees and Charges

These charges may be imposed to support 911 services, operation of the Public Utility Commission (California), provision of special equipment for handicapped persons (California), Universal Service Funds, poison control centers (Texas), etc. The Presubscribed Interexchange Carrier Charge (PICC) would also fall into this category. Such charges may be calculated on a per-line or percentage basis. These fees apply universally and there are no exceptions.

Franchise Taxes or Surcharges

Usually local items, these charges can and may be imposed by the county or state governments. Most often these are calculated as a percent of the items that apply, (various local service charges, additional calls or message unit charges, and installation charges), but they may be calculated on some other basis. This tax is called a variety of names, including franchise fee, city tax, municipal charge, surcharge, additional charge (AC), gross receipts tax, etc. As usual, this varies from state to state.

Sales, Use or Special Taxes

These taxes may be imposed by a municipality, county, school district, transportation district, state or other taxing body. The "state and local taxes" section of your bill may be a combination of such items.

Sales, use and special taxes generally apply to local service charges, additional calls or message unit charges, installation charges, and intrastate toll charges. (Most states also tax interstate toll charges.) And again, these taxes are most often a percent of the items to which they apply. That base may include franchise taxes, surcharges or other service fees. In other words, you are taxed on taxes!

Federal Excise Tax

This tax is imposed by Congress on non-exempt items. It generally applies to regulated services,

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except private lines, mileage, centrex-related enhancements, service and installation charges, and some other services. The base on which the tax is calculated may include franchise taxes, surcharges, and gross receipts taxes. Originally a Spanish-American War "luxury" tax, the rate has varied between 1% and 10% over the years, but has been held constant at 3% since 1983.

Remember, taxes are not uniformly imposed on all services. For example, white-page directory advertising is not taxed in most states, unless this statement item includes other items. (Arkansas and Oklahoma are exceptions, however.)

Who is Exempt?

Charities, churches, schools, nonprofit educational and hospital operations, certain other entities that receive government funding, foreign counselor operations, and others, may be exempt from state and/or federal taxes. For example, common carriers, newspapers and broadcast companies may be exempt from federal tax on some services.

To understand the specific services that are exempt from federal tax, refer to the Internal Revenue Service publication 510 entitled Communications Tax. This publication is very specific as to what taxes are federally imposed and which are exempt. Contact me directly if you'd like your own copy.

As you can see, taxes can be a complicated subject as it applies to your telecom bills. But understanding them can be a major step in reducing your costs when doing a cost-reduction study.

Karen Thatcher is President of TelCon Associates, a 30 year old telecom consulting and management firm. TelCon Associates helps companies gain control and reduce telecom/IT spending through a guaranteed cost-reduction consulting process. [CLICK HERE](#) to learn more.



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