A Guide to U.S. Telecommunication Tax Compliance (2025)

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Telecommunication Tax Compliance in the United States (2025)

Introduction

Telecommunications companies in the U.S. face a complex web of taxes, fees, and regulatory surcharges at the federal, state, and local levels. These include federal excise taxes, state sales and use taxes (or specialized communications taxes), local utility taxes, 911 emergency service fees, universal service fund contributions, and franchise or right-of-way fees. Compliance is challenging because each jurisdiction imposes different rates, definitions, exemptions, and filing requirements (Source: avalara.com)(Source: taxconnex.com). In 2025, the tax structures have continued to evolve with new legislation and regulatory changes, adding to the burden on industry professionals to stay up-to-date. This report provides a detailed overview of all major telecommunication-related taxes and obligations, an **in-depth breakdown for each U.S. state and D.C.**, and practical compliance considerations for telecom providers. It is intended as a comprehensive resource for legal, financial, and regulatory compliance professionals in the telecommunications industry, emphasizing accuracy, depth, and professional utility.

Major Federal Telecommunications Taxes and Fees

Federal Excise Tax on Communications

One long-standing federal tax is the excise tax on telephone services. Under **26 U.S.C. §4251**, a 3% federal excise tax is imposed on amounts paid for certain "communications services," historically telephone calls (Source: en.wikipedia.org). This tax is collected from customers by telecom providers (as a line item on bills) and remitted quarterly to the IRS via Form 720 (Source: en.wikipedia.org). While often called the "telephone excise tax," its scope has narrowed. In 2006, the IRS ceased applying the tax to most long-distance and bundled services after court rulings found those services did not meet the statutory definition of taxable telephony (Source: en.wikipedia.org)(Source: en.wikipedia.org). **Today (2025), the 3% federal excise tax generally applies only to local-only telephone service** (traditionally, plain landline service) (Source: en.wikipedia.org)(Source: en.wikipedia.org). Services that include both local and long-distance (e.g. wireless plans, VoIP) are not subject to this tax under the 2006 IRS guidance (Source: en.wikipedia.org)(Source: en.wikipedia.org). Telecom companies must nonetheless ensure compliance for any taxable services by timely filing and paying the excise tax each quarter. Failures can lead to IRS penalties and interest, similar to other federal excise taxes. (Notably, legislation to repeal the federal communications excise tax has been proposed repeatedly, but as of 2025 the tax remains in effect for local phone service (Source: en.wikipedia.org).)

Regulatory authority: The IRS administers this tax, and telecom providers interact with the IRS by obtaining an excise tax registration and filing Form 720 returns. Providers must maintain documentation to distinguish taxable vs. non-taxable services (e.g. segregating charges for local service). Many modern telecom offerings are excise-tax exempt, but companies must be diligent in applying the correct tax to legacy local services to avoid liability.

Federal Universal Service Fund (USF) Contributions

In addition to taxes, telecom carriers must contribute to the Federal Universal Service Fund, a system of FCC-mandated programs to support nationwide communications access (including the High-Cost Fund, Lifeline, E-rate for schools/libraries, and Rural Health Care). **All telecommunications providers (and certain VoIP providers) must pay a percentage of their interstate and international end-user telecom revenues into the USF** (Source: fcc.gov). The **FCC sets a "contribution factor" each quarter** – effectively the rate applied to interstate revenues. This rate has climbed to unprecedented levels: for example, the USF contribution factor for 1st quarter 2025 was **36.3%** of assessable revenues (Source: commlawgroup.com) – a record high, up from ~10–20% a decade earlier. (As an illustration, a carrier earning $1,000 in interstate telecom charges would owe ~$363 into USF for that quarter (Source: commlawgroup.com).) Contribution factors fluctuate quarterly based on fund needs, and have hovered in the mid-20% to mid-30% range through 2024–2025, adding significant cost to telecom services.

Administration and compliance: The **Federal Communications Commission (FCC)** oversees USF, with day-to-day administration by the Universal Service Administrative Company (**USAC**) (Source: taxconnex.com). Telecom companies must register with the FCC (obtain an FCC Filer ID) and file annual and quarterly revenue reports (FCC Forms 499-A and 499-Q) detailing their interstate and international revenues (Source: taxconnex.com). USAC uses these to calculate each contributor's USF invoicing. **Contributions are mandatory**, and most carriers pass through the cost as a "Universal Service" line-item fee on customer bills. Failure to file or pay USF can result in hefty late fees, FCC enforcement action, and even revocation of operating authority or phone number access (Source: taxconnex.com). The FCC has made it clear that non-compliance is unacceptable given the critical funding purpose – **a carrier seriously delinquent on USF could have its FCC licenses or numbering resources withheld or canceled (Source: taxconnex.com)**.

Other federal programs: Alongside USF, carriers must pay **Telecommunications Relay Services (TRS) fund** fees (to support hearing-impaired relay services), contribute to the administration of the North American Numbering Plan (NANP) and Local Number Portability, and pay **annual FCC regulatory fees** (which fund FCC operations). These are not taxes per se, but they are federally mandated charges. TRS fees, for instance, are calculated on interstate revenues (separately from USF) (Source: taxconnex.com). All these require federal filings or payment each year. While smaller in amount than USF, they add to compliance complexity – often appearing as additional surcharges on customer bills (e.g. "TRS Fund" fees). **Notably, there is no federal 911 fee** – 911 is funded at state/local levels, though the FCC monitors states' use of 911 fees to discourage diversion for other purposes.

In summary, **federal compliance** entails interacting with **two main agencies**: the **IRS** (for excise taxes) and the **FCC/USAC** (for USF and related contributions). Companies must file separate federal returns for these and keep meticulous records. The interplay between IRS and FCC rules can also affect taxability (e.g., the IRS exemption of bundled telecom service from excise tax relies on FCC-type definitions of bundled services (Source: en.wikipedia.org)). Industry professionals must stay current on FCC contribution rulings and IRS guidance to ensure all federal obligations are met.

