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Communications Tax: DIY or Hire a Professional?

Communications tax is assessed on various products and services that technology companies provide.

Historically, only telecom companies that offered voice services had been subject to the tax, but today the reach of telecom taxes has expanded to include all types of communication protocols. As technology’s role continues to increase, more and more companies are finding that they must calculate and collect communications tax.

If your industry or company is subject to communications tax, it’s important to know that this isn’t a simple tax to calculate, collect, or report. Countless businesses choose to hire a communications tax professional because of the complexity of the tax calculations and remittance requirements.

After reviewing some of the many nuances associated with the tax, it will be clear why a do-it-yourself approach is seldom the best choice for businesses.

Communications Tax Is More Complex Than Sales Tax

Sales and use tax is a fairly straightforward transaction tax that primarily requires a single calculation based on one transaction. There occasionally can be minor complications with calculating sales tax, such as calculating different tax rates for different items or determining the proper nexus for a transaction. However, by and large, these are usually easy to deal with and might be sufficiently handled in-house without much trouble.

In contrast, the communications tax presents more numerous and more difficult complexities that must be successfully navigated. These complexities generally arise from the nature of technology services, which are often affected by sourcing, bundling, changing laws, and other factors.

Individual Calculations Are Complex

Communications tax includes calculations that generally involve more complex equations than standard sales and use tax calculations do. It's often necessary for a communications tax to break out certain elements to levy sales tax on the communications fees. Additionally, there are often instances that involve tax on tax, tiered taxing, self-taxing, prorated taxing, and different brackets.

While any individual communications tax calculation isn't too difficult to figure out manually, not automating these equations creates a highly error-prone system. These equations are one step of managing communications taxes that a computer program should take care of. (An automated system might also be set up to include sales tax calculations if necessary.)

Sourcing Is Difficult to Determine

Whereas a business that sells products generally knows where its customers are located, technology businesses sometimes have difficulty determining exactly where their customers are. Addresses, zip codes, and phone numbers often aren't useful when providing wireless communications services and VoIP services.

Of course, customer location is needed to determine what state and local taxes must be assessed accurately. Without adequately identifying a customer's location, your business might increase its susceptibility to audits and penalties.

Service Bundling Further Complicates Calculations

Product bundling only further complicates these communications tax matters. Taxable and non-taxable services bundled together must be separated from one another when collecting, filing, and reporting the tax. Bundling issues vary from state to state, and how a package is bundled can change what's taxable within a given state, making the process even more difficult.

Sudden Changes in Communications Tax Laws Are Sometimes Made

Because technology progresses faster than legislation, the current communications tax law often is outdated compared to the present technology. To address this issue, federal, state, and local governments update their rules periodically. When they do, the changes can be sudden and sweeping because multiple changes are often included in a single bill.

Keeping up with changes requires expertise and vigilance. Whenever a tax law change is made, there's often a lot of research that must be completed promptly. Each business must research how the new changes affect them specifically and update their processes appropriately.

Discuss These Complexities with Accounting and Legal

Before your business elects to implement a do-it-yourself communications tax solution, the accounting and legal teams should discuss these matters in detail. Each one adds a layer of difficulty in managing communications taxes and should be thoroughly reviewed before setting up a DIY system. Because of these issues alone, your business may choose to hire an accounting firm that specializes in communications tax.

Many More Businesses Must Manage Communications Tax

Communication tax has historically been applied to telecom companies that offered voice services, but the tax is assessed on many more businesses today. Broadly speaking, businesses that provide voice services, video services, or tech services might now have a communications tax liability.

Voice Service Providers

Businesses that offer voice services are no longer only telephone companies. They include telecom, cable, unified communications (UC) and software-as-a-solution (SaaS) companies that provide voice-related services. These services may be via wireline, wireless or VoIP.

As preferred communications channels evolve, both established telecom companies and new technology companies are finding that they must address communications tax complications. Telecom companies are adding services to their traditional voice offerings and must make adjustments accordingly. Technology companies that have historically not been in the voice service space now have voice embedded into their offerings and can be responsible for communications tax liability.

Video Service Providers

The video service industry consisted primarily of paid television services, such as cable and satellite TV, until recently. Cord-cutting has shifted this space, though it now includes streaming, live events and on-demand services. The boundaries between traditional and over-the-top video options will only continue to blur.

