“Prepaid Explosion, Tax and Regulatory Hurry After”

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Prepaid Telecommunications Services Classifications

1. **Wireline Prepaid**- Charge related to prepaid telephone cards and authorization numbers which allow the user to make a limited quantity of long-distance phone calls (based on either a predetermined monetary value or time units).

2. **Cellular Prepaid** - Charges for cellular prepaid telephone service and authorization numbers which allow the user to make a limited quantity of cellular phone calls (based on either a predetermined monetary value or time units).

3. **Cellular Prepaid Wholesaler** - Charges for cellular prepaid telephone service where the actual provider of the service sells a prepaid phone card or authorization code voucher through a retail distributor.

4. **Cellular Prepaid Retailer** - Charges for cellular prepaid telephone service where the provider of the telecom service is also the retailer selling such service to the consumer.

5. **Wireline Prepaid Wholesaler** - Charges for wireline prepaid telephone service when the actual provider of the telecom service sells its prepaid phone cards or authorization code vouchers through an independent retailer.

6. **Wireline Prepaid Retail** - Charges for wireline prepaid telephone service when the wholesale provider/vendor of the service is also the retailer distributing the service to consumers.

7. **Prepaid Wireless Retailer** – Charges to capture the taxability of a charge for wireless prepaid telephone service vended by a non-telecommunications retailer.
Prepaid Associations

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**Hotlink Broadband SIM Pack**
Just insert the SIM card into your modem or tablet and start surfing!

**Hotlink Broadband Starter Kit**
No dongle? No problem. Get this for your PC or laptop and get connected today!

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**Fast**
42 Mbps Turbo-charged wireless surfing

**Affordable**
Start surfing from just RM3

**Flexible**
Broadband passes to match your needs

**Free**
50 MB Start surfing right away*

*Valid for one (1) day only.

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PRE-PAID VOUCHERS
MTN
Vodacom
Virgin mobile

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T-Mobile
NO ANNUAL CONTRACT
On T-Mobile’s Nationwide 4G Network

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Sevaltech
Vodafone
Prepaid Competitors

**Wireless**
- Air Voice Wireless
- AT&T Go Phone
- Boost Mobile
- Cricket Wireless
- Eco Mobile
- Go Smart Mobile
- Metro PCS
- Lyca Mobile
- Etc

**Calling Cards**
- AT&T
- Verizon
- Vonage
- T-Mobile
- Etc.
Prepaid Wireless

- N.C. Gen. Stat. § 62A-40(15) defines “prepaid wireless telecommunications service” as “[a] wireless telecommunications service that allows a caller to dial 911 to access the 911 system, which service must be paid for in advance and is sold in predetermined units or dollars of which the number declines with use in a known amount.”

Prepaid Calling Card

- "Prepaid calling arrangement" means the separately stated retail sale by advance payment of communications services that consist exclusively of telephone calls originated by using an access number, authorization code, or other means that may be manually, electronically, or otherwise entered and that are sold in predetermined units or dollars whose number declines with use in a known amount. (Section 212.05(1)(e)1.a.(l), Florida Statutes (2000))
THE PREPAID ORDER
WC Docket No. 05-68
 Adopted: June 1, 2006

1. In this Order, we take steps necessary to protect the federal universal service program and promote stability in the market for prepaid calling cards. In particular, we will treat certain prepaid calling card service providers as telecommunications service providers. As such, these providers must pay intrastate access charges for interexchange calls that originate and terminate in the same state and interstate access charges on interexchange calls that originate and terminate in different states. They also must contribute to the federal Universal Service Fund (USF) based on their interstate revenues, subject to the limitations set forth below.

2. We also address a petition for interim relief filed by AT&T and adopt interim rules to facilitate compliance with the universal service and access charge rules.

3. Specifically, on an interim and prospective basis, we require all prepaid calling card providers to comply with certain reporting and certification requirements.

FCC Enforcement

Star Wireless Group, Inc.
On December 6, 2013, the Enforcement Bureau of the Federal Communications Commission (the FCC or the Commission) issued a Notice of Apparent Liability for Forfeiture (NAL) finding Star Wireless Group, Inc., d/b/a Page Plus Cellular (Page Plus), liable for forfeiture penalties totaling $43,200 for alleged violations of Section 43.61(a) of the Commission’s rules. Page Plus allegedly failed to file annual reports of its international telecommunications traffic data (International Traffic Report) with the FCC’s International Bureau.

Who will be next?

NetworkIP
On October 19, 2010, the FCC adopted an Order that clarifies which entity is subject to universal service fund (USF) contribution obligations in the prepaid calling card context. The Order: (1) clarifies that a "platform provider" does not provide prepaid card service based solely on the provision of platform services; and (2) reaffirms stringent due diligence requirements on service providers to document reseller revenues. In its Order, the FCC granted in part, and remanded in part, a request for review of a decision of the Universal Service Administrative Company (USAC) filed by Enhanced Network Telecom, LLP ("NetworkIP"). A 2008 USAC audit concluded that NetworkIP’s services constituted prepaid calling card services, subject to USF contributions, and that a significant percentage of NetworkIP’s customers were wholesale carriers subject to USF contribution assessments. On June 29, 2009, NetworkIP filed a Petition for Review with the FCC, challenging USAC’s audit findings.

What happened next?
CALIFORNIA

Logical Telecom Granted a CPCN (Item 18, approved on consent) – This Decision approves a settlement agreement and grants Logical Telecom, LP (“Logical”) a certificate of public convenience and necessity (“CPCN”) to provide interexchange service in California. Logical is a Texas-based limited partnership that was previously granted a CPCN to provide interexchange services in 2006, which Logical had voluntarily surrendered in 2010. The Decision does not explain why Logical surrendered its CPCN in 2010.