State and Local Telecommunications Taxes Overview

Every state taxes telecommunications services **differently**, making 50-state compliance extraordinarily complex (Source: avalara.com). Unlike most goods and services that are mainly subject to a state's general sales tax, telecom services often face **multiple layers of taxes and fees**. Key categories include:

- **State Sales and Use Taxes or Communications Taxes:** Most states apply either the general sales tax or a special communications-specific tax to telecom services. Some states simply include telecom in their normal sales tax base, while others impose a dedicated telecommunications excise or utility gross receipts tax on providers. For example, **Florida** imposes a **Communications Services Tax (CST)** in lieu of general sales tax on communications – composed of a state rate (4.92%) plus a state gross receipts tax (2.52%) for a combined **7.44% state tax** on communications services (Source: fa.ufl.edu) (on top of which Florida localities charge additional CST surtaxes). **Illinois**, similarly, uses a **7% state telecommunications excise tax** on gross charges, rather than its retail sales tax, and allows local telecom taxes on top. By contrast, some states (e.g. **California**) exempt most telecom services from state sales tax, but allow extensive local taxation (California cities levy Utility User Taxes on telecom, typically 2–7%) (Source: avalara.com)(Source: taxconnex.com). A few states with no general sales tax (e.g. **New Hampshire**) have enacted a special communications services tax (New Hampshire's is 7% on two-way communications (Source: newhampshirebulletin.com)), ensuring telecom is taxed despite the lack of a sales tax. The table later in this report details each state's approach.

- **911 Emergency Telephone Surcharges:** All states (and many local jurisdictions) impose fees to fund 911 emergency dispatch systems. These **911 fees** are typically a fixed **charge per telephone line or device** (e.g. $.50, $1.00, or more per month), or occasionally a percentage of telecom charges. Many states set a **uniform statewide 911 surcharge** (for example, **California's 911 fee is $0.41 per line per month in 2025** (Source: cdtfa.ca.gov), **Alabama's is $2.23** (Source: att.com), **New York's is $1.00** for wireless, etc.), whereas others allow each county or city to set its own 911 fee. Compliance requires telecom providers to register with state or local 911 boards, collect the fee on customer bills, and remit to the appropriate authorities (often monthly or quarterly). **Prepaid wireless services** are usually subject to a **special 911 surcharge per retail transaction** (many states use a flat rate, like $0.30 or $0.50 per prepaid purchase, in lieu of monthly fees). Ensuring the correct 911 charge for each customer's locality is a non-trivial task, especially where local rates vary. Some states, like **Alabama and Florida**, have moved to **statewide uniform 911 fees** to simplify this – Alabama replaced myriad local fees with a single state-administered fee (Source: law.justia.com). Others, like Colorado, still have 911 administered at the local level, meaning a telecom carrier might have to file returns with **dozens of counties** within that state.

- **State Universal Service Funds and Other Surcharges:** In addition to the federal USF, **most states have their own universal service or high-cost support funds** to subsidize rural phone service, broadband deployment, or low-income programs. **As of 2023, roughly 39 states maintain state universal service funds** (Source: nebraskalegislature.gov). These are funded by state-mandated surcharges on telecom services, typically assessed on intrastate revenues or per line connections. For example, **California in 2023 consolidated its various state universal service surcharges into a single flat surcharge of $1.11 per line per month** (this funds six state programs ranging from low-income subsidies to rural high-cost support) (Source: cpuc.ca.gov). **Nebraska** uses a hybrid approach: a $1.75 per month per residential line surcharge, and a 6.95% fee on business telecom revenues, to fund its Nebraska Universal Service Fund (Source: psc.nebraska.gov). States like **Kansas, Wisconsin,** and **Maine** similarly have percentage-based USF surcharges on intrastate telecom charges (often on the order of 2%–6%). Compliance requires reporting intrastate revenue (or line counts) to the state public utility commission (or whichever agency manages the fund) and paying monthly/quarterly. Many states also impose a token surcharge for Telecommunications Relay Service (TRS) at the state level (e.g. a few cents per line for hearing-impaired relay funding) – another line item for carriers to handle.

- **Local Utility Taxes and License Fees:** Cities and counties often levy their own taxes on telecom or utility services. These can be called **Utility Users Taxes (UUT)**, **communication license taxes**, or similar. For instance, **Chicago, IL** charges a local telecom tax (in addition to the state's 7%) that brings the total up to 9% (Chicago's telecom tax is 911**) (Source: taxfoundation.org). Many **California** cities charge UUT on telecommunication services at rates ranging from ~2% up to 9% (Source: taxconnex.com). **Missouri** local governments impose business license taxes on telecom providers (often a percentage of revenue) in most cities (Source: taxconnex.com). The presence of local telecom taxes means a carrier must often register and file in each city where it has customers. In *home-rule* states like **Colorado** and **Alabama**, local jurisdictions administer their own telecom taxes or fees, leading to dozens or hundreds of separate filings (Source: avalara.com)(Source: avalara.com). Colorado, for example, has many self-collecting cities with separate sales tax returns for telecom, each with unique jurisdiction codes that must align perfectly on state forms (Source: avalara.com). **Ensuring correct local tax rates** is a major compliance headache: telecom bills must be calculated using the customer's exact service address to apply the right city tax. Florida's Department of Revenue noted that it oversees **481 local jurisdictions' communications tax rates**, and auditors verify that businesses correctly match customer addresses to jurisdictions for proper local tax reporting (Source: avalara.com). This underscores the need for precise geocoding in billing systems.

- **Franchise and Right-of-Way Fees:** Telecom and cable providers also incur fees for the use of public rights-of-way. Cable television service is subject to **local franchise fees** under the federal Cable Act – *franchising authorities (usually city or county governments) may charge up to 5% of a cable operator's gross revenue* as a franchise fee (Source: congress.gov). In practice, most localities do charge the maximum 5%. Telephone utilities likewise historically paid franchise or right-of-way fees to cities, though many states have standardized this. For example, **Texas** law (Local Govt. Code Chapter 283) requires telecom providers to pay cities **per-access line fees** set by a state formula, instead of negotiated franchise percentages (Source: ncpathinktank.org). These **right-of-way fees** compensate local governments for telecom lines/cables on public property. Generally, such fees are remitted directly to the city (or via state agencies in states with centralized regimes). While not always labeled a "tax," they are a significant cost and compliance item. On customer bills, companies sometimes recover them as a "municipal charge" or include them in cost of service. **Nearly all states permit local governments to impose up to a 5% franchise fee on cable/video services** (Source: congress.gov), and some extend similar authority to fees on telephone lines or wireless antenna sites.

