

Audit Procedures for Telecommunications Taxes

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CHAPTER 1

INTRODUCTION TO TELECOMMUNICATIONS SALES TAX

Introduction

Telecommunications services became subject to the Limited Sales Excise and Use Tax on October 1, 1985.

Texas Tax Code, Section 151.0101, defines "taxable services", which includes telecommunications services (151.0101 (6)). Section 151.0103 defines telecommunications services as the electronic or electrical transmission, conveyance, routing or reception of sounds, signals, data or information utilizing wires, cable, radio waves, microwaves, satellites, fiber optics or any other method now in existence or that may be devised, including but not limited to long-distance telephone service. State sales tax is due on all telecommunications services.

Local Sales Tax

State sales tax is due on telecommunication services, however, Texas Tax Code, Section 321.210 provides telecommunications services are exempted from all local sales taxes, unless the application of the exemption is repealed under this section. The governing body of a city, county, transit or other special purpose district may vote to repeal the exemption. See Publication 96-339, "Jurisdictions that Impose Local Sales Tax on Telecommunications Services" to determine which local jurisdictions impose tax and their effective dates.

The local sales tax is limited to telecommunications services occurring between locations within Texas. For landlines, the local sales tax is collected based on where the call originates. If the origination of the call cannot be determined, the local tax collected is based on the address to which the call is billed. Texas Tax Code, Section 321.203 (g-1) and (g-2) (Consummation of Sale).

Mobile Telecommunications (Wireless Telecommunications)

The Mobile Sourcing Act became effective on August 1, 2002. Mobile telecommunications services are to be sourced for sales tax based on the customer's place of primary use" regardless of where the call originates. Section 151.061(c) (Sourcing of Charges for Mobile Telecommunications Services).

A customer who buys mobile telecommunications services for use by another person, such as a child going to college or an employee at a different location, pays state and local sales taxes based on the user's street address. Section 151.061 (d).

Texas customers must pay state sales tax on all mobile telecommunications services, including charges for calls made while traveling outside of Texas. Texas customers owe local sales tax if their place of primary use is inside a city, county, transit or special purpose district that voted to repeal the sales tax exemption on telecommunications services. Out-of-state customers do not owe Texas taxes.

When a mobile telecommunications subscriber travels to a foreign country and uses a wireless device to place or receive calls that originate and terminate in the foreign country, the subscriber is not using a wireless telecommunications service that can be deemed to have been provided in Texas.

See Sales Tax Rule 3.344 (Telecommunications Services) for more information.

General Information

Tax Code

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Statute Reference

Texas Tax Code Sections 151.0101, 151.0103, 151.01032, 151.0104 and 321.210

Rule

Rule 3.344: Telecommunications Services

Due Date

Monthly filers: 20th of the month following the month when the tax was collected.

Quarterly filers: 20th of the month following the calendar quarter when the tax was collected.

Definitions

- **Basic local exchange telephone service:** the provision by a telephone company of each access line and each dial tone to a fixed location for sending and receiving telecommunications in the telephone company's local exchange network, including private line, party line and limited or unlimited access.
- **Billing address:** location where telecommunications customer receives their billing.
- **Bills and Invoices:** Per Records Required to be Kept Texas Tax Code Section 151.025(d) If any nontaxable charges are combined with and not separately stated from taxable telecommunications service charges on the customer bill or invoice of a provider of telecommunications services, the combined charge is subject to tax unless the provider can identify the portion of the charges that are nontaxable through the provider's books and records kept in the regular course of business. If the nontaxable charges cannot reasonably be identified, the charges from the sale of both nontaxable services and taxable telecommunications services are attributable to taxable telecommunications services. The provider of telecommunications services has the burden of proving nontaxable charges.
- **Bundled Services:** a grouping of various services together, either wired or wireless, as a package (text, talk, data, internet, data processing, etc.)

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- **Connected Devices:** tangible personal property that can connect with each other and other systems via the Internet (desktops, laptops, smartphones, tablets, household appliances, vehicles, health and fitness monitors, watches, etc.) These connect with the Internet and each other via various wired and wireless networks and protocols.
- **Hotspot:** A physical location where people can access the Internet, typically using Wi-Fi, via a wireless local area network (WLAN) with a router connected to an Internet service provider.
- **Interstate:** telecommunications services that originate in one state and terminate in another state or country.
- **Intrastate:** telecommunications services that originate and terminate within the same state.
- **Long-distance telecommunication:** a service which both originates from and is billed to a telephone number or billing or service address within Texas.
- **Primary Place of Use (PPU):** the street address that is representative of where the customer's use of the mobile telecommunications service primarily occurs.
- **Service address:** a location where a telecommunications customer receives service.
- **Telecommunications Equipment:** Equipment sold by a telecommunications service provider is subject to sales or use tax and is not taxed as part of the telecommunications service if the service provider separately invoices the sale of the equipment. The sale of equipment is not separately invoiced if it is identified on the same bill, receipt or invoice as the sale of the telecommunications service, even if it is identified as a separate line item on the same bill, receipt or invoice.

Equipment that is leased or sold to the customer outright (title transfers) and repairs to customer-owned equipment are subject to sales tax imposed by local jurisdictions even if the local jurisdictions did not revoke the local tax exemption.

The lease or rental of telecommunications equipment along with the provision of telecommunications services is a telecommunications service. This position is taken to treat these charges the same for local tax purposes. This prevents a company from having to charge one local tax for the rental and another for the telecommunications service. Tax should be charged based upon the location from which the transmission (call) originates or the primary place of use for mobile telecommunications; if the point of origin cannot be determined, the local tax is allocated to the address to which the call is billed.

- **Telecommunications Services:** Per Section 151.0103, (a)
For the purposes of this title only, “telecommunications services” means the electronic or electrical transmission, conveyance, routing or reception of sounds, signals, data or information utilizing wires, cable, radio waves, microwaves, satellites, fiber optics or any other method now in existence or that may be devised, including but not limited to long-distance telephone service. The term **does not** include:
 - the storage of data or information for subsequent retrieval or the processing or reception and processing, of data or information intended to change its form or content;
 - the sale or use of a telephone prepaid calling card;
 - Internet access service; or
 - a pay telephone coin sent-paid telephone call.
- **Telephone Prepaid Calling Card:** a card or other item, including an access code, that represents the right to make one or more telephone calls for which payment is made in incremental amounts and before the call is initiated. The term does not include a card sold by mechanical means for consideration of one dollar or less.

CHAPTER 2

TELECOMMUNICATIONS SALES TAX ASSESSMENT BASE

Sales Tax Assessment Base

Items Specifically Included in the Telecommunications Tax Base

- Accounting code charges: for use by a customer to identify individual users and allocate the cost of long-distance service.
- Administrative charges: for system engineering and consultation, network analysis reporting or access coordination.
- Auxiliary services: examples are call waiting, call forwarding, ring tones etc.
- Bad debt deductions for taxable receipts on which sales tax was previously paid. The taxpayer can recover the tax paid for receipts uncollected from their customers and written off according to bad debt auditing requirements. See Rule 3.302 (d).
- Bad debt recoveries: related to taxable receipts. If a bad debt has been written off and subsequently recovered from the customer, it must be re-included in the assessment base to allow the state to recover the tax credit previously taken as a bad debt.
- Basic feature charges: fees for telecommunications services including call arrangement, call allocation, message referral, time interval routing, etc.
- Basic local exchange telecommunications service: the local landline service billed to the customer for basic connection charges.
- Call Detail Charges: for a paper or digital copy of billing in detail.
- Connect, Disconnect and Reconnect fees: for service billed to the ultimate consumer.
- Directory assistance charges: charges for accessing directory assistance.
- Enhanced services – charges for Private Branch Exchange (PBX) trunk, Multiprotocol Label Switching (MPLS), Virtual Private Network (VPN), etc.
- Equipment sales, leases, rentals of telecommunications equipment: provided to a customer as part of the telecommunications service, including separately stated charges for installation, maintenance and repair.
- Extended warranty: charges for repair of telecommunications equipment. An extended warranty is a prolonged warranty offered to consumers in addition to

the standard warranty on new items. This does not include insurance for replacement of the equipment unless both are included in a single charge.

