

# Taxes & Surcharges

The following contains explanations of taxes and surcharges that may appear on your invoice.

## Federal Surcharges and Taxes

### Federal Universal Service

The Federal Universal Service Fund charge is a monthly, percentage based charge assessed on customers' interstate and international telecommunications services. This charge has been established by the Federal Communications Commission (FCC) and supports telecommunications and information services in schools, public libraries and rural health care facilities; and subsidizes local service for consumers with low incomes and who live in areas where the costs of providing telephone service is high. The charge percentage changes quarterly.

### Federal Regulatory Fee

The Federal Regulatory Fee is an aggregated monthly, percentage based charge assessed on customers' interstate and international telecommunications services charges, (including Voice-over-Internet-Protocol (VOIP) service) to recover amounts remitted by XO to comply with federally-imposed regulatory requirements. These amounts include funds remitted by XO to support Telecommunications Relay Services (TRS) for the hearing-and speech-impaired, administration of the North American Numbering Plan (NANPA), and shared industry costs of local number portability administration (LNPA), as well as Interstate Telecommunications Service Provider fees remitted by XO annually to the Federal Communications Commission.

### Cost Recovery Fee

The Cost Recovery Fee is an aggregated monthly, percentage based charge assessed on customers' interstate and international telecommunications services charges, (including Voice-over-Internet-Protocol (VOIP) service) assessed by the Company to recover costs incurred by XO to comply with federally-imposed requirements including, but not limited to, compliance and reporting obligations associated with network outages, revenue reporting, customer proprietary network information (CPNI) requirements, unrecompensed law enforcement intercept obligations, and company-specific local number portability; and state-imposed requirements related to tangible personal property taxes (not including the taxes themselves).

### Property Tax Allotment Fee

The Property Tax Allotment Fee is an aggregated monthly charge assessed on Customer's net interstate and international telecommunications (including Voice-over-Internet-Protocol (VOIP) service) charges and non-telecommunications services to recover the taxes imposed on tangible personal property used by XO to provide interstate and international services paid by XO directly, or indirectly through third parties, to the state and local government authorities imposing such taxes.

## Long Distance Access Charge

The Long Distance Access Charge is a monthly charge, billed on a per-line basis, the company assesses to recover costs imposed by the Local Exchange Carriers furnishing access services for use with the company's interexchange service.

## LDAC No PIC Charge

This is a monthly charge that allows the Company to recover costs imposed by Local Exchange Carriers furnishing access services for use with the Company's interexchange long distance services. This charge is assessed to those customers who have not chosen a presubscribed interexchange carrier and is assessed on a per line basis.

## Federal Subscriber Line Charge

The Federal Subscriber Line Charge (FSLC), also known by other names including the End User Common Line (EUCL) charge, this is a monthly charge allowed by the FCC. It is designed to help local telephone companies recover a portion of the costs associated with providing long distance carriers with access to the local phone network. This rate is applied on a per-line basis.

## Federal Excise Tax

The Federal Excise Tax is imposed by the I.R.S. and applied as percentage of standalone local telephone service and related features.

## State Surcharges & Taxes

(vary depending on location)

### State Universal Service Fund or High Cost Fund Surcharge

Similar to the Federal Universal Service Fund, this fund is assessed on a state level by a number of states. The funding from the charge helps support services to low income customers, customers with communication disabilities, and customers who reside in rural areas served by small or rural telecom providers where costs of providing telephone service is high. The contribution factor varies by state, as does the name of the fund.

## P.U.C. Tax/Fees

The Public Utility Commission (PUC) tax/fee is a charge imposed on users of regulated services. It finances the operational costs of the state regulatory body.

## Telecommunications Relay Service (TRS) Surcharge

Telecommunications Relay Service surcharge is imposed on telecommunication providers, and can be passed on to customers for the purpose of providing telecommunication relay services.

## Lifeline

Lifeline is an amount to provide support to reduce an eligible consumer's charge for basic telecommunications services.

## E911 Emergency System

This surcharge is imposed by local jurisdictions to fund their 911 Emergency Systems.

## Municipal Franchise Fee

The municipal franchise fee is, sometimes called a "Right-of-Way" fee, is a monthly charge imposed by local jurisdictions and paid by the customer to help recover the costs associated with providing telephone service, to include installation of underground conduit, outside telephone wires, and telephone poles. This fee varies by location and is often based upon an agreement between the local jurisdiction and XO or upon local or state law.

## State and Local Sales Tax

Sales tax is a tax imposed by states, counties, cities and/or districts, on the sale of various goods and services for use or consumption. The applicability of the tax, as well as the rates, varies by each jurisdiction's constitutional provisions.

## Utility Users Tax

The Utility Users Tax is a tax imposed on the consumer for using a utility (telecommunication) service. The tax is commonly based on a percentage of the amount billed to each customer for the service.

## Business & Occupation (B&O) Tax

The Business & Occupation Tax is a privilege tax imposed on a company for the privilege of doing business in the taxing jurisdiction. B&O taxes are typically imposed on the telecommunication provider. Some states allow the telecommunication provider to pass on these taxes to the consumer identified either as a tax or a surcharge.

## Statutory Gross Receipts Tax

The Statutory Gross Receipts Tax is a tax on the privilege of doing business in the state measured by gross receipts received from business done in the state. This tax is typically imposed on the telecommunication provider; however, some states allow the provider to pass on the tax to the consumer.

## License Tax

License tax is a tax levied on the service provider for the privilege of soliciting and conducting business in a jurisdiction. Generally, a license tax is a flat, annual fee, but in some cases it is measured by gross receipts.

## Service Tax

Service tax is a tax imposed on the privilege of making sales of services.

## District Tax

District Tax is a tax imposed on the privilege of making sales within a special district (e.g., a rapid transit authority, school district, development zone, etc).

## DEAF Tax Surcharge

This is a surcharge imposed on telecommunication providers and that may be passed on to customers to provide telecommunication service to hearing and speech impaired individuals.

## High Cost Fund Surcharge

This surcharge is imposed on telecommunication providers and may be passed on to customers to provide telecommunication service in high cost areas.

## Poison Control Surcharge

The Poison Control Surcharge is a surcharge imposed on telecommunication providers that may be passed on to customers to provide funding for Poison Control Centers.

## Excise Tax

Excise tax is a tax imposed on payments received for the privilege of sending or receiving telecommunication messages.

## California Teleconnect Fund

This is a monthly charge imposed by California on all of its end users of telecommunications services to provide support for selected telecommunications services to qualifying schools, libraries, government-owned and operated hospitals and health clinics, and community-based organizations.

## Other Charges

### Access Recovery Charge

The Access Recovery Charge (ARC) is calculated as a percentage of total monthly recurring charges, and implemented to recover certain network costs imposed on XO.

### Administrative Service Charge

This is a flat monthly charge that is billed on a per-invoice basis which allows XO to recover administration and system support costs associated with providing, maintaining, and ensuring quality of service.

### Administrative Service Fee

This fee is calculated as a percentage of total monthly recurring charges and allows XO to recover administration and system support costs associated with providing, maintaining, and ensuring quality of service.