The **following table** provides a state-by-state breakdown of key telecom taxes and fees (as of 2025), including the primary state-level tax rate on telecommunications, 911 fees, state universal service fund (USF) contributions, and whether significant local taxes apply. This comparative snapshot highlights the diversity of approaches:

State-by-State Telecommunications Tax Summary (2025)

STATE	STATE TELECOM TAX (SALES/EXCISE)	911 FEE (PER LINE UNLESS NOTED)	STATE USF/SURCHARGES	LOCAL TAXES (TELECOM-SPECIFIC)
Alabama	6% utility gross receipts tax on telecom (Source: revenue.alabama.gov) (in lieu of sales tax)	$2.23 statewide 911 fee (Source: att.com)	No state USF fund (TRS only)	Yes – local sales taxes (varies by city) and some counties dispatch fees
Alaska	No state sales tax (no general sales tax)	Varies by locality (e.g. Anchorage ~$2)	Yes – Alaska USF ~10% on intrastate (supports high-cost areas)	Yes – some local sales taxes in municipalities
Arizona	Standard sales tax (Transaction Privilege Tax) ~5.6% on telecom	$0.20 state 911 fee (wireless $0.80)	No state USF (AZ funds 911 via 911 tax)	Limited – some cities levy telecom license taxes
Arkansas	Standard sales tax 6.5% (telecom taxable) + 4.25% excise on telecom?	$1.30 statewide wireless 911 fee (postpaid); $0.50 prepaid (Source: taxfoundation.org)	Yes – Arkansas USF surcharge on intrastate (~4–6%)	Yes – local sales taxes up to ~5%, and local 911 fees now unified at state level
California	No state sales tax on telecom services (Source: avalara.com) (services exempt); **local Utility User Taxes 2–7%** common (Source: avalara.com) (Source: taxconnex.com)	$0.41 statewide 911 fee (2025) (Source: cdtfa.ca.gov); $0.08 "988" fee for crisis line (Source: vitallaw.com)	Yes – **$1.11/month per line** state surcharge (funds 6 CA USF programs) (Source: cpuc.ca.gov)	**Yes** – extensive city Utility User Taxes (e.g. Los Angeles 7%, San Francisco 8% on telecom)
Colorado	Standard state sales tax 2.9% on telecom; many **home-rule cities** levy their own sales taxes	Varies by local 911 authority (e.g. $1.30 in Denver)	No state USF (Colorado uses federal funds; small TRS fee)	**Yes** – Over 60 home-rule cities tax telecom (separate returns) (Source: avalara.com)
Connecticut	Standard sales tax 6.35% (voice services taxable);	$0.50 statewide 911 fee (wireline);	No state USF (was considered, not	Minimal – state preempts most

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	also a PEG programming fee 0.25% on cable	$0.50 E911 for wireless	implemented)	local telecom taxes (local property tax on poles)
Delaware	No sales tax; **Public Utility Tax 5%** on intrastate telecom (Source: answerconnect.cch.com) (wireline; wireless largely exempt)	$0.60 statewide 911 fee (wireline); $0.60 wireless (state-collected)	No explicit state USF (small relay service fee)	No local sales tax (localities can't tax telecom due to no sales tax)
Florida	**Communications Services Tax (CST)**: 4.92% state + 2.52% gross receipts = **7.44% state** (Source: fa.ufl.edu); plus **local CST up to ~7%** (Source: avalara.com)	$1.00 statewide wireless 911 fee; $0.50 for wireline (per month)	No state USF (Florida abolished state high-cost fund); relay fee ~$0.15	**Yes** – 480+ cities/counties have local CST rates (Source: avalara.com) (built into CST filing)
Georgia	Standard sales tax 4% on telecom (intrastate); certain telecom services exempt by law	$1.50 statewide 911 fee (wireless); $1.50 wireline (state law sets uniform rates)	No state USF (Georgia uses state 911 fund, no broad USF)	Limited – local sales taxes apply (counties); no special local telecom tax
Hawaii	General Excise Tax 4% (treated as sales tax equivalent) on telecom; no separate telecom tax	$0.66 statewide 911 fee (wireless/wireline); plus a small TRS surcharge	Yes – state Universal Service Fund ~2% on intrastate revenues (to support rural service)	No local taxes (statewide tax only; counties do not levy sales tax)
Idaho	State sales tax 6% on telecom services	$1.00 statewide 911 fee (per line)	No state USF (none in Idaho)	Minimal – no local sales tax (only resort city sales tax in a few areas)
Illinois	**Telecommunications Excise Tax 7%** (state) on gross charges (replaces sales tax on telecom); *plus*	$1.50 statewide 911 fee (most lines); **Chicago: $5.00** city 911 fee	No state USF (IL funds certain programs via small utility fund fee)	**Yes** – cities and counties can levy up to ~6% telecom tax;

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	local telecom taxes (e.g. Chicago 7% city tax)	(Source: taxfoundation.org)		Chicago total telecom tax ~14% (Source: taxfoundation.org)
Indiana	Standard sales tax 7% on telecom	$1.00 statewide 911 fee	No state USF (none; small TRS fee)	No local telecom taxes (state preempts; local sales tax is part of state rate)
Iowa	Sales tax 6% on telecom (treated as tangible service)	$1.00 statewide 911 fee	No general USF (Iowa ended state USF; only relay surcharge)	No local sales tax on telecom (only statewide 1% local option if any)
Kansas	Sales tax 6.5% on intrastate telecom; also state *Kansas Universal Service Fund fee (~6%)* on intrastate	$0.90 statewide 911 fee (per device)	Yes – KUSF ~6% on intrastate revenues (separate from sales tax)	Limited – local sales taxes (county/city) up to ~4% apply to telecom
Kentucky	Sales tax 6% on telecom services (since 2023 reform)	$0.70 statewide wireless 911 fee; wireline varies by county	Yes – Kentucky Universal Service Fund (small surcharge, ~$0.08 line for Lifeline)	No local sales taxes (statewide); some cities have franchise fees on cable/telecom lines
Louisiana	Sales tax 4.45% state on telecom; some parishes also tax telecom	**Parish-set 911 fees** (e.g. $1.25 – $2.00 per line)	No state USF (none; does have Tel. Relay surcharge)	Yes – **local sales taxes** (parishes up to ~7%) and some city franchise fees
Maine	Sales tax 5.5% on telecom (incl. ancillary services)	$0.45 statewide 911 fee (wireless); $0.45 wireline	Yes – Maine USF surcharge (~2.5% intrastate); Maine connects fund (~0.75%)	No local sales tax (statewide only); no local telecom taxes