- Fax and fax-to-email services: charges for using a dedicated analog or virtual number to create a facsimile transmission delivered by phone or email.
- Hotels/motels: charges to hotel guests for telecommunications services. If the hotel pays sales tax to their telecommunications provider, and they also charge their hotel guests for any telecommunications services, i.e., marked-up long distance calls, the hotel owes sales tax on the marked-up portion of the long-distance calls.

If the hotel issues a resale certificate to their telecommunications provider and the certificate is accepted by the provider, the hotel does not owe sales tax to the provider. The hotel will then owe sales tax on all telecommunications services used and charged to guests, including local, long distance, fax, etc.

- Installation of telecommunications services: charges for service connection fees.
- Insurance: charges for repair of telecommunications equipment, but not insurance for replacement of telecommunications equipment, unless both are included in a single charge.
- Local Area Network (LAN): charges for connecting local area networks in different locations.
- Long distance: charges for both intrastate and interstate, originating from and billed to a telephone number or billing or service address within Texas for landline customers or to the primary place of use for mobile customers. If a call originates in Texas and is billed to a Texas service address, the charge is taxable even if the invoice, statements or other demand for payment is sent to an address outside of the state. Intrastate long-distance telephone calls are subject to both state and local sales taxes. Interstate long-distance telephone calls are subject to state sales tax only.
- Maintenance and repair of equipment: charges in connection with telecommunications service. These charges would be taxable as repair and maintenance of tangible personal property.
- Minimum billing: charges made for a minimum amount required to maintain service.
- Minimum usage: a charge to customers who fail to meet their network commitment for a specified period of time.

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- Monthly fees for 800 or 900 telephone number service: charges for the additional service at a flat rate fee.
- Move and/or change fees: charges or order processing fees for telecommunications equipment changes.
- Penalties and forfeited customer deposits: charges to customers for fees that are related to their telecommunications account.
- Returned check fees: charges if collected by a debt collector (classified as a debt collection service and not a telecommunications service).
- Reimbursements: charges that represent taxes or assessments levied on a utility and that are passed on to its customers. These charges become a part of the sales price of the telecommunications service and are subject to tax in the same manner as the service itself, when passed through to the customer: These include, but are not limited to: expanded local calling service surcharges (ELCS), FCC approved customer line charges, FCC Subscriber Line Charge (SLC), Federal presubscribed interexchange carrier charges (PICC), Federal Universal Service Fund assessment (FUSF), Municipal Franchise fees, right of way fees, PUC Gross Receipts Assessment and Texas Universal Service Fund assessment (TUSF).
- Roaming Charges: charges for using a mobile phone on another operator's network. International roaming charges are not taxable.
- State Cost Recovery Fee: charges that are made by a telecommunications provider to recoup their costs of the Texas franchise tax.
- VoIP: charges for Voice over Internet Protocol, if the call originates in Texas.
- Voice mail messages: charges for separately stated voice mail calls and service.

Sales Tax Assessment Base Exclusions

Items Specifically Excluded from the Telecommunications Tax Base

- Assessments and fees: charges imposed on the telecommunications customer rather than on the telecommunications service provider. These are: 911 Emergency Service fees and 911 Equalization Surcharge and Federal Excise Tax.
- Deposits: refundable charges for telecommunications equipment or service.
- Directory advertising or sales: charges for advertising in printed telephone directories.
- Directory listings: charges for being included in a printed telephone directory if the charges are separately stated.
- Exempt organizations: charges to entities and/or persons that are exempted from paying sales tax under Texas Tax Code Chapters 151.309 and 151.310, if the service being charged was used exclusively for the exempt purpose.
- Finance charges: charges for financing charges that are collected from customers.
- Insurance: charges for separately stated insurance for replacement of telecommunications equipment, only if underwritten by a third-party insurer.
- International roaming: charges for use of a telecommunications network outside of the confines of the United States.
- Internet access service: charges to users to access the internet or email. Effective July 1, 2020, Texas will no longer impose sales tax on internet access due to the Internet Tax Freedom Act. Prior to July 1, 2020, the first \$25 of the monthly charge was exempted from sales tax regardless of the billing period used by the service provider or whether the internet access service was bundled with another service. The internet exemption applies to mobile data plans whether or not data service was bundled with telecommunications. After July 1, 2020, the entire bundled charge is taxable unless the provider is able to establish a reasonable nontaxable internet access charge through its books and records.
- Returned check fees: charges collected by the telecommunications provider directly from the customer.
- Sales for resale: charges for sales where a resale certificate was validly issued - See Rule 3.285 Resale Certificate, Sales for Resale for additional information.
- Unlisted phone number: a separately stated charge for a non-published number.

CHAPTER 3

TELECOMMUNICATIONS SALES TAX AUDIT PROCEDURES

Overview

The telecommunications industry is a complex one, with many different types of services and charges. There are many taxes and fees levied on the telecommunications industry and the Comptroller is responsible for auditing the following taxes and fees:

- Public Utility Commission (PUC) Gross Receipts Assessment: assessed on the public utility rather than the ultimate consumer.
- 911 Emergency Service Fees and Surcharges: applies to landline and wireless connections.
- Sales and Use Tax on Telecommunications Services: applies to all telecommunications services as defined in Texas Tax Code, Section 151.0103, as well as other items deemed taxable sold by the telecommunications provider as defined in Texas Tax Code, Chapter 151.

This chapter covers the audit procedures concentrating on auditing the sales made by telecommunications providers rather than the purchases encountered in auditing the provider.

Pre-Audit Research

Pre-audit research should begin before the audit fieldwork commences. Begin your research on the taxpayer by using the following:

- Tax Statutes: Review the applicable telecommunication statutes in Chapter 151. Pay special attention to r taxable and nontaxable items and the treatment of local taxes in telecommunications.
- Tax Rules: Review the applicable rules for Telecommunication including Rule 3.344 Telecommunication Service and 3.366 Internet Access Services.
- State Automated Tax Research (STAR): Research similar taxpayers, processes, services, etc.
- Internet: Research the taxpayer's website for types of services provided (landline vs. mobile), how the service process begins and ends, locations of the taxpayer, etc. After fieldwork begins, the internet can be used to look up equipment information. Print any pertinent findings to a PDF file or screenshot any necessary information found in case websites are changed or updated after research.
- CICS: Review standard research screens, XISUMM, XICOLL, XILOCA and any others that you might find helpful.