The morphing boundaries between these two types of video services makes determining communications tax for video services particularly intricate. Jurisdiction, content type, and bundling can all impact how these services are taxed.

Technology Companies

Technology companies have mostly avoided dealing with communications tax, but that is becoming increasingly hard to do. Not only are tech businesses entering the voice service and video service spaces that require dealing with this complicated tax, but a growing number of SaaS, networking, web hosting, and other tech service providers fall within the requirements for managing communications tax.

Find Out if Your Business Needs to Deal with Communications Tax

If you're unsure whether your particular business falls within the current communications tax requirements, this is a question that should be addressed to a communications tax professional. The nuances and details are too complex to sort through with only an in-house team that's not specialized.

The Communications Tax Landscape is Rapidly Changing

On top of the inherent complexities present in communications tax law, the landscape is undergoing significant and rapid changes. Advancements in technology and changes in tax revenues are expected to spur new issues and regulations.

5G and IoT Present New Challenges

The capabilities that 5G brings to the Internet of Things (IoT) is making our world even more connected, and this presents new issues to consider in light of communications tax.

New IoT applications in healthcare, drones, vehicle telematics, autonomous driving, energy, manufacturing, logistics, agriculture, education, media, entertainment, and many other industries will force many companies in disparate industries to deal with communications tax. As 5G is rolled out to more and more of the country, the number and kinds of businesses that fall within the communications tax requirements will increase dramatically.

Moreover, there will likely be new legislation in forthcoming years that addresses some of the specific tax issues that 5G and the IoT present. Federal or state governments might take up these issues in the future, and the stipulations around communications tax could change drastically when they do.

Declining Tax Revenues Prompt New Tax Legislation

Governments will also be prompted to pass new tax legislation for voice, technology and IoT services because other communications tax sources are diminishing.

People's preference for video, text, and streaming services leads to lower tax revenues from traditional voice-only and paid television services. Governments will likely look to updating tax codes to collect additional fees from communication and data delivery channels that people are using more to make up for lower revenues.

Updates made by governments can bring significant changes, and the fact that states may update their laws differently only further complicates the potential challenge.

Does Your Business Have the Necessary Resources?

Does your business genuinely have the expertise and necessary resources to calculate, collect, and report communications taxes correctly? Here are a few questions to help you assess your business' ability to successfully implement a DIY solution:

- Do your accounting and legal teams already have intimate knowledge of communications tax?
- Can your accounting team track the different communications taxes across products, bundles, states and municipalities?
- Can your accounting and legal teams stay abreast of any changes passed in the communications tax code at a federal or state level?
- Can your accounting, legal, and IT teams quickly update company systems if new laws are passed that affect your tax liability?
- Does your business have the software necessary to efficiently and accurately handle all aspects of communications tax?
- Does your business have plans to expand in the near future in a way that would make communications tax matters more difficult?
- Would your business' resources be better spent on other aspects of the company's operations, such as core competencies?
- Would your business be able to handle a full communications tax audit in-house?

In many cases, only larger corporations have the personnel, finances, and other resources necessary to address all communications tax aspects adequately. However, even for these businesses outsourcing communications tax collection and reporting may be wise because of its efficiency and ability to afford audit protection.

For the vast majority of businesses, especially small- and medium-sized businesses (SMBs), an in-house DIY approach to communications tax simply isn't advisable.

A Communications Tax Firm Will Take Care of These Issues

In contrast to handling all of the nuanced intricacies yourself, your business can more effectively manage its communication tax liability obligations by hiring a professional firm. A firm specializing in communications taxes will take care of everything for you, including preparation, filing and reporting. They can:

- Determine the applicability of communications taxes
- Determine the appropriate communications tax nexus
- Identify the applicable tax jurisdictions
- Calculate services' and bundled packages' communications taxes
- Ensure all billing and reporting is completed properly
- File communications tax returns correctly
- Guarantee accurate tax and regulatory tax compliances
- Monitor rate and legislative changes to the communications tax code

In the event of an audit, a communications tax firm may also provide audit defense assistance.

With a tax professional assisting your business, your business can focus its resources on the core aspects that make the business successful. It'll be better positioned to compete, grow and earn a profit with these matters taken care of for you.

Partner with Inteserra

Our team has been assisting companies that have to report communications taxes for more than 25 years. We'll work hard to ensure your business' full range of communications taxes and regulatory fee obligations are handled accurately and efficiently.

Defeat Communications Tax once and for all.