



AvaTax for Communications

Optional Taxes and Surcharges Overview

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Document Revision History

The Revision History log lists the date and description of the most recent revisions or versions of the document.

| Date | Version | Description |
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| 04/19/2017 | 0001 | Initial version |
| 10/25/2017 | 0002 | Updated Avalara contact information (address and support site). Removed Appendix A – Avalara Product Names. |
| 12/21/2017 | 0003 | Added optional taxes for Wisconsin |

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1. Explaining Optionally Returned Taxes and Surcharges

There are a number of taxes and surcharges included in the AvaTax for Communications (AFC) database that are not actively returned unless the user applies a rate override to turn them on. Users should familiarize themselves with these items and determine if it is appropriate to use them in their tax process.

1.1 Why would a tax or surcharge be optional?

A tax or surcharge is usually made optional because it is not uniformly applicable. The following are some of the typical reasons:

Reason 1: The rate is discretionary and sellers may charge different amounts. Avalara cannot apply any one seller's rate as it would be inappropriate for all other users.

Reason 2: The rate is specifically assigned to the seller by the tax or regulatory authority. There are some items that have rates based upon the seller's market share or other independent conditions and each seller will have a different mandatory rate. Avalara cannot apply any one seller's rate as it would be inappropriate for all other users.

Reason 3: The tax or surcharge only applies to sellers who have crossed a significant threshold of sales volume. For example, the item may only apply to sellers that make over \$xxx in sales per annum. Avalara cannot apply the item as it should not be collected or remitted by users who are not over the threshold.

Reason 4: The tax or regulatory authorities require prior approval or tariffing before the item can be collected from end users. Avalara cannot apply the item without confirmation that the user has the required approval.

Reason 5: The tax is only payable by customers of sellers that are not subject to the jurisdictional reach of the tax authorities. Avalara cannot apply the tax as we are not able to assume that all users will be beyond the jurisdictional reach of the tax authorities.

Reason 6: The tax or surcharge is only payable on services sold by a communications service provider that participates in the regulatory program the charge funds. Avalara cannot apply the tax or surcharge as we are not able to determine which users participate.

Reason 7: The item is not a conventional tax or governmental surcharge but rather a discretionary item originating from the seller and may not be subject to defined rate or application. Avalara cannot apply as practices will vary without uniform expectations.

1.2 Determining if an optional tax or surcharge is right for you

Users should review the included list of optional taxes and surcharges to identify whether any of them are appropriate for the user's tax automation process. Some items may require information from the user's regulatory management team in order to identify whether the user is approved to charge the item and/or what rate is valid. These decisions should be regularly reviewed as many of these items involve rates that will modulate annually and requirements may change over time.

2. Optional Tax and Surcharge Details

| State | Tax Type ID | Tax Type Name | Research Notes | Reason | Billable? |
|----------------------|-------------|--------------------------|--|--------|-----------|
| Multi-jurisdictional | 436 | Copyright Fee (Rated) | Fee to compensate copyright owners for re-transmission of copyrighted programs. Customer charged as a percentage of revenue. The percentage rate and associated logic is specific to the carrier and can be applied at any level. | | |
| Multi-jurisdictional | 437 | Copyright Fee (Fixed) | Fee to compensate copyright owners for re-transmission of copyrighted programs. Customer charged as a fixed amount. The assessment and associated logic is specific to the carrier and can be applied at any level. | | |
| Arizona | 9 | P.U.C. Fee | The fee is re-adjusted annually and sales to resellers are subject to assessment. Calculated by <i>pro rata</i> share of the amount needed by the commission based on gross operating revenues from intrastate operations from preceding calendar year for corporations whose gross operating revenues were greater than \$500K. | | Yes |
| Connecticut | 9 | P.U.C. Fee | This fee can be passed on to customers. It applies to regulated companies, including telecom companies with more than \$100,000 of intrastate gross revenues during the calendar year. Each company is billed by the P.U.C. | 2,3 | Yes |
| Georgia | 301 | GA Universal Access Fund | This is the billable component of the USF. When approved by the State PSC, the UAF may be charged on invoices. The rate must be overridden and TT 13 turned off. | 4 | Yes |

| State | Tax Type ID | Tax Type Name | Research Notes | Reason | Billable? |
|-----------|-------------|------------------------------|--|--------|-----------|
| Idaho | 9 | P.U.C. Fee | The Idaho Public Utilities Commission determines the annual rate based on authorized budget and prior year revenue, with a minimum of \$50. The fee cannot be collected from the end user and does not apply to resale. | 1 | No |
| Indiana | 16 | Utility Users Tax | The IN Services User Tax is imposed on the consumer of utility services if the seller of those services has not paid the IN Utility Receipts Tax. Companies located in IN providing traditional telecom services within the state are required to pay the Utility Receipts Tax. In effect, this means that end users of non-traditional services, such as VoIP, must pay this Services Use Tax. Providers may register with the state and collect and remit the tax on behalf of the end user. | 5 | Yes |
| Iowa | 23 | Telecom Relay Surcharge | The surcharge varies from carrier to carrier. After subtracting the wireless service provider payments from the DPRS budget amount, the Board assesses the remainder of the budget to the other telecommunications carriers on a quarterly basis, using estimated allocation factors, with an annual true-up. | 2 | No |
| Iowa | 174 | TRS-Long Distance | The surcharge varies from carrier to carrier. After subtracting the wireless service provider payments from the DPRS budget amount, the Board assesses the remainder of the budget to the other telecommunications carriers on a quarterly basis, using estimated allocation factors, with an annual true-up. | 2 | No |
| Louisiana | 13 | State Universal Service Fund | Assessments are based on relative intrastate revenue and the budget of the fund. No official rate has been imposed. | 2 | Yes |
| Maine | 9 | P.U.C. Fee | This fee is based on expenditures and calculated in arrears. The fee is not charged to the end user and does not apply to resale revenue. | 2 | No |
| Michigan | 23 | Telecom Relay Surcharge | Companies are billed an individual amount based on a <i>pro rata</i> share. Providers have to apply with the state for permission to assess an end user surcharge. | 2 | Yes |
| Nevada | 431 | Commerce Tax | The Commerce Tax is a gross revenue tax on each business in this State whose Nevada gross revenue in a fiscal year exceeds \$4 million. | 3 | Yes |