- **Prior Audit:** Review the audit history to see if there has been a prior audit performed on your taxpayer, paying attention to whether there were adjustments made in the sales area. If there were no or low sales errors noted, do not stop there, but investigate further as to what type of review was used in the prior examination. Sales is a very complicated area in telecommunications and cannot be disregarded based solely on no prior errors found.
- **Audit History:** Review the audit history to verify that the taxpayer was permitted for all appropriate tax types for the entire audit period. Consider generating spin-off audits for all associated tax types.

Entrance Conference

In addition to the standard entrance conference topics, listed in the Auditing Fundamentals manual, other topics to consider when auditing a telecommunication provider include the following:

- **Provided Services / Reports:** Talk to the taxpayer about their services provided to their customers to determine taxability. Focus on questions like:
 - Does the taxpayer provide bundled services or sell taxable items other than those taxed under the Telecommunications Services rule?
 - Does the taxpayer have any related entities that are reporting items related to telecommunications, and if so, are these items on the same billing reports as the taxpayer currently under audit? If so, a spin-off audit should be generated to audit these along with the audit in progress.
 - What types of telecommunications services are provided - landline or mobile?
 - What types of data is available for the audit period? Discuss items like available reports, computerized data, tax matrixes showing how they account for the types of sales made and to which taxing category they flow into?
 - What types of records do you maintain for review and for how long is the detail retained? This question might lead you to discuss different scenarios that may be encountered in the audit, such as incomplete records or voluminous data.

Requesting Records

The records request should include all but not be limited to:

- Financial Statements
- Customer Statements
- Computerized data (also referred to as detailed billings, billing system data or detailed transaction data) including all but not limited to customer name, customer account, invoice number, invoice date, line item description, line item type, line item amount, billing address, phone number, primary place of service address (if it differs from the customer's billing address) and any other pertinent information that you discover through discussions with the taxpayer.
- Detailed billings (also referred to as detailed transaction data, monthly billing statements, sales invoices and customer billing statements) should be at a level

that is detailed enough to trace the invoices and to be able to select samples from for both taxable and nontaxable charges.

- Sales Tax Payable Account
- Sales and Use Tax Return Workpapers
- Certificates
- Any additional documentation regarding credits taken, deductions, accounting system changes occurring during the audit period and anything else that the taxpayer has indicated might be helpful for the audit review.

Subpoena

In a regular audit, subpoenas of records are used as one of the final options and only after two formal requests for records have been made of the taxpayer. In a telecommunications audit, the taxpayer can request a “friendly” subpoena to release confidential customer information. The following information must be sent for the request:

- The auditor must send a subpoena request to the Senior Counsel for Tax Compliance with a copy to his/her assistant.
- The requesting auditor must provide the auditor’s name, physical work address, email address and telephone number.
- Is the subpoena a formality or is the taxpayer uncooperative?
- Provide the telephone number, physical address and email address for the addressee of the subpoena.
- Provide direction on how the taxpayer is to send the agency the information requested (PDF, electronic transmission, etc.) and to where the information is to be sent (usually the email address of the auditor).
- How long does the taxpayer have to provide the data? For telecommunications audits, 90 days is the standard request time frame.
- What date does the subpoena need to be delivered to the taxpayer?
- Send the “Detailed Description of Reports for Which Subpoena Will be Served” This can be sent via email in the body of the text or attached to the email as a word document.

This request should be sent via your supervisor or manager who will then email the information to the Senior Counsel for Tax Compliance. The Assistant Manager for Audit Division should be cc’d. The Senior Counsel will issue the subpoena and forward it to the auditor. The auditor can serve the subpoena or request assistance from the CID Investigators.

Audit Procedure

Internal Controls

- Trace some of the customer billing statement to the detailed billings. Since the detailed billings (data transaction dump) often take a long time to retrieve by the taxpayer, the audit often begins with reviewing some customer statements to familiarize yourself with the taxpayer’s coding of items billed and calculations of taxes imposed.

Once the detailed billings are provided, trace from customer statements to the detailed billings to ensure all information matches. Verify the completeness of information including all but not limited to customer account, customer name, billing address, primary place of use address, invoice number, invoice date, phone number, invoice amount, surcharges amount, sales tax amount and line-item description.

- Tie the detailed billings control totals to the General Ledger and Financial Statements. After tracing customer statements to the detailed billings, an additional trace from the detailed billings to the General Ledger/Financial Statement can be performed to ensure data flow is complete and accurate.

Most telecommunication providers have rather complicated accounting systems including internal mapping that must be reviewed. The auditor should discuss the best methodology for vouching internal controls with taxpayer.

Refunds

- Before audit fieldwork begins, research to see if the taxpayer has submitted any refund claims, and the outcomes of each claim. If the taxpayer provides schedules requesting credits on specific invoices during the course of the audit, a separate refund assignment should be generated. However, if, during the normal course of the audit, credit items are discovered, credit can be given in the audit.

The auditor should note if the taxpayer has taken any credits against the sales tax returns or has formally requested refunds. If credits have been taken on the return, a detailed listing of such transactions should be reviewed to verify the exempt status of the items. If the invoices or sufficient documentation cannot be provided, the credits should be scheduled as errors in the audit.

For specific refund questions and issues, review the Refund section on the Audit Division's website.

Gross Sales Reconciliation

- A gross sales reconciliation should be performed by comparing detailed billings total sales to those reported on the tax return workpapers for the taxpayer audit history. However, due to system limitations, many telecommunications taxpayers report only taxable sales as gross sales and do not take any deductions on the tax return.

Sales Tax Reconciliation

- A sales tax reconciliation should be performed by comparing sales tax on the detailed billings to the audit history. If differences are found, the tax payable account and tax return workpapers should be reviewed to determine what makes up the difference. Errors should be scheduled if differences found are not explained.

Sales and Deductions

- Sample vs. Detail

Sampling can be performed on most taxpayers especially when the records are voluminous or if the taxpayer provides bundling of different services involving different tax types. Some taxpayers have both taxable services and nontaxable services provided together, and if so, consider splitting the revenue streams into separate groups. If it is not possible to subgroup the revenue streams, a sample can be performed by invoice. Keep in mind, the sampling manual suggests that taxed and non-taxed sales should be separated. This is particularly helpful in telecommunications audits when many of the errors come from the taxed sales sample. If it is not possible to split the populations, a sample can be performed by invoice. Remember, if there is a law change or an accounting system change in the audit period, it might be necessary to separate the change into separate groups, as well.

If the taxpayer presents schedules of refunds, the requested items should be in separate groups, if possible. The sampling manual should be referenced for specific sampling issues.

Detail examinations can be performed when the records are not too voluminous or complicated. It can also be used on nontaxed sales where resale or exemption certificates are provided.

- Review bills and invoices

Local Sales Tax: State law provides that telecommunications services are subject to the state sales tax but are exempt from all local sales taxes. However, the governing body of a city, county, transit authority or other special purpose district may vote to repeal the exemption and adopt the tax on telecommunications. The local sales tax is limited to telecommunications services occurring between locations within Texas, so all interstate telecommunications are excluded. (Texas Tax Code, Section 321.210). For landlines, the local sales tax is collected based upon where the call originates. If the origin of the call cannot be determined, the local tax collected is based on the address to which the call is billed. For mobile telecommunications services, the local sales tax is based on the customer's place of primary use.