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Maryland	No state sales tax on telecom service (exempt); **Public Service Company Franchise Tax 2%** on telecom gross receipts (Source: taxconnex.com)	$1.00 state 911 fee + *county* 911 fee (e.g. Baltimore $1.25)	No broad USF (MD funds high-cost via small surcharges, e.g. $0.18/month Relay fee)	**Yes** – Counties can impose telecom taxes (e.g. Montgomery Co. 8% telecom tax; Prince George's 5% (Source: law.justia.com) (Source: law.justia.com))
Massachusetts	Sales tax **exempt** for basic telecom (residential landline exempt); other services generally not taxed	$1.00 statewide 911 fee (per line)	No state USF (none; just $0.10/month relay surcharge)	No local telecom taxes (state preemption)
Michigan	Standard sales tax 6% on telecom services	$0.94 state 911 fee (phones); $0.00-$0.65 additional county 911 (varies)	No state USF (none; relay fee only)	No local sales tax (statewide rate only); some counties levy 911 separately
Minnesota	Sales tax 6.875% on telecom (included as taxable service)	$0.95 statewide 911 fee	Yes – Minnesota Telecom Access Fund surcharge (~$0.05 line for relay)	No local sales tax on telecom (state + small local option sales taxes)
Mississippi	Sales tax 7% on telecom (intrastate)	$1.00 statewide wireless 911; wireline varies by district	No state USF (none in MS)	No local sales tax (state only); counties levy 911 fees, not taxes
Missouri	Sales tax 4.225% on telecom (if intrastate); many **cities have license taxes** on telecom gross receipts (Source: taxconnex.com)	Varies by county (911 fee up to $1.50)	No state USF (none; some telecom relay fee)	**Yes** – most cities impose a 5%–10% *business license tax* on telecom (Source: taxconnex.com)

STATE	STATE TELECOM TAX (SALES/EXCISE)	911 FEE (PER LINE UNLESS NOTED)	STATE USF/SURCHARGES	LOCAL TAXES (TELECOM-SPECIFIC)
Montana	No general sales tax; telecom services exempt; a 3.75% *telecom excise tax* on retail telecom exists (replacing property tax)	$1.00 statewide 911 fee (wireless); $1.00 wireline	Yes – Montana universal service fund (~1% intrastate)	No local sales tax (none in MT); no local telecom taxes (state handles 911)
Nebraska	Sales tax 5.5% on telecom; **Neb. USF surcharges** – $1.75/residential line, 6.95% on business intrastate (Source: psc.nebraska.gov)	$1.00 statewide 911 (cell); $0.50 wireline	Yes – Nebraska USF (see left; supports high-cost areas)	Yes – local sales taxes up to 2% in many cities (applies to telecom)
Nevada	Sales tax 6.85% state on telecom; telecom taxable as utility service	$1.00 statewide 911 fee (wireless); counties up to $0.25 add-on	No state USF (none; does have relay surcharge)	Yes – local sales taxes (county) ~1.25%; no separate local telecom tax
New Hampshire	No general sales tax; **Comm. Services Tax 7%** on two-way telecom (Source: newhampshirebulletin.com)	$0.75 statewide E911 fee (per line)	No state USF (none; funds via general revenue)	No local taxes (no sales tax, state preempts telecom taxes)
New Jersey	Sales tax **exempt** for telecom services (voice services not subject to NJ sales tax)	$0.90 statewide 911 fee (wireless); $0.90 wireline	No state USF (none; small relay fee ~$0.90/year line)	No local sales tax (statewide); localities cannot tax telecom (preempted)
New Mexico	Gross Receipts Tax ~5% on services (telecom included) + local option (avg ~2%)	$1.00 statewide 911 fee; plus 2% telecom gross receipts for *state* 911 fund	Yes – State USF surcharge ~3% intrastate (for rural telecom)	Yes – local gross receipts taxes (as part of state GRT system) apply to telecom

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New York	State sales tax 4% on telecom services (intrastate); plus local sales tax (e.g. NYC 4.5%) – **also** state **Excise Tax 2.5%** on telecom gross receipts (Source: taxconnex.com)	$1.00 state 911 fee (wireless/cell); *NYC: $1.50* city 911 fee	No state USF (NY funds rural via access reduction charges); small state relay fee	**Yes** – local sales taxes (up to ~4.5%) and **NYC Utility Gross Receipts tax (~2%)** on telecom providers
North Carolina	Sales tax 7% on telecom (state 4.75% + local 2.25%) – NC charges full sales tax on telecom bills	$0.70 statewide 911 fee (per line)	No state USF (none; has state 911 fund, no general USF)	No additional local telecom taxes (sales tax covers it; local franchise fee on video 5%)
North Dakota	Sales tax 5% on telecom services	$1.50 statewide 911 fee (wireless); $1.00 wireline	No state USF (none in ND)	Limited – local sales tax (city/county up to 3%) if any, applies to telecom
Ohio	Sales tax 5.75% on intrastate telecom; exempt if interstate	$0.25 statewide 911 fee (cell); $0.25 wireline	No state USF (none; state uses federal funds)	Yes – local sales taxes (county 0.25–2%) apply; no special local telecom tax
Oklahoma	Sales tax 4.5% state on telecom; local sales up to 6%	$1.25 statewide wireless 911; wireline varies by county	Yes – Oklahoma Universal Service Fund fee (~3% intrastate)	Yes – local sales taxes (cities/counties) on telecom; no separate local telecom excise
Oregon	No general sales tax (none in OR)	$1.25 statewide 911 fee (per line); $0.75 prepaid per txn	Yes – Oregon PUC Universal Service Fund ~8.5% on intrastate (one of highest)	No local sales tax (none); some city right-of-way fees on telecom utilities

