



# CUB *Facts*

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Helpful information for Illinois utility consumers from the Citizens Utility Board

## All about phone taxes and surcharges

How much do taxes and surcharges add to my phone bill?

You can pay 20 percent or more on taxes and surcharges on top of a calling plan's advertised price. The back of this page has specific information on common phone taxes and surcharges.

Do all these extra charges go to the government?

Taxes do, but many other charges simply are a clever way for the phone company to pad its bottom line. However, it's difficult to tell the two apart, because phone companies label these charges so misleadingly. With names like the "Federal Access Charge," the "FCC Line Charge," and the "regulatory assessment fee," these extra charges often sound like taxes or government-mandated fees when they are not.

Is there any way to avoid taxes and surcharges?

As the saying goes, "there will always be death and taxes." The local, county, state, and federal governments see phone bills as another way to cover operating costs and other necessities such as 911 service and the public school system. However, phone taxes are charged whether you make any calls or not, so they are most hurtful to the people who make the least number of calls. Tax levels are ultimately determined by your local, state or federal elected officials—depending on the tax—so call them if you are unhappy with the amounts you pay. The phone company merely collects the money and passes it on to the government, minus a small amount to cover "administrative" expenses for collecting that money.

As for the surcharges, while companies are free to charge what they want for phone service, they shouldn't be allowed to hide extra fees behind names that make them sound like taxes. That's

why the National Association of State Utility Consumer Advocates (NASUCA), of which CUB is a member, formally asked the Federal Communications Commission (FCC) to regulate how wireless companies list surcharges that are not government-mandated. Although the FCC rejected CUB's request, on appeal a federal court ruled that states may write their own laws on the matter. CUB plans to urge the Illinois General Assembly to pass "truth-in-billing" legislation that would require phone companies to make the true cost of their services more clear to customers.

Is VoIP taxed?

Voice Over Internet Protocol, or VoIP, is a relatively new type of phone service in which calls are carried over the Internet. State and federal officials have not determined if and how the service should be regulated, so it has avoided most taxes. Still, VOIP plans may charge some type of fee to cover the 3 percent federal excise tax as well as the universal service fund, which helps pay for telecommunications services for rural and poor customers, hospitals, schools, and libraries. While the no-tax feature may be attractive, remember that it may not be permanent. Also, VOIP calling plans are not as cheap as they may appear. In order to subscribe to VOIP service you first have to subscribe to a broadband Internet connection, which means that you have to pay an extra \$20 to \$60 per month in addition to the cost of the phone service.

What is CUB?

CUB is a nonprofit utility watchdog group created by the Illinois Legislature in 1983 to fight for the rights of electric, natural gas and telephone utility consumers across the state. If you have a question or complaint about your utility, call CUB's Consumer Hotline, at 1-800-669-5556, for free assistance.

# Common phone taxes and surcharges

## Monthly Line Charge

You pay this charge for access to the local phone network. It is the same each month regardless of the number of calls you make.

## Subscriber Line Charge

This monthly fee, which is capped at \$6.50 for the primary line, is just another way local phone companies charge you for the cost of building and maintaining the telephone network. While the monthly line charge described above covers network costs for local calling, the Subscriber Line Charge covers the portion of network costs allocated to long-distance service. You pay this charge whether you make long-distance calls or not. The fee—also called the Federal Access Charge, the Interstate Access Charge, the Network Access Surcharge, and the FCC Line Charge—may sound like a tax, but it isn't. The phone companies keep all the money. The cap for additional residential lines is \$7 each.

## 911 Charges

Under state law, the cost of installing and maintaining a 911 system is collected by your municipality or county through a monthly charge. The City of Chicago's 911 charge is capped at \$1.25 per month per line. Other municipalities don't have such a cap, but they must approve the surcharge by a referendum. Your local phone company collects the money and turns it over to the municipal or county Emergency Telephone System Board, which pays the company that maintains the 911 system. Phone companies keep part of the surcharge to cover administrative costs.

## ITAC Charge

This eight-cent fee once was included in the monthly line charge, but it now is a separate line item. The fee goes to the Illinois Telecommunications Access Corp. (ITAC), which provides equipment and other services that help hearing- or speech-impaired people use the telephone.

## State Infrastructure Maintenance Fee

This tax, which pays Illinois for the use of public rights-of-way needed to install telephone lines, is 0.5 percent on all your local phone charges. Although this is a state tax, it gets funneled to municipal governments.

## State Additional Charge (Telecom Excise Tax)

This tiny tax, .1 percent on all your local phone charges, is collected to fund the operations of the Illinois Commerce Commission (ICC), the agency that regulates AT&T/SBC, Verizon, and the other utilities in the state. The commission has an annual budget of about \$50 million.

## Federal Universal Service Fee (USF)

This surcharge covers contributions phone companies are required to make to a federal fund aimed at keeping phone service accessible. While many people see this monthly surcharge only in terms of the assistance it gives low-income phone users, that represents only about 12 percent of the \$6.5 billion that was contributed in 2005. About 59 percent helped keep phone service affordable in rural areas, and another 29 percent went to broadening telecommunications and Internet access for schools, libraries and rural health-care facilities. The Federal Communications Commission (FCC) requires phone companies to contribute a certain percentage of their state-to-state and international calling costs. The percentage, now about 11 percent, changes on a quarterly basis, according to the fund's needs. The FCC does not require companies to recover those contributions through their customers, but most, if not all, do anyway.

## State Universal Service Fee (USF)

The Illinois USF goes into a state fund used exclusively to keep phone service affordable in rural areas of Illinois. Local phone companies contribute a percentage, about .3 percent, of their in-state revenues to the fund and recoup the money from customers through the fee. A fund administrator reviews the USF each year and adjusts it based on each company's in-state revenue.

## Federal Tax

Amazingly, this 3 percent tax was first created to fund the Spanish American War in 1898, when telephones were a luxury item. As of Aug. 1, 2006, long-distance phone companies stopped charging this tax. However, local phone companies may still charge the tax, which is turned over to the federal Treasury.

## State Tax

A tax of 7 percent on local phone revenue is collected by phone companies for the state's General Revenue Fund, Common School Fund and School Infrastructure Fund.

## Municipal Tax

This tax allows municipalities to levy a tax of up to 6 percent, while the city of Chicago is allowed to levy a tax of up to 7 percent.

## Long-distance Taxes and Surcharges

The same taxes that apply to local bills also apply to long-distance bills. You must pay them for both bills. Many of the same fees and surcharges also are levied on long-distance bills: the federal and state USF charges (Universal Connectivity Charge), the State Additional Charge (Public Utility Commission Charge), and the State Infrastructure Maintenance Fee.