When reviewing a customer statement or invoice, search addresses on the Texas Comptroller's website (Sales Tax Rate Locator) or CICS (XIATJS) to determine the appropriate tax rate. This tax rate should be applied when the taxpayer provides non-telecommunications sales such as data processing services or tangible personal property. Before applying the tax rate to telecommunications sales, each local jurisdiction should be verified in the Publication 96-339 to determine whether the jurisdiction has repealed the

exemption for telecommunications service, paying particular attention to effective dates.

Tax Base: Unlike a regular sales tax audit where an auditor can verify tax rates by dividing the tax amount by taxable amount, telecommunications audits commonly compare audited tax to invoice tax. Take special care when evaluating the errors noted for materiality. Most of the errors found in telecommunications audits are very small, but when projected over the very large populations can become significant additional taxes due.

- Reviewing and scheduling invoices

Below are the steps to review and schedule one invoice:

1. Determine the tax rate and all local jurisdictions that are applicable for the invoice.
2. Review the invoice line items to calculate the tax base for state and each local jurisdiction (city, county, transit and special purpose district).
3. Multiply the tax base with the matching tax rates (separating state and locals) to arrive at audited tax amount.
4. Compare audited tax amount with invoice tax amount by state and each local jurisdiction.
5. Try to determine if the error includes any specific invoice line items. The taxpayer may need to provide additional internal documentation and backup if the invoice bills are for a bundled amount.
6. If the determination in Step 5 cannot be made, taxable amounts will need to be grossed up and scheduled separately for state and each applicable local jurisdiction. That is, the state tax difference (audited amount less invoice amount) should be grossed up by dividing the difference by the state rate to arrive at the amount subject to state tax. The same should be done for the local tax differences using the correct local tax rates due.
7. Schedule errors to state and local separately as needed for assessing the appropriate state and local amounts subject to tax.

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Calculating the Tax Base Example

Billing address: Houston, TX

(Assume that the customer's billing address is within City and Transit limits.)

Monthly Local Service – Regulated

Basic Local Service Charge

DESCRIPTION	QUANTITY	UNIT RATE	AMOUNT
Federal Access Recovery Charge	9	\$ 2.36	\$ 21.24
Business Line	9	\$ 48.10	\$ 432.90
Federal Subscriber Line Charge	9	\$ 7.28	\$ 65.52
Subtotal			\$ 519.66

Additional Charges

DESCRIPTION	QUANTITY	UNIT RATE	AMOUNT
Equipment Lease	9	\$ 5.00	\$ 45.00
Federal Subscriber Line Charge			\$ 2.00
Subtotal			\$ 47.00

Total \$ 566.66

Regulated Service Taxes and Surcharges

DESCRIPTION	AMOUNT
Federal Excise Tax	\$ 16.04
TX City Sales Tax	\$ 5.83
TX State Sales Tax	\$ 39.24
TX Transit Authority Sales Tax	\$ 0.45
Cost of Service Surcharge	\$ 0.76
Texas Universal Service	\$ 15.12
Municipal Right-of-Way Fee	\$ 24.48
911 Equalization Fee	\$ 0.54
911 Fee	\$ 6.39
Federal Universal Service Fee	\$ 23.67

Total \$ 132.52

Total Charges \$ 699.18

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Analyzing the Example

1. Look up the billing address on Texas Comptroller's website and the local jurisdictions in Publication 96-339. In this example, the tax rate is 8.25%, which includes 6.25% state tax, 1% Houston city tax and 1% Houston transit tax. However, only Houston city repealed the exemption, thus electing to assess local tax on telecommunications service. The Houston transit remains exempted.
2. Calculate the telecommunications tax base by jurisdiction.

Basic Local Service Charge

DESCRIPTION	STATE	LOCAL	TRANSIT	NOTE
Federal Access Recovery Charge	\$ 21.24	\$ 21.24	\$ -	(1)
Business Line	\$ 432.90	\$ 432.90	\$ -	(1)
Federal Subscriber Line Charge	\$ 65.52	\$ 65.52	\$ -	(1)

Additional Charges

DESCRIPTION	STATE	LOCAL	TRANSIT	NOTE
Equipment Lease	\$ 45.00	\$ 45.00	\$ -	(2)
Shipping & Handling	\$ 2.00	\$ 2.00	\$ -	(2)

Regulated Service Taxes and Surcharges

DESCRIPTION	STATE	LOCAL	TRANSIT	NOTE
Cost of Service Surcharge	\$ 0.76	\$ 0.76	\$ -	(1)
Texas Universal Service	\$ 15.12	\$ 15.12	\$ -	(1)
Municipal Right-of-Way Fee	\$ 24.48	\$ 24.48	\$ -	(1)
Federal Universal Service Fee	\$ 23.67	\$ 23.67	\$ -	(1)

Totals

DESCRIPTION	STATE	LOCAL	TRANSIT	NOTE
Totals for Each Taxing Authority	\$ 630.69	\$ 630.69	\$ -	(3)

3. Compare audited tax due with the invoice tax charged by jurisdiction.

Audited tax on invoice by Authority

	Note (3)	Tax Rate	Tax Due	Tax per Invoice	Difference
State tax	\$ 630.69	6.25%	\$ 39.42	\$ 39.24	\$ 0.18
Houston city tax	\$ 630.69	1.00%	\$ 6.31	\$ 5.83	\$ 0.48
Houston transit tax	\$ -	1.00%	\$ -	\$ 0.45	\$ (0.45)

4. Determine if the differences match to any invoice charges. If none match, schedule the grossed-up additional taxable amounts.

	Difference	Tax Rate	Additional Taxable Amount	Amount to Schedule	Note
State tax	\$ 0.18	6.25%	\$ 2.88	\$ 2.88	(4)
Houston city tax	\$ 0.48	1.00%	\$ 48.00	\$ 48.00	(5)
Houston transit tax	\$ (0.45)	1.00%	\$ (45.00)	\$ -	(6)

Notes:

1. Subject to telecommunications tax.
2. Equipment leases and related charges in connection with a telecommunications service are taxed as the telecommunications service. Houston transit did not repeal the local exemption. If this was a lease not in connection to a telecommunications service, it would be taxable for Houston transit as rental of TPP.
3. Totals for each taxing authority subtotaled by the authority.
4. The state tax does not tie to any of the items on the invoice, so the difference is just scheduled.
5. The Houston city tax was under collected by what appears to be the lease and shipping, but there is an additional \$1.00 that was missed. Schedule the difference to Houston city.
6. Although it appears that the taxpayer would be due a refund, this is actually Error Tax because it was collected from their customer, so no refund is due. It appears that they collected on the lease charge, though.

CHAPTER 4

911 FEES

Overview and History

This chapter covers the four 911 fees currently collected and reported to the Comptroller:

- 911 Emergency Service Fee (54.92)
- 911 Wireless Emergency Service Fee (54.91)
- 911 Equalization Surcharge (54.93)
- 911 Prepaid Wireless Service Fee (54.94)

All four fees are collected by telecommunications service providers from the end user of the service.

General Information

Tax Type 54.91: 911 Wireless Emergency Service Fee

Statutes

Texas Health and Safety Code Sections 771.001, 771.0711, 771.073, 771.074;
U.S. Code Section 1768

Rule

252.1 Definition of State Agency for Billing Purpose of the 9-1-1 Service Fees and Surcharges

Due Date

Monthly: 20th day of the month following the month the fee was collected.