STATE	STATE TELECOM TAX (SALES/EXCISE)	911 FEE (PER LINE UNLESS NOTED)	STATE USF/SURCHARGES	LOCAL TAXES (TELECOM-SPECIFIC)
Pennsylvania	Sales tax **exempt** for basic telephone (residential); many telecom services not taxed by sales tax	$1.65 county 911 fee (uniform statewide max)	**Yes – Gross Receipts Tax 5%** on telecom companies (Source: taxconnex.com) (state-collected)	No local sales tax beyond two city exceptions; no local telecom taxes (state GRT preempts)
Rhode Island	Sales tax 7% on telecom services (treated as tangible service)	$1.00 statewide 911 fee (wireless); $1.00 wireline	No state USF (none; $0.09 monthly relay fee)	No local sales tax (state only); no local telecom taxes
South Carolina	Sales tax 6% on telecom (if intrastate); telecom also pays license fee to state DOR (~0.3%)	$0.62 statewide 911 fee (wireless); $0.62 wireline	No state USF (none; small TRS fee)	No local sales taxes on telecom (state preemption of local telecom taxes)
South Dakota	Sales tax 4.5% on telecom services	$1.25 statewide 911 fee (per line)	No state USF (none; uses federal support)	Yes – local sales taxes (city up to 2%) apply; no special local telecom taxes
Tennessee	Sales tax 7% state on telecom (intrastate); 911 charge *was* embedded in phone bill taxes historically	$1.50 statewide 911 fee (per line)	No state USF (none; TN funds broadband grants via general fund)	Yes – local sales tax up to 2.75%; plus a state-authorized 2.5% gross receipts tax on telecom in some cities
Texas	Sales tax 6.25% state on telecom services; local sales tax up to 2%	$0.50 statewide 911 fee (wireless); $0.50 wireline; + 2% equalization surcharge	Yes – Texas Universal Service Fund fee (~3–6% on intrastate revenues, set by PUC)	**Yes** – *Municipal access line fees* in ~1200 cities (fixed $ per line by city class) (Source: taxconnex.com); local sales taxes apply

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Utah	Sales tax 4.85% state on telecom; local sales ~1%	$0.71 statewide 911 fee (per line); + Unified Statewide 911 Fund 1.8% on billed charges	Yes – Utah USF surcharge ~Universal Telecom Service Fund (~2% intrastate)	Yes – local sales taxes apply; some cities have energy/utility tax up to 6% on telecom
Vermont	Sales tax **exempt** on telecom services; instead **Vermont Universal Service Charge 2.4%** on all retail telecom	$0.76 statewide E911 fee (per line)	Yes – VUSF 2.4% (as noted, in lieu of sales tax on telecom)	No local sales tax (statewide); no local telecom taxes (state handles USF/911)
Virginia	**Communications Sales and Use Tax 5%** (statewide, replaces all local telecom taxes) (Source: tax.virginia.gov)	$0.75 statewide E-911 fee (per line)	No separate USF (VA funds telecom relay via $0.02 fee)	**No** – localities cannot tax telecom (5% state comm tax distributed to local govts)
Washington	Sales tax 6.5% state on telecom; also **state utility tax 3.6%** on telecom gross receipts; local sales up to ~3%	$0.95 statewide 911 fee; some counties +$0.70 local 911	No state USF (none; state uses small excise for relay)	**Yes** – cities levy utility taxes on telecom (commonly 6% of revenue) in addition to sales tax
West Virginia	Sales tax 6% on telecom services (intrastate)	$3.34 statewide 911 fee (one of highest)	Yes – WV Universal Service Fund fee (~4.4% intrastate)	No local sales tax (state only); no local telecom tax (state handles 911)
Wisconsin	Sales tax 5% on telecom (intrastate); certain telecom services exempt (e.g. internet access)	$0.75 statewide 911 fee (new in 2022); was $0.40 before	Yes – Wisconsin USF surcharges (~1% intrastate) fund several programs	Yes – local county sales taxes .5% apply; no separate local telecom taxes

STATE	STATE TELECOM TAX (SALES/EXCISE)	911 FEE (PER LINE UNLESS NOTED)	STATE USF/SURCHARGES	LOCAL TAXES (TELECOM-SPECIFIC)
Wyoming	Sales tax 4% state on telecom; local sales up to 2%	$0.75 statewide 911 fee (per line)	No state USF (none; uses federal)	Yes – local sales taxes apply; no special local telecom taxes
D.C.	Sales tax 6% on telecommunications services	$1.00 per line 911 fee in DC	Yes – DC universal service trust fund 0.2% (small levy)	No separate local tax (DC = single jurisdiction)

Notes: The above table focuses on recurring taxes/fees on retail telecom services. States may have additional one-time taxes (e.g. Kentucky and New Jersey impose a gross receipts tax on telecom businesses at the corporate level, not shown here). Also, *Internet access* charges are exempt from state and local taxation in all states (due to the permanent federal Internet Tax Freedom Act); thus, pure broadband internet service is not subject to the taxes listed (though bundled services might be partially taxable). "Local sales tax" refers to general sales/use tax imposed by counties/cities on telecom if applicable.

As shown, the tax burden on telecom can be very high in some jurisdictions. A 2024 analysis found that when adding all federal, state, and local impositions, the effective tax+fee load on a typical wireless phone bill was **over 25%** on average, and above **36% in the highest-tax states like Illinois** (Source: taxfoundation.org). By contrast, the average sales tax on other goods is much lower, meaning telecom is often taxed at roughly double the rate of general goods (Source: taxfoundation.org). States like Illinois, Washington, New York, and Nebraska are known for particularly heavy telecom tax burdens (Source: taxfoundation.org), whereas states like Idaho, Oregon, and Nevada are at the low end. Understanding each state's regime is crucial for accurate compliance.

Federal Compliance Obligations and Regulatory Interactions

Beyond collecting and remitting the taxes/fees themselves, telecom providers must navigate **registration, filing, and audit requirements** with various agencies:

- **IRS (Federal Excise Tax):** Companies providing local exchange telephone service must register for an excise tax ID and file **Form 720 (Quarterly Federal Excise Tax Return)** each quarter to report the 3% tax collected (Source: en.wikipedia.org). They must maintain records of tax-exempt sales (e.g. long-distance services, which are exempt after 2006) in case of IRS examination. The IRS can audit telecom providers to ensure the excise tax was properly collected on all taxable communications services.

- **FCC & USAC (Federal USF and FCC Fees):** Telecom carriers (including VoIP providers meeting the FCC's definition of interstate telecommunications) must file **Form 499-A (Annual Telecommunications Reporting Worksheet)** each April, and **Form 499-Q (Quarterly)**, with USAC (Source: taxconnex.com). These detailed filings report revenues categorized by service type (intrastate, interstate, international, end-user vs carrier's carrier, etc.) and are used to assess USF contributions and other regulatory fees. Carriers also need to **contribute to and file for the FCC's Telecommunications Relay Service (TRS) Fund**, **numbering administration**, and **local number portability** cost recovery. Each of these has its own quarterly/annual filing process (often also via Form 499 data or separate forms). Additionally, **FCC Annual Regulatory Fees** (due each September) require filers to pay based on subscribers or revenue for certain authorizations. Compliance teams must calendar all these filings to avoid missed deadlines. Notably, failing to pay USF or FCC fees can result not only in monetary penalties but also **red-light status at the FCC, potentially blocking license grants or renewals**.