| State | Tax Type ID | Tax Type Name | Research Notes | Reason | Billable? |
|----------------|-------------|------------------------------|--|--------|-----------|
| New Hampshire | 9 | P.U.C. Fee | Utility companies are subject to an assessment but it does not pass through. Utilities are required to make an annual payment equal to the operating costs of the commission as used by each type of utility divided by the individual company's market share based on revenue. | 2 | No |
| New York | 13 | State Universal Service Fund | The assessment is billed by TAF. | 2 | Yes |
| New York | 308 | NY TAF | Companies must register to get a TAF ID number. Once registered, companies must file the TAF Monthly Estimate Form. Each carrier is assessed a different amount by the TAF Administrator based upon total cost of the programs and each carrier's regulated gross intrastate revenues. PSC ruled assessments cannot be passed to the end user. | 2,3 | No |
| North Carolina | 9 | P.U.C. Fee | The fee does not pass through. Rates differ for competitive and non-competitive revenues. The competitive revenue rate is defined by an agreement with the commission. | 2 | No |
| Ohio | 14 | Statutory Gross Receipts | The assessment level varies based on gross receipts. For gross receipts of \$150,000 to \$1 million, a company will expect to pay an annual minimum of \$150/year. Gross receipts exceeding \$1 million are taxed at 'phased in' rates. Laws prohibit pass through as separate line item. It is considered a cost of doing business. | 2, 3 | No |
| Ohio | 23 | Telecom Relay Surcharge | The rate is variable by company due to credits & uncollectible revenue. The assessment is allocated proportionately using a formula. | 2 | Yes |
| Oklahoma | 9 | P.U.C. Fee | The fee varies by carrier and is determined by formula. | 2 | Yes |
| Oklahoma | 19 | State High Cost Fund | The tax is apportioned annually and calculated individually. | 2 | Yes |
| Rhode Island | 9 | P.U.C. Fee | All telecom carriers registered with the PUC having intrastate revenues over \$100,000 are subject to the assessment. | 3 | Yes |
| Tennessee | 236 | TDAP | Each provider pays a different contribution rate based on reporting from Form UD 16 - Statement of Gross Earnings and Computation of Inspection fee. TDAP applies to Regulated Companies only (no VoIP). | 2 | No |

| State | Tax Type ID | Tax Type Name | Research Notes | Reason | Billable? |
|--------------------|-----------------------|---------------------------|--|--------|-----------|
| Utah | 9 | P.U.C. Fee | The fee is assessed as a uniform percentage of the intrastate gross operating revenue for the preceding calendar year. The fee is capped at the greater of 0.3% of the public utility's gross operating revenue for the preceding calendar year or \$50. | 1 | No |
| Washington, Renton | 2, 142, 144, 295, 396 | Business & Occupation Tax | Assessed on revenues above a minimum limit set by the city. | 3 | No |
| Wisconsin | 9 | P.U.C. Fee | Assessment is prepaid and then trued up via a remainder and advanced assessment methodology. | 2 | Yes |
| Wisconsin | 23 | Telecom Relay Surcharge | Assessment is prepaid and then trued up via a remainder and advanced assessment methodology. | 2 | No |

3. Implementing and Maintaining an Optional Tax or Surcharge

If you determine that an optional tax or surcharge is appropriate for your business, it may be activated by applying a rate override. Optional taxes and surcharges are in the AFC database with a default rate setting of 0.00%. Overriding this rate to the appropriate percentage will cause the tax or surcharge to return on items that are subject to its application.

3.1 Rate Override Options

AFC users have multiple options for implementing rate overrides activating optional taxes and surcharges. Please see Section 4.1.3 of the AFC Telecom User Manual for general information about overrides.

Users who subscribe to the AFC Rate and Logic Modifier may use the tool to add rate overrides to their .ovr override file. Please view the AFC Rate and Logic Modifier User Manual for further details on how to make such changes.

AFC SaaS Pro users and AFC site installed users can implement the rate override through API. AFC SaaS Pro users should review the TaxRateOverrideInfo description in Section 13 of the AFC SaaS Pro Telecom Developer Manual. Site Installed AFC users who interface via API should view 4.1.3 of the AFC Telecom User Manual for information regarding the Ovr API calls.

3.2 Maintaining Optional Tax or Surcharge Overrides

Users who implement an optional tax or surcharge cannot rely upon Avalara for the maintenance of those tax rates as the user's rate override controls the amount which will be applied until such time as the user modifies or removes the override. If an optional tax or surcharge has an official rate, the user must monitor the appropriate tax jurisdiction in order to update the override as appropriate. If the optional tax or surcharge is applied on the basis of seller specific rating, the user is responsible for ensuring that the rate applied through override continues to be appropriate.