Tax Type 54.92: 911 Emergency Service Fee

Statutes

Texas Health and Safety Code Sections 771.001, 771.071, 771.073, 771.074;
U.S. Code Section 1768

Rules

252.1 Definition of State Agency for Billing Purpose of the 9-1-1 Service Fees and Surcharges; 255.4 Definition of a Local Exchange Access Line or an Equivalent Local Exchange Access Line

Due Date

Monthly: 30th day of the month following the month the fee was collected.

Tax Type 54.93: Equalization Surcharge

Statutes

Texas Health and Safety Code Sections 771.001, 771.072, 771.073, 771.074;
U.S. Code Section 1768

Rule

252.1 Definition of State Agency for Billing Purpose of the 9-1-1 Service Fees and Surcharges; 255.4 Definition of a Local Exchange Access Line or an Equivalent Local Exchange Access Line

Due Date

Monthly: 30th day of the month following the month the fee was collected.

Tax Type 54.94: 911 Prepaid Wireless Service Fee

Statutes

Texas Health and Safety Code Sections 771.0712, 771.074; U.S. Code Section 1768

Rule

252.1 Definition of State Agency for Billing Purpose of the 9-1-1 Service Fees and Surcharges; 3.1271 Texas Prepaid Wireless 9-1-1 Emergency Service Fee

Due Date

Quarterly: 30th day of the month following the calendar quarter the fee was collected.

Summary of Tax 54 Subtypes

Topic	911 Wireless Emergency Service Fee	911 Emergency Service Fee	911 Equalization Surcharge	911 Prepaid Wireless Service Fee
Tax Type	54.91	54.92	54.93	54.94
Statutes	Health and Safety Code 771.001 771.0711 771.073 771.074 U.S. Code 1768	Health and Safety Code 771.001 771.071 771.073 771.074 U.S. Code 1768	Health and Safety Code 771.001 771.072 771.073 771.074 U.S. Code 1768	Health and Safety Code 771.0712 771.074 U.S. Code 1768
Rules	252.1 (Title 1)	252.1 (Title 1) 255.4 (Title 1)	252.1 (Title 1) 255.4 (Title 1)	252.1 (Title 1) 3.1271 (Title 34)
Due Date	Monthly, 20th of following month	Monthly, 30th of following month	Monthly, 30th of following month	Quarterly, 30th of following month
Applies to	Wireless connections	Landlines and VoIP	Landlines, VoIP and wireless connections	Entirely prepaid wireless connections
Current rate (November 2020)	\$0.50 per line	\$0.50 per line	\$0.06 per line	2% of sales price
Administrative fee allowed to be kept by taxpayer	1% of fees collected	1% of fees collected	1% of fees collected	2% of fees collected
Review method	Tax reconciliation; sales sample or detail	Tax reconciliation; sales sample or detail	Tax reconciliation; sales sample or detail	Tax reconciliation and gross sales reconciliation, sales detail or sales sample
Audit history column used for tax reconciliation	"Service Fee Collected"	"Fee Amounts"; see also CICS XIDATA for RPC detail amounts	"Net Surcharge Due"	"Amounts Subject to Fee" x 2%

Texas Comptroller of Public Accounts
Audit Procedures for Telecommunications Taxes

Topic	911 Wireless Emergency Service Fee	911 Emergency Service Fee	911 Equalization Surcharge	911 Prepaid Wireless Service Fee
Sales data source	Monthly billing system	Monthly billing system	Monthly billing system	Point-of-sale system
Preferred data information	Bill date, Invoice number, Phone number(s), Fee collected, Data plan flag or item description	Bill date, Invoice number, Phone number(s), Fee collected, Service address	Bill date, Invoice number, Phone number(s), Fee collected, Data plan flag or item description	Invoice date, Invoice number, Total sales price (pre-tax), Fee collected, Charge breakout
Sampling subgroups	(1) Data only lines (2) Fully taxed phone lines (3) Undertaxed and nontaxed phone lines	(1) Fully taxed RPC lines (2) Undertaxed and nontaxed RPC lines (3) ECD lines	(1) Data only lines (2) Fully taxed phone lines (3) Undertaxed and nontaxed phone lines	(1) taxed (2) undertaxed (3) nontaxed
Sampling program used	CATS Manual Transaction	CATS Manual Transaction	CATS Manual Transaction	CATS or CAMS-PC Manual Transaction
Exempt Entities	Texas state agencies and 4-year colleges; federal government, including federal credit unions. No exemptions for local governments, school districts, non- profits, agriculture or manufacturers.	Texas state agencies and 4-year colleges; federal government, including federal credit unions. No exemptions for local governments, school districts, non- profits, agriculture or manufacturers.	Texas state agencies and 4-year colleges; federal government, including federal credit unions. No exemptions for local governments, school districts, non-profits, agriculture or manufacturers.	Texas state agencies and 4-year colleges; federal government, including federal credit unions. No exemptions for local governments, school districts, non- profits, agriculture or manufacturers.
Other review considerations	Fee also applies to LTE-	Verify service addresses for	Regarding wireless	It may be most efficient to

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Audit Procedures for Telecommunications Taxes

Topic	911 Wireless Emergency Service Fee	911 Emergency Service Fee	911 Equalization Surcharge	911 Prepaid Wireless Service Fee
	enabled smartwatches; it does not apply to data only plans.	each phone line to determine whether it was in an RPC or ECD.	connections, fee also applies to LTE-enabled smartwatches; it does not apply to data only plans.	review sales by gross sales reconciliation or detail rather than sampling.
Schedule all errors and projections in	Supplemental Exams; forward totals to Audit Adjustment Report (in Templates)	Supplemental Exams; forward totals to Audit Adjustment Report (in Templates)	Supplemental Exams; forward totals to Audit Adjustment Report (in Templates)	Supplemental Exams; forward totals to Audit Adjustment Report (in Templates)
Audit Plan	Use CATS Audit Plan. Delete unused Audit Activities Sections. Add Results to page one and tax subtype to page headers.	Use CATS Audit Plan. Delete unused Audit Activities Sections. Add Results to page one and tax subtype to page headers.	Use CATS Audit Plan. Delete unused Audit Activities Sections. Add Results to page one and tax subtype to page headers.	Use CATS Audit Plan. Delete unused Audit Activities Sections. Add Results to page one and tax subtype to page headers.
Cover Letter, Audit Report and Index to Working Papers	Use General Audit Cover Letter (in Templates)	Use General Audit Cover Letter (in Templates)	Use General Audit Cover Letter (in Templates)	Use General Audit Cover Letter (in Templates)
Audit Adjustment Report (AAR) – from Audit P&I	Not needed in packet unless waiver requires HQ approval. If so, request dummy upload and provide the AAR.	Not needed in packet unless waiver requires HQ approval. If so, request dummy upload and provide the AAR.	Not needed in packet unless waiver requires HQ approval. If so, request dummy upload and provide the AAR.	Not needed in packet unless waiver requires HQ approval. If so, request dummy upload and provide the AAR.

Auditing the 911 Emergency Service Fee

The main consideration for the 911 Emergency Services Fee (911 ESF) is distinguishing between the Regional Planning Commissions (RPCs) and municipal and regional Emergency Communication Districts (ECDs).

RPCs are often referred to as “COGS” because most of them are operated by regional Councils of Government. Telecommunications providers report the 911 ESF to the Comptroller for all lines located in RPC covered areas, so we audit lines in these areas.