Logical submitted its request for CPCN authority in 2013, which was protested by the Safety and Enforcement Decision (“SED’). SED alleged that Logical continued to operate in California and provided intrastate services without a license since 2010, when Logical surrendered its previous CPCN. The Decision explains that SED conducted an investigation into the operability of Logical’s prepaid card offerings and business practices, and found the following problems: (1) certain cards and advertising materials attempted to reserve the right to change rates and terms or conditions by labeling the disclosed rate as “promotional” or “subject to change”; (2) some cards failed to disclose the value of the card and ancillary charges; and (3) some advertising materials failed to disclose the geographical limitations against intrastate calling. SED’s investigation also revealed: (1) that some cards would reduce in value for calls that were not connected; (2) some cards listed inactive customer support numbers; (3) discrepancies in the voice prompt stating the number of minutes remaining and the actual number of minutes provided; and (4) different incurred rates than what was stated on the cards.

SED and Logical subsequently negotiated a settlement agreement, in which Logical: (1) acknowledges that it allowed its prepaid phone cards to be sold in California without authority and that some of its prepaid phone cards and advertising material did not meet state requirements; (2) affirms it will not increase rates or assess charges above the amount disclosed on the cards, packaging, or other advertising statements made at the time of sale of the card; (3) will pay $120,000 to the State of California General Fund; and (4) agrees to submit its top selling prepaid cards to the Commission for further compliance checks.

The Decision concludes that the settlement agreement is reasonable in light of the record, consistent with the law, and in the public interest. The Decision further finds that Logical meets the financial, technical, and environmental qualifications necessary to be granted a CPCN.

Idaho

The 2013 Idaho Legislature passed House Bill 193 to impose a 2.5% fee on sales of prepaid wireless service. The E911 fee will be collected at the retail point of sale and paid to the Tax Commission. The law goes into effect January 1, 2014.
E911 fees are charges imposed on the customer pursuant to state or local law to finance Enhanced 911 services in a particular jurisdiction. Providers are required to impose these fees on its customers and to remit the collected fees to the relevant governmental bodies. The proceeds from these fees are generally used to recover state or local government costs related to building and operating enhanced 911 services.

Monthly Charges
• Some E911 fees are based on prepaid usage and are deducted from the customer account balance each month. These E911 fees are taken out of the balance of the subscriber account each month pursuant to applicable state or local law.

Point of Sale/Replenishment
• Legislation has recently passed in several states and is being considered in other locations to assess the E911 fee on prepaid at retail point of sale. This means that the fee is charged each time the customer purchases a prepaid card/pin or replenishes their prepaid account. Additionally, the National Conference of State Legislators (NCSL) has adopted a resolution that recommends states adopt this point of sale methodology.
Prepaid Excuses, Taxes, and Fees

Prepaid Market Compliants

- “If I sell online, because of the Internet Tax Freedom Act, there is no tax.”
- “My subscribers and agents are not US citizens so not tax is due.”
- “Some of my subs are lifeline recipients so not taxes or fees apply to my services.”
- “How do I know who my end subscribers are? I can’t tell so I shouldn’t have to pay tax.”

Tax/Fee Reality (Dallas, TX Prepaid Wireless Bundle)

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Prepaid Forecast

Growing Popularity of Prepaid Mobile Services Reshapes US Telecommunications Market
Insight by Justinas Lasinskas - Industry Analyst

Telecommunication sales in the US are experiencing major changes in terms of consumer preferences, as mobile phone users shift towards prepaid services, weakening the importance of subscription-based businesses. Due to increasing post-crisis budgetary restraints, prepaid mobile services have become a desirable alternative for a lot of US consumers who are tired of taking out long-term contracts. Around three quarters of initial telecommunication service sales in the US came from contracted phones, while prepaid mobile services accounted for 19% of total sales as of 2013. Bundling prepaid telecommunication services and mobile phones together is already a popular sales strategy in the US; however, its growth potential is still high compared to penetration in Canada, where 30% of total sales come from prepaid services, and Australia (28%).

Over the last five years, a significant shift was noticeable in favour of prepaid services in the US. During 2008-2013, the share of total telecommunication sales held by phones offering prepaid services recorded a volume increase of 11 percentage points, compared to modest growth of 2-5 percentage points in other countries like Australia and the UK or even a decreasing share, as it was registered in most of Western Europe. Such a shift was a direct result of the economic recession, which encouraged US consumers to save money and meant long-term liabilities did not seem attractive anymore. The increase was also due to the improved positive attitude towards prepaid mobile services, which was invoked by appealing modern mobile phones, and talk, text and data usage proposals. Finally, prepaid mobile services experienced increased interest from younger members of the population (12-20-year-old), who are usually more price-sensitive users of such services; they thus tend to seek cheaper telecommunication solutions.

Mobile Phone Volume Sales Breakdown in the US: 2008-2013

Source: Euromonitor International
Panel Questions

• What do you see as the biggest challenges for prepaid telecom services?
• How have tax optimization strategies for prepaid providers stalled or been eliminated by new impositions?
• Do regulatory bodies see prepaid any differently than postpaid? If so, how?
• How do prepaid invoices vary in presentation, contract and service offerings?
• What challenges do prepaid agents face in the tax process?
• Who are some of the biggest new names in prepaid? Cricket, Google etc.