- **State Departments of Revenue vs. Public Utility Commissions:** At the state level, tax compliance often involves two tracks: Most **transactional taxes** (sales, excise, gross receipts, 911 fees) are administered by the **state Department of Revenue (DOR)** or equivalent, meaning telecom companies must file periodic tax returns (monthly, quarterly) to the DOR for sales tax, communications taxes, etc. (Source: taxconnex.com). On the other hand, **regulatory surcharges** like state USF or TRS fees are often administered by the **state Public Service Commission (PSC) or Public Utility Commission (PUC)** (Source: taxconnex.com). For example, a company in Texas files sales tax returns with the Texas Comptroller, but files separate Texas USF worksheets and payments to the Texas PUC's designated fund administrator. Each state's process and responsible agency is different, requiring careful attention to registration: a carrier might need a tax permit with the DOR, a separate regulatory registration with the PSC, and perhaps even local licenses.

- **Local Jurisdictions:** Where local telecom taxes exist, companies may need to file returns directly with cities/counties. For instance, in California, dozens of cities require monthly or quarterly Utility User Tax remittances. In Colorado and Alabama, many *home-rule* cities require separate tax filings for their local sales or use taxes on telecom (Source: avalara.com)(Source: avalara.com). Similarly, carriers must register with each county's 911 board or the state 911 coordinator as required. Local compliance is often the most labor-intensive because of the sheer number of filings. It's not uncommon for a nationwide wireless carrier to have **thousands of tax and fee returns due every month** across all jurisdictions (Source: taxconnex.com).

- **Regulatory Licensing:** While not a "tax," it's worth noting that providing telecom service typically requires obtaining and maintaining certificates or licenses (e.g. a state-issued Certificate of Public Convenience and Necessity for a landline carrier, or registering as an interconnected VoIP provider). Some states tie the granting of these licenses to tax compliance – i.e. authorities may not issue or renew a certificate if the carrier is delinquent in tax/fee payments. Carriers also interact with the FCC for numbering resources (via the Numbering Administrator and filings like Form 502) – if USF or NANP fees are unpaid, numbering privileges can be revoked (Source: taxconnex.com). Thus, tax compliance is interwoven with core regulatory compliance.

Compliance Challenges and Best Practices for Telecom Companies

Managing telecom tax compliance is notoriously difficult due to the **multi-jurisdictional complexity and ever-changing rules**. Key challenges and considerations include:

- **Sheer Volume of Rates and Jurisdictions:** Telecom taxes are assessed by an array of governmental units – **every state, most counties, and many cities have distinct rates** (Source: avalara.com). Unlike general sales tax (where a business might only deal with ~45 states), a telecom provider selling nationwide might be dealing with **10,000+ taxing jurisdictions** when you factor in local 911 districts, city utility taxes, etc. Each has its own combinations of rates. For example, a single phone line in Texas can attract state sales tax, a county sales tax, a city sales tax, a special purpose district tax, a state 911 fee, a state USF fee, and a city per-line fee – all at once. Some taxes even tax each other (cascading). **New York and Texas** are famously complex because certain gross receipts taxes and sales taxes include one another in the base, creating a "circular" tax-on-tax effect (Source: avalara.com). This *tax-on-tax* phenomenon means calculating the correct bill requires iterative math. In New York, for instance, the state excise (2.5%) applies on the charge *after* sales tax is added, while some local surcharges then apply on top of the excise – a misstep can lead to under-collection (Source: avalara.com). These convoluted rules demand robust calculation logic.

- **Diverse Definitions and Exemptions:** States do not even agree on what **"telecommunications service"** means. Some tax **data** or **video services** similarly to voice, others do not. For example, many states now tax VoIP (Voice over IP) phone service as telecom, but a few still treat it as an information service and exempt it. The taxability of new services like **streaming video or music** is a gray area that has led to litigation – in California, some cities attempted to apply their utility taxes to streaming video services, but courts questioned if a "video streaming service" fits the definition of a taxable communications service (Source: avalara.com). The law is still evolving. Likewise, **text messaging**, prepaid calling, conferencing services, etc., may be taxed differently by different states. Companies must maintain a detailed taxability matrix for every product and service in every jurisdiction. Exemptions also vary: government or nonprofit customers may be exempt from certain taxes; some states exempt intra-company communications or "911-only" lines, etc. Keeping track of these nuances is critical to avoid over- or under-charging tax.

- **Frequent Legislative Changes:** Telecom taxes are subject to frequent legislative or rate changes, often driven by technology shifts or funding needs. In recent years, states have updated laws to capture revenues from prepaid wireless (creating new prepaid 911 fees), to modernize 911 systems (increasing fees, as seen with California's switch from percentage to flat fee (Source: cdtfa.ca.gov)), or to respond to the phase-out of traditional landlines. **New Hampshire, for instance, has enacted a plan to phase out its 7% Communications Services Tax by 2026** (rate dropping to 4% in mid-2025) (Source: newhampshirebulletin.com). Companies must monitor all 50 state legislatures and tax authorities for changes like these and implement them on effective dates – missing a rate change can mean immediate under-collection and out-of-pocket liability. Many states also change USF contribution factors or 911 rates annually. The dynamic nature of these obligations makes manual compliance nearly impossible for larger providers.

- **"Nexus" and Tax Obligations in Every State:** Generally, a business must have nexus (sufficient connection) with a state to be required to collect its sales tax. However, telecom providers are often deemed to have **nexus everywhere they have customers** by virtue of the network's presence. States assert that because a telecom service "terminates" in their state or uses local phone numbers/towers, the provider avails itself of local infrastructure, creating *attributional nexus* (Source: taxconnex.com). This has been upheld in courts and means a telecom company **cannot escape tax obligations by lacking physical presence** – if you sell phone service to someone in a state, you are generally required to register and collect that state's taxes (Source: taxconnex.com). The 2018 *Wayfair* Supreme Court decision on e-commerce nexus (economic nexus thresholds) is largely moot for telecom, since telecoms were already expected to file everywhere due to this principle. For compliance teams, this means **registering in all states (and many localities)** from day one of offering service, and dealing with potentially low-volume jurisdictions with the same rigor as large ones.