ECDs are often referred to as “home rule” because they set, collect and audit their own fees. Telecommunications providers report the 911 ESF to each ECD directly, so the Comptroller does not audit lines in these areas.

Pre-audit Research

Review CICS information and the audit history to make sure the telecommunications provider is permitted for and reporting this fee. Any providers who sell local exchange access lines or equivalents must collect and report this fee for lines provided in RPC-covered areas. These lines are landlines or equivalents (such as VoIP connections) that allow the phone user to dial 911.

The audit history shows the number of lines, fee amount and net fee due by reporting period. The net fee due is the total fee amount less the 1% administrative fee allowed to be kept by the provider. Timely filing is not required for the provider to retain this fee. The audit history lists totals for each reporting period. For detailed amounts reported to each RPC, refer to CICS screen XIDATA.

Entrance Conference

Ask what information is available from the billing systems. Important data for this fee are the bill date, invoice number, phone number(s) (each phone line on the bill, not only the master number for the account), fee collected amount, service address (street, city, county) and RPC/ECD flag.

Audit Sampling and Review

A reconciliation should be done by comparing the data’s “fee collected” amounts to the audit history “Fee Amounts.” If differences are found, review the payable account and return workpapers to determine what makes up the difference. Unexplained differences should be schedule as errors using the reconciliation as a supplemental exam and reduce the adjustment by 1% for the administrative fee. You will also need to use CICS screen XIDATA to try and find the specific RPCs that caused the difference. If the error cannot be traced to a certain RPC, use a supplemental exam to allocate the adjustment between all reported RPCs based on average reported amounts in other periods.

Whether sampling or detailing, three subgroups of lines should be looked at:

- fully taxed RPC lines,
- undertaxed/nontaxed RPC lines and
- ECD lines.

If the data does not have an ECD/RPC flag, you can add your own using the service address county or city. Fully taxed RPC lines can be cleared without further review. Undertaxed or nontaxed RPC lines should be reviewed to determine why the full fee was not collected. ECD lines also need to be reviewed to verify that the service address was not in a location covered by an RPC that should have been reported to the Comptroller.

After subgrouping and prior to sampling, add an in sequence unique ID number to each phone line in the population data to create an audit-ID. Use this audit-ID in CATS as the reference to pull a manual transaction sample. The sample and population bases will be total line counts, not sales price, since the review is of a per-line fee. Use supplemental exams for all errors and projection calculations.

During review, note that only the state of Texas and federal governments, including federal credit unions, are exempt from this fee. Texas public junior colleges, community colleges, school districts, regional authorities, cities and counties are not exempt. Also, there is not an exemption for not-for-profits, agriculture, manufacturing, etc.

During review, verify the service address for each line to determine whether it was in an RPC or ECD. If in an RPC, include the CICS screen XIDATA "District Name" and "COG Number" in your error exam. You will also need to include a summary exam that lists the total fee due by RPC in each reporting period for the Commission on State Emergency Communications (CSEC) to pay the taxes due to the appropriate RPC upon audit completion. CSEC administers the payments to the RPCs and will require the breakdown by RPC to pay out the audited fees appropriately.

Address verification can be done using several different resources. The CSEC website (www.csec.texas.gov) publishes a Texas county map that is helpful to identify whole counties that are in an RPC. However, if the map marks a county as an ECD, further verification might be needed. ECDs do not necessarily follow along the county lines, and outlier cities in an ECD-marked county might be covered by an RPC. The CSEC website has an address search on its Kari's Law page (www.texas911.org/Home/Lookup) that returns the RPC/ECD for a given address. The page also has a detailed map showing the boundaries of each RPC/ECD. Also, each RPC has its own website that has detailed information about its service area. Finally, Audit Division has a Telecommunications Specialized Tax Group that maintains an Excel spreadsheet that lists all RPC-covered counties and municipalities. Contact the Telecommunications SME to obtain a copy.

Audit Package and Exams

While CATS manual transaction sampling can be used to generate samples, CATS E&T cannot be used because the fees due are based on the line counts and not on dollar amounts. Create supplemental exams by RPC with a detailed list of all error transactions in that RPC. If needed, forward those amounts to another supplemental exam for sample projection calculations. Finally, create a supplemental exam that summarizes the fee adjustments by RPC, including reporting period. This exam must be

reduced by the 1% administrative fee. Then, forward the fee-due amounts by reporting period for all RPCs to the “Audit Adjustment Report,” located in C:/Templates/Audit/AAR-Misc Taxes.

CATS should be used for the audit-plan. Complete the Pre-Audit Research, Entrance Conference, Listing of Events, Exit Conference, IAR Conference (if needed), Supplementary Info (if needed) and Audit Activities-Planned Activities-Sales. In Audit Activities-Planned Activities-Purchases, note “not applicable for this tax type.” Use Audit Activities Fieldwork Reconciliation-Tax Detail and Sales sections; other sections can be deleted. In Audit Write-Up, only use the Results and P&I Waiver Worksheet tabs. For the Cover Letter, Audit Report and Index to Working Papers, use the template in C:/Templates/Audit Cover Letters/General Audit Cover Letter.

After completing the CATS write-up, print the audit plan to a PDF. Then, use Adobe Acrobat Fill & Sign to complete the Results section on page one (Exams, Amount, Method and Total). Also, add the tax subtype (e.g. “92”) to the header of every page except page one (CATS only prints “Tax Code: 54”).

The Audit Adjustment Report (AAR), from Audit P&I, is not needed in the audit package unless the P&I waiver requires Audit Headquarters approval. If so, request a dummy upload from the Processing Center and provide a copy of the AAR with your request.

Auditing the 911 Wireless Emergency Service Fee

Unlike the 911 Emergency Service Fee, the 911 Wireless Emergency Service Fee applies to all service locations in Texas. No distinction is needed between the RPC and ECD.

Pre-audit Research

Review CICS information and the audit history to make sure the telecommunications provider is permitted for and reporting this fee. Any providers who sell wireless communications connections must collect and report this fee. This applies to cellular phone and smart phones, as well as LTE-enabled smartwatches, i.e. watches capable of making a voice call to 911. It does not apply to entirely prepaid wireless service or wireless data only services (e.g. for tablets).

The audit history shows the number of connections, service fee collected and service by reporting period. The service fee due is the total service fee less the 1% administrative fee allowed to be kept by the provider. Timely filing is not required for the provider to retain this fee.

Entrance Conference

Ask what information is available from their billing systems. Important data for this fee are the bill date, invoice number, phone number(s) (each phone line on the bill, not only the master number for the account), fee collected amount and data plan flag (or item description that could be used to create a flag).

Audit Sampling and Review

A tax reconciliation should be done by comparing data “fee-collected” amounts to the audit history “Service Fee Collected” amounts. If differences are found, review the payable account and return workpapers to determine what makes up the difference. Unexplained differences should be scheduled as errors using the reconciliation as a supplemental exam and reduce the adjustment by 1% for the administrative fee.

Whether sampling or detailing, three subgroups of lines should be looked at:

- data only lines
- fully taxed phone lines and
- undertaxed and nontaxed phone lines.

Data only and fully taxed phone lines can be cleared without further review. Undertaxed and nontaxed lines should be reviewed to determine why the full fee was not collected.

