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House Committee Report

PL 100-647

TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

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TITLE III,. SUBSTANTIVE REVENUE PROVISIONS -- PROVISIONS RELATING TO INDIVIDUALS (SECS. 331 - 337).

D.. PROVISIONS RELATING TO INDIVIDUALS

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7.. Denial of deduction for certain residential telephone service (sec. 337 of the bill and sec. 262 of the Code)

Present Law

No deduction is allowed for personal, living, or family expenses (sec. 262), such as expenses for personal use of a telephone in the taxpayer's residence.

Under present law, a taxpayer who uses the telephone in his or her residence for business or income-production purposes may deduct a proportionate part of the cost of local telephone service provided to the residence, subject to any applicable limitations on home office deductions or miscellaneous itemized deductions (secs. 162, 212, 280A, and 67).

Reasons for Change

Individuals necessarily incur certain charges for having local telephone service provided to their residences for personal use (e.g., so that a telephone is available for emergency calls). These charges represent a personal, consumption expense, no part of which is deductible by individuals who do not use the telephone in their residence for business purposes. It is not appropriate to allow a deduction for any part of the charges required to be paid by the taxpayer in order to obtain local telephone service with respect to the first telephone line provided to any residence of the taxpayer merely because the line may also be used for business purposes, since the incurring of such expenses is attributable to personal needs.

Explanation of Provision

No deduction (under sec. 162, sec. 212, or otherwise) is allowed to an individual taxpayer for any charge (including any sales or excise taxes imposed on such charge) required to be paid by the taxpayer in order to obtain local telephone service with respect to the first telephone line in a taxpayer's residence (whether or not the taxpayer's principal residence).

For purposes of this provision, the term local telephone service means access to a local telephone system and the privilege of telephonic quality communication with substantially all persons having telephone or radio stations constituting a part of such local telephone system. Thus, no portion of the standard base charge or other Federal, State, or local mandatory charges (e.g., a separate charge relating to the police emergency number or Federally mandated access charges) that must be paid to obtain local telephone service provided to the first telephone line in a residence of the taxpayer is deductible under the provision. If the taxpayer could have selected a less expensive form of basic local service (such as a rotary phone line instead of a touch-tone line, or a service limiting the number of local calls before imposition of extra charges), the full charge for the basic local service actually selected by the taxpayer is subject to disallowance under this provision. However, charges for optional services offered by the telephone company such as for call waiting, call forwarding, speed or three-way calling, extra directory listings, or equipment rental are not affected by the provision.

The provision does not affect the deductibility of toll charges for long-distance calls, even if transmitted over the first telephone line in a residence, or periodic charges for a service that entitles the subscriber to the privilege of an unlimited number of telephonic communications to or from persons having telephone or radio telephone stations outside the local telephone system in which the station provided with this service is located.

The provision applies only with respect to the first telephone line in a residence. Thus, for example, if an individual uses one telephone line in his or her residence solely or partly for personal purposes and uses another telephone line solely or partly for business purposes, the provision does not disallow otherwise deductible charges for the latter line. If the taxpayer has only one telephone line in a residence, the provision disallows any deduction for charges required to obtain local telephone service even if the taxpayer claims to use that line solely for business purposes. If the local service charge to a taxpayer for adding a second line in the same residence is lower than the local service charge for the first line, the higher charge is deemed to be imposed with respect to the first telephone line in the residence.

Effective Date

The provision is effective for taxable years beginning after December 31, 1988.

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