- **Billing System and Software Requirements:** Given the complexity, **telecom companies rely heavily on specialized tax calculation software** and automation (Source: taxconnex.com). Tax engines such as those offered by **Avalara**, **CCH SureTax (Wolters Kluwer)**, **CSG**, or **Telappliant** integrate with billing platforms to automatically determine the correct taxes/fees for each line on each invoice, based on the service address and service type. These databases are updated constantly with the latest rates (e.g. a new city UUT or a changed 911 fee). **It is virtually impossible for a telecom provider with any scale to accurately bill taxes without such software** (Source: taxconnex.com). Many telecom billing systems have a tax module or third-party plugin that handles this. Smaller providers operating in only one state and with static offerings might manage manually, but even they risk error. Automation also extends to filing: companies use compliance services to prepare and file the hundreds of tax returns each month, often by exporting data from billing into state-specific forms. Given that even address assignment can be tricky (e.g., matching a customer to the correct jurisdiction in states with many local rates like Florida (Source: avalara.com)), carriers use tools like GIS address validation (per the USPS or state-provided databases) to ensure tax jurisdiction accuracy. **Companies should also maintain robust exemption certificate management** for customers who are tax-exempt (e.g. federal government accounts), to avoid charging tax and later facing audit questions. The investment in software and systems is significant but necessary to reduce error rates.

- **Audit Risk and Penalties:** Telecommunications taxes are a lucrative audit target for authorities because of their high rates. Companies face audits from state DORs (for sales, excise, 911 fees) and from PSC/USF administrators. If a carrier is found to have under-collected a tax, it can be held liable for the tax plus penalties, since the legal obligation is often on the provider to remit (regardless of whether it was collected from the customer). Penalties vary by jurisdiction but can be substantial (e.g. 5–25% of the deficiency, plus interest). More seriously, **regulatory bodies can sanction non-compliant telecom carriers by revoking licenses or phone number access** (Source: taxconnex.com). For example, a state public service commission could in theory suspend a carrier's certificate for failure to pay 911 surcharges, cutting off their ability to legally provide service. Federal USF non-compliance can lead to the FCC issuing fines or debarment. Thus, the **consequences of non-compliance include both financial penalties and business operational risks**. In recent years the FCC has also cracked down on misuse or diversion of 911 funds (Source: cagw.org), though that affects states more than carriers. Carriers must keep detailed records to defend against audits – including call detail records to prove jurisdictional sourcing (interstate vs intrastate usage can be an audit point), customer invoices, and tax remittance reports.

- **Multi-State Coordination:** Telecom companies operating in multiple states often have to coordinate between differing state rules. For instance, bundling a service that in one state is fully taxable but in another state the components must be taxed at different rates requires careful billing logic. Companies may choose to unbundle charges on bills to clearly apply correct taxes by item, especially when states tax components differently. Keeping billing descriptions consistent yet adaptable to state rules is a nuanced task for compliance and IT teams.

Best practices for telecom tax compliance include maintaining a comprehensive tax calendar of all filing deadlines, using professional tax software or outsourcing to firms specializing in telecom tax (such as TaxConnex or Avalara), conducting periodic internal audits or mock audits to catch errors, and staying engaged with industry groups. Many telecom providers join industry associations or tax committees to keep informed of upcoming changes (for example, knowing a state like New Hampshire plans to cut its CST rate (Source: newhampshirebulletin.com) allows proactive customer communications and system updates). Regular training for billing and finance staff on telecom tax rules is also important, as is consultation with telecom tax attorneys or consultants when entering new markets or launching new services.

Conclusion

Telecommunication tax compliance in the U.S. is perhaps *one of the most complex tax compliance domains* across industries. It sits at the intersection of tax law and communications law, requiring knowledge of IRS regulations, FCC orders, state tax statutes, local ordinances, and everything in between. As we have detailed, telecom companies must contend with a patchwork of federal excise taxes, contributions to universal service programs that now consume a substantial portion of revenue (Source: commlawgroup.com), and a myriad of state and local taxes that often stack on top of each other (Source: taxfoundation.org). Each state and the District of Columbia present unique combinations of tax rates, regulatory fees, filing requirements, and definitions that must be understood in depth to ensure compliance.

For industry professionals, the priority is to **ensure accuracy and timeliness** in tax collection and remittance – errors can be costly not only in dollars but in jeopardizing operating authority (Source: taxconnex.com). This comprehensive overview, with citations from official statutes, state department guidance, industry analyses, and regulatory filings, is intended to serve as a reference. However, given the frequent changes in this field, professionals should continuously monitor for legislative updates (such as new surcharges, rate changes, or reform initiatives) and maintain flexibility in their compliance processes. In recent years, trends like the consolidation of surcharges (e.g. California's simplification of multiple fees into one (Source: cpuc.ca.gov)) and moves to uniform 911 fees signal efforts to streamline telecom taxes, but conversely, the rise of new services and the ever-increasing USF contribution burden introduce new challenges.

In sum, achieving telecommunication tax compliance requires a **holistic strategy**: robust systems for calculation, diligent multi-jurisdictional knowledge, and proactive management of regulatory relationships. By understanding the detailed obligations outlined in this report – from federal excise and USF filings to each state's quirks – industry professionals can better navigate the telecommunication tax landscape in 2025 and beyond, ensuring their companies remain in good standing while minimizing the risk of penalties and service disruptions. The key is vigilance and adaptation in the face of a tax environment that is as fast-evolving as the telecom technology itself.

Sources: Official state department of revenue publications, FCC and IRS regulations, and industry compliance guides have been cited throughout (e.g., Florida Dept. of Revenue CST guide (Source: fa.ufl.edu), Tax Foundation wireless tax study (Source: taxfoundation.org), CPUC decisions (Source: cpuc.ca.gov), TaxConnex and Avalara industry analyses (Source: taxconnex.com)(Source: avalara.com), and many others) to provide authoritative support for the information presented. These citations offer a pathway for readers to verify details and delve deeper into specific topics as needed. The complex interplay of taxes described is grounded in these referenced laws and reports, underscoring the importance of up-to-date and source-backed knowledge in telecom tax compliance.