After subgrouping and prior to sampling, add an in sequence unique ID number to each phone line in the population data to create an audit-ID. Use this created audit-ID in CATS as the reference to pull a manual transaction sample. The sample and population bases will be total line counts, not sales price, since the review is of a per-line fee. Use supplemental exams for all errors and projection calculations.

During review, note that only the state of Texas and federal governments, including federal credit unions, are exempt from this fee. Texas public junior colleges, community colleges, school districts, regional authorities, cities and counties are not exempt. Also, there is not an exemption for not-for-profits, agriculture, manufacturing, etc.

Audit Package and Exams

While CATS manual transaction sampling can be used to generate samples, CATS E&T cannot be used because the fees due are based on the line counts and not on dollar amounts. Create a supplemental exam with a detailed list of all error transactions. If needed, forward those amounts to another supplemental exam for sample projection calculations to be summarized by reporting period and to calculate audit fee adjustments less the 1% administrative fee. The fee-due amounts are forwarded to the “Audit Adjustment Report,” located in C:/Templates/Audit/AAR-Misc Taxes.

CATS should be used for the audit-plan. Complete the Pre-Audit Research, Entrance Conference, Listing of Events, Exit Conference, IAR Conference (if needed), Supplementary Info (if needed) and Audit Activities-Planned Activities-Sales. In Audit Activities-Planned Activities-Purchases, note “not applicable for this tax type.” Use Audit Activities Fieldwork Reconciliation-Tax Detail and Sales sections; other sections can be deleted. In Audit Write-Up, only use the Results and P&I Waiver Worksheet tabs. For the Cover Letter, Audit Report and Index to Working Papers, use the template in C:/Templates/Audit Cover Letters/General Audit Cover Letter.

The Audit Adjustment Report (AAR), from Audit P&I, is not needed in the audit package unless the P&I waiver requires Audit Headquarters approval. If so, request a dummy upload from the Processing Center and provide a copy of the AAR with your request.

After completing the CATS write-up, print the audit plan to a PDF. Then, use Adobe Acrobat Fill & Sign to complete the Results section on page one (Exams, Amount, Method and Total). Also, add the tax subtype (e.g. "91") to the header of every page except page one (CATS only prints "Tax Code: 54").

Auditing the 911 Equalization Surcharge

Unlike the 911 Emergency Service Fee, the 911 Equalization Surcharge applies to all service locations in Texas. No distinction is needed between the RPC and the ECD.

Pre-audit Research

Review CICS information and the audit history to make sure the telecommunications provider is permitted for and reporting this fee. Any providers who sell local exchange access lines or equivalents, or wireless communications connections must collect and report this fee. This fee applies to landlines or equivalents (such as VoIP connections) that allow the phone user to dial 911. It also applies to cellular phone, smart phone and LTE-enabled smartwatches. Smartwatches are those capable of making a voice call to 911. It does not apply to entirely prepaid wireless service or wireless data-only services (e.g. for tablets).

The audit history shows the surcharge collected, net surcharge due, surcharge due by reporting period. This surcharge collected is the number of lines. The surcharge due is the surcharge due less the 1% administrative fee allowed to be kept by the provider. Timely filing is not required for the provider to retain this fee.

Entrance Conference

Ask what information is available from their billing systems. Important data for this fee are the bill date, invoice number, phone number(s) (each phone line on the bill, not only the master number for the account), fee collected amount and data plan flag (or item description that could be used to create a flag).

Audit Sampling and Review

A reconciliation should be done by comparing "fee-collected" amounts to the audit history "Net Surcharge Due" amounts. If differences are found, review the tax payable account and return workpapers to determine what makes up the difference. Unexplained differences should be scheduled as errors using the tax reconciliation as a supplemental exam and reduce the adjustment by 1% for the administrative fee.

Whether sampling or detailing, three subgroups of lines should be looked at:

- data only lines,
- fully taxed phone lines and
- undertaxed and nontaxed phone lines.

Data only and fully taxed phone lines can be cleared without further review. Undertaxed and nontaxed lines should be reviewed to determine why the full fee was not collected.

After subgrouping and prior to sampling, add an in sequence unique ID number to each phone line in the population data to create an audit-ID. Use this audit-ID in CATS as the reference to pull a manual transaction sample. The sample and population bases will be total line counts, not sales price, since the review is of a per-line fee. Use supplemental exams for all errors and projection calculations.

During review, note that only the state of Texas and federal governments, including federal credit unions, are exempt from this fee. Texas public junior colleges, community colleges, school districts, regional authorities, cities and counties are not exempt. Also, there is not an exemption for not-for-profits, agriculture, manufacturing, etc.

Audit Package and Exams

While CATS manual transaction sampling can be used to generate samples, CATS E&T cannot be used because the fees-due are based on the line counts and not on dollar amounts. Create a supplemental exam with a detailed list of all error transactions. If needed, forward those amounts to another supplemental exam for sample projection calculations to be summarized by reporting period and to calculate audit fee adjustments less the 1% administrative fee. The fee-due amounts by reporting period are forwarded to the "Audit Adjustment Report," located in C:/Templates/Audit/AAR-Misc Taxes.

CATS should be used for the audit-plan. Complete the Pre-Audit Research, Entrance Conference, Listing of Events, Exit Conference, IAR Conference (if needed), Supplementary Info (if needed) and Audit Activities-Planned Activities-Sales. In Audit Activities-Planned Activities-Purchases, note "not applicable for this tax type." Use Audit Activities Fieldwork Reconciliation-Tax Detail and Sales sections; other sections can be deleted. In Audit Write-Up, only use the Results and P&I Waiver Worksheet tabs. For the Cover Letter, Audit Report and Index to Working Papers, use the template in C:/Templates/Audit Cover Letters/General Audit Cover Letter.

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After completing the CATS write-up, print the audit plan to a PDF. Then, use Adobe Acrobat Fill & Sign to complete the Results section on page one (Exams, Amount, Method and Total). Also, add the tax subtype (e.g. "93") to the header of every page except page one (CATS only prints "Tax Code: 54").

Auditing the 911 Prepaid Wireless Service Fee

Unlike the other 911 fees, the 911 Prepaid Wireless Service Fee is not a per-line fee. It is 2% of the purchase price and applies to all service sold in Texas. No distinction between the RPC and the ECD is needed.

The 2% 911 prepaid fee is due on the total purchase price without deduction for costs, delivery or performance. If the seller charges a lump sum amount, the entire charge is taxable unless the seller's records show which line items are not taxable. The charge for a local access connection and the related charges for providing that connection (e.g. FUSF) are taxable. Charges not related to local access (e.g. voice mail) are not taxable.

Pre-audit Research

Review CICS information and the audit history to make sure the telecommunications provider is permitted for and reporting this fee. Any sellers of prepaid wireless telecommunication service must collect and report this fee. This fee applies to entirely paid-in-advance wireless service that allows the user to dial 911.

The audit history shows the gross receipts amount, amount subject to fee and administration fee by reporting period. The net fee is 2% of the amount subject to fee; the net fee due is the net fee reported less the administrative fee of 2% allowed to be kept by the seller. Timely filing is not required for the seller to retain this fee.

Entrance Conference

Ask what information is available from their billing systems. Since these are retail transactions, the seller will likely use a point-of-sale system, which is often separate from the system it uses for monthly service billing. Important information required for this fee is bill date, invoice number, total sales price, fee collected amount and charge breakout.

Audit Sampling and Review

A reconciliation should be done from point-of-sale data comparing the "fee-collected" amounts to the reported fee calculated from the audit history. To calculate the reported fee, multiply the audit history "Amounts Subject to Fee" by 2% to calculate the net fee due. If differences are found, review the payable account and return workpapers to determine what makes up the difference. Unexplained differences should be schedule as errors using the reconciliation as a supplemental exam and reduce the adjustment by 2% for the administrative fee.

If the seller reports 100% of the sales price or does not have charge breakout data, the entire sales review may be done as a gross sales reconciliation (the preferred method of review). Compare the point-of-sale prepaid sales receipts to the audit history "Amounts Subject to Fee." Schedule the differences using the gross sales reconciliation as a supplemental exam.

If the seller reported less than 100% of the sales price and has charge breakout data, the data should be reviewed to identify which charges were not taxed and verify that they were not related to providing the taxable local access connection. Also, review the data to identify any nontaxed sales to determine why the fee was not collected. This detail method would be preferred over sampling for efficiency.

If the seller does not have charge breakout data but uses itemized receipts, sampling can be used to review the receipts for incidental fees that were not taxed. CAMS-PC or CATS could be used to pull a manual transaction sample. It is unlikely that dollar value stratification would be needed since prepaid wireless sales have a very low dollar range.

The subgroup sales into:

- fully taxed,
- undertaxed and
- nontaxed populations.

These groups should be separated prior to sampling if possible. Fully taxed transactions can be cleared without further review.

During review, note that only the state of Texas and federal governments, including federal credit unions, are exempt from this fee. Texas public junior colleges, community colleges, school districts, regional authorities, cities and counties are not exempt. Also, there is not an exemption for not-for-profits, agriculture, manufacturing, etc.

Audit Package and Exams

CATS E&T cannot be used because the fees due are based on a flat 2% rate that goes entirely to the state. Create a supplemental exam that summarizes the error charges by reporting period and calculates the audit fee adjustment less the 2% administrative fee. If sampling was used, create a supplemental exam with a detailed list of all error transactions. Then, forward those amounts to another supplemental exam for sample projection calculations and to reduce audit fee adjustments less the 2% administrative fee. Finally, forward the fee-due amounts by reporting period to the "Audit Adjustment Report," located in C:/Templates/Audit/AAR-Misc Taxes.

CATS should be used for the audit-plan. Complete the Pre-Audit Research, Entrance Conference, Listing of Events, Exit Conference, IAR Conference (if needed), Supplementary Info (if needed) and Audit Activities-Planned Activities-Sales. In Audit Activities-Planned Activities-Purchases, note "not applicable for this tax type." Use Audit Activities Fieldwork Reconciliation-Tax Detail and Reconciliation-Sales sections; other sections can be deleted. In Audit Write-Up, only use the Results and P&I Waiver Worksheet tabs. For the Cover Letter, Audit Report and Index to Working Papers, use the template in C:/Templates/Audit Cover Letters/General Audit Cover Letter.

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Summary of Tax 54 Statutes and Rules

Topic	911 Wireless Emergency Service Fee	911 Emergency Service Fee	911 Equalization Surcharge	911 Prepaid Wireless Service Fee
Imposed fee on areas under Regional Planning Commissions, excluded Emergency Communication Districts	N/A	Health and Safety Code Section 771.071	N/A	N/A
Imposed fee statewide	Health and Safety Code Section 771.0711	N/A	Health and Safety Code Section 771.072	Health and Safety Code Section 771.0712
Allows seller to keep administrative fee	Health and Safety Code Section 771.073(e)	Health and Safety Code Section 771.073(e)	Health and Safety Code Section 771.073(e)	Health and Safety Code Section 771.0712(a)
Defines Emergency Communication District	N/A	Health and Safety Code Section 771.001(3)	N/A	N/A
Defines Regional Planning Commission	N/A	Health and Safety Code Section 771.001(10)	N/A	N/A
Defines local exchange access lines (landlines) and equivalents	N/A	Rule 255.4 [Title 1]	Rule 255.4 [Title 1]	N/A
Defines wireless communications connections	Health and Safety Code Section 771.001(13)	N/A	Health and Safety Code Section 771.001(13)	N/A
Defines prepaid wireless telecommunication service	N/A	N/A	N/A	Rule 3.1271(a)(4) [Title 34]
Defines prepaid wireless purchase price	N/A	N/A	N/A	Rule 3.1271(b)(5) [Title 34]

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Topic	911 Wireless Emergency Service Fee	911 Emergency Service Fee	911 Equalization Surcharge	911 Prepaid Wireless Service Fee
Allows charge breakout support for nontaxable fees in lump-sum prepaid wireless	N/A	N/A	N/A	Rule 3.1271(d)(5) [Title 34]
Exemption: state and federal governments	Health and Safety Code Section 771.074	Health and Safety Code Section 771.074	Health and Safety Code Section 771.074	Health and Safety Code Section 771.074
Exemption: state governments defined, excludes junior and community colleges	Rule 252.1 [Title 1]	Rule 252.1 [Title 1]	Rule 252.1 [Title 1]	Rule 252.1 [Title 1]
Exemption: applies to federal credit unions	U.S. Code Section 1768 [Title 12, Chapter 14]	U.S. Code Section 1768 [Title 12, Chapter 14]	U.S. Code Section 1768 [Title 12, Chapter 14]	U.S. Code Section 1768 [Title 12, Chapter 14]

CHAPTER 5

TELECOMMUNICATIONS GROSS RECEIPTS

Gross Receipts Definitions

Gross Receipts include receipts from charges for services, products or commodities that are supplied or sold to an ultimate consumer. It does not include receipts derived from the sale of products or services purchased for resale.

Gross Receipts excludes sales for resale because the assessment is assessed on the public utility only for sales to the ultimate consumers of the products and/or service.

- **Reimbursable charge:** the public utility may elect to collect an amount from their customers that would be a reimbursement, not a charge for the Gross Receipt itself. This must be referred to as a “reimbursement” on the billing to the customer. Also, if this reimbursement is billed to the customers, it must be included as part of the taxable base for the telecommunications utility and must be reported in the gross receipts on their gross receipts return.
- **Filing requirements:** Gross Receipts tax is required to be filed yearly, due August 15, but a taxpayer can elect to file them quarterly if they so desire, with notice provided to the State Comptroller.
- **Tax Rate:** the tax rate is one sixth of one percent (0.001667) of the gross receipts of the public utility.

Auditing the Gross Receipts Assessment

Because the Gross Receipts Assessment is calculated by taking the gross receipts of the telecommunications provided and multiplying them by one sixth of one percent, the assessment is straight forward.

The calculation must be based upon the definition of the gross receipt as stated above. It must be calculated on the charges for services, products or commodities that are supplied or sold to an ultimate consumer and exclude sales for resale from the calculation. This total will then be multiplied by the .001667 to arrive at the Gross Receipts Assessment due. A reconciliation should be done comparing the calculated amount due to the amounts reported to verify if all appropriate gross receipts taxes were remitted. Any differences will need to be completed on an AAR to submit the audit errors.

Important Resources for Gross Receipts Assessment

Title 2, Public Utility Regulatory, Subtitle C, Section 51.002

Subtitle A, Provisions Applicable to All Utilities, Chapter 166, Section 11.004

Subtitle A, Provisions Applicable to All Utilities, Chapter 166, Section 16.001