Tags: telecommunication tax, tax compliance, regulatory compliance, federal excise tax, universal service fund, 911 fees, state and local tax

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About ClearlyIP

ClearlyIP Inc. — Company Profile (June 2025)

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1. Who they are

ClearlyIP is a privately-held unified-communications (UC) vendor headquartered in Appleton, Wisconsin, with additional offices in Canada and a globally distributed workforce. Founded in 2019 by veteran FreePBX/Asterisk contributors, the firm follows a "build-and-buy" growth strategy, combining in-house R&D with targeted acquisitions (e.g., the 2023 purchase of Voneto's EPlatform UCaaS). Its mission is to "design and develop the world's most respected VoIP brand" by delivering secure, modern, cloud-first communications that reduce cost and boost collaboration, while its vision focuses on unlocking the full potential of open-source VoIP for organisations of every size. The leadership team collectively brings more than 300 years of telecom experience.

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2. Product portfolio

- **Cloud Solutions** – Including *Clearly Cloud* (flagship UCaaS), **SIP Trunking**, **SendFax.to** cloud fax, **ClusterPBX OEM**, **Business Connect** managed cloud PBX, and **EPlatform** multitenant UCaaS. These provide fully hosted voice, video, chat and collaboration with 100+ features, per-seat licensing, geo-redundant PoPs, built-in call-recording and mobile/desktop apps.
- **On-Site Phone Systems** – Including CIP PBX appliances (FreePBX pre-installed), ClusterPBX Enterprise, and Business Connect (on-prem variant). These offer local survivability for compliance-sensitive sites; appliances start at 25 extensions and scale into HA clusters.
- **IP Phones & Softphones** – Including CIP SIP Desk-phone Series (CIP-25x/27x/28x), fully white-label branding kit, and *Clearly Anywhere* softphone (iOS, Android, desktop). Features zero-touch provisioning via Cloud Device Manager or FreePBX "Clearly Devices" module; Opus, HD-voice, BLF-rich colour LCDs.
- **VoIP Gateways** – Including Analog FXS/FXO models, VoIP Fail-Over Gateway, POTS Replacement (for copper sun-set), and 2-port T1/E1 digital gateway. These bridge legacy endpoints or PSTN circuits to SIP; fail-over models keep 911 active during WAN outages.

- **Emergency Alert Systems** – Including **CodeX** room-status dashboard, **Panic Button**, and **Silent Intercom**. This K-12-focused mass-notification suite integrates with CIP PBX or third-party FreePBX for Alyssa's-Law compliance.
- **Hospitality** – Including **ComXchange** PBX plus PMS integrations, hardware & software assurance plans. Replaces aging Mitel/NEC hotel PBXs; supports guest-room phones, 911 localisation, check-in/out APIs.
- **Device & System Management** – Including **Cloud Device Manager** and **Update Control (Mirror)**. Provides multi-vendor auto-provisioning, firmware management, and secure FreePBX mirror updates.
- **XCast Suite** – Including Hosted PBX, SIP trunking, carrier/call-centre solutions, SOHO plans, and XCL mobile app. Delivers value-oriented, high-volume VoIP from ClearlyIP's carrier network.

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3. Services

- **Telecom Consulting & Custom Development** – FreePBX/Asterisk architecture reviews, mergers & acquisitions diligence, bespoke application builds and Tier-3 support.
- **Regulatory Compliance** – E911 planning plus **Kari's Law**, **Ray Baum's Act** and **Alyssa's Law** solutions; automated dispatchable location tagging.
- **STIR/SHAKEN Certificate Management** – Signing services for Originating Service Providers, helping customers combat robocalling and maintain full attestation.
- **Attestation Lookup Tool** – Free web utility to identify a telephone number's service-provider code and SHAKEN attestation rating.
- **FreePBX® Training** – Three-day administrator boot camps (remote or on-site) covering installation, security hardening and troubleshooting.
- **Partner & OEM Programs** – Wholesale SIP trunk bundles, white-label device programs, and ClusterPBX OEM licensing.

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4. Executive management (June 2025)

- **CEO & Co-Founder: Tony Lewis** – Former CEO of Schmooze Com (FreePBX sponsor); drives vision, acquisitions and channel network.
- **CFO & Co-Founder: Luke Duquaine** – Ex-Sangoma software engineer; oversees finance, international operations and supply-chain.
- **CTO & Co-Founder: Bryan Walters** – Long-time Asterisk contributor; leads product security and cloud architecture.
- **Chief Revenue Officer: Preston McNair** – 25+ years in channel development at Sangoma & Hargray; owns sales, marketing and partner success.
- **Chief Hospitality Strategist: Doug Schwartz** – Former 360 Networks CEO; guides hotel vertical strategy and PMS integrations.
- **Chief Business Development Officer: Bob Webb** – 30+ years telco experience (Nsight/Cellcom); cultivates ILEC/CLEC alliances for Clearly Cloud.
- **Chief Product Officer: Corey McFadden** – Founder of Voneto; architect of EPlatform UCaaS, now shapes ClearlyIP product roadmap.
- **VP Support Services: Lorne Gaetz** (appointed Jul 2024) – Former Sangoma FreePBX lead; builds 24×7 global support organisation.

- **VP Channel Sales: Tracy Liu** (appointed Jun 2024) – Channel-program veteran; expands MSP/VAR ecosystem worldwide.

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5. Differentiators

- **Open-Source DNA:** Deep roots in the FreePBX/Asterisk community allow rapid feature releases and robust interoperability.
- **White-Label Flexibility:** Brandable phones and ClusterPBX OEM let carriers and MSPs present a fully bespoke UCaaS stack.
- **End-to-End Stack:** From hardware endpoints to cloud, gateways and compliance services, ClearlyIP owns every layer, simplifying procurement and support.
- **Education & Safety Focus:** Panic Button, CodeX and e911 tool-sets position the firm strongly in K-12 and public-sector markets.

In summary

ClearlyIP delivers a comprehensive, modular UC ecosystem—cloud, on-prem and hybrid—backed by a management team with decades of open-source telephony pedigree. Its blend of carrier-grade infrastructure, white-label flexibility and vertical-specific solutions (hospitality, education, emergency-compliance) makes it a compelling option for ITSPs, MSPs and multi-site enterprises seeking modern, secure and cost-effective communications.
