

Lucent Technologies, Inc.  
Sales and Use Taxes Audit Status  
Allegiance Transactions

**Arizona**

The audit is in progress with the Department of Revenue. A block sample of 4 months is the basis for audit examination. The Department of Revenue has indicated that their position is that Lucent's software, construction services, and installation services should be subject to tax.

The Department of Revenue has also indicated that they generally perform a detail review on construction services and installation services to determine the extent that reality is altered by the rendering of these services which would provide for a taxability percentage.

Sales of these types of services to Allegiance will be subject to actual review and the expected assessment of taxes. Other types of untaxed sales with Allegiance were not selected by the block sample.

**California**

The audit is in progress with the Board of Equalization. A statistical sample is the basis for the audit examination. Several untaxed software transactions with Allegiance have been selected by the statistical sample.

The Board of Equalization has indicated that their position is that Lucent's software does not qualify for the custom software exemption and that California sales and use taxes are due on these types of transactions.

We are in process of gathering additional information and documentation to address all transactions sampled.

**Colorado**

We are scheduled for an audit. The Department of Revenue has indicated that they intend to conduct a statistical audit. No sample selected to date.

**Florida**

The audit is in progress with the Department of Revenue. A statistical sample is the basis for the audit examination. Several untaxed software and engineering transactions with Allegiance have been selected by the statistical sample.

The Department of Revenue has indicated that their position is that Lucent's software does not qualify as custom software and that Florida sales and use taxes are due on these types of transactions.

Also, AT&T Corp. Network Systems Division litigated the taxability of engineering services that was assessed on the prior audit cycle. An unfavorable decision was reached on that issue.

We are in process gathering additional information and documentation to address all transactions sampled.

### **Georgia**

The audit is in progress with the Department of Revenue. A statistical sample is the basis for the audit examination. Several untaxed software and engineering transactions with Allegiance have been selected by the statistical sample.

The Department of Revenue has indicated that their position is that Lucent's software does not qualify for the customer software exemption and that engineering services are part of the consideration paid by customers to acquire equipment and therefore is subject to sales and use taxes.

We are in process gathering additional information and documentation to address all transactions sampled.

### **Massachusetts**

We are scheduled for an audit. The Department of Revenue has indicated that they intend to conduct a statistical audit. No sample selected to date.

### **Maryland**

We are scheduled for an audit. The Department of Revenue has indicated that they intend to conduct a statistical audit. No sample selected to date.

### **Minnesota**

We are scheduled for an audit. The Department of Revenue has indicated that they intend to conduct a statistical audit. No sample selected to date.

In a prior audit by Minnesota, a sales and use tax deficiency was assessed on untaxed sales of software, engineering and installation services.

Minnesota has indicated that they intend to assess these transactions as well in the current audit cycle.

## **Missouri**

We are in the process of providing transaction level details to the Missouri Department of Revenue so that they can conduct a statistical sample.

Missouri has not indicated any areas of taxability issues to date.

## **New York**

The audit is in progress with the Department of Revenue. The Department is conducting an actual audit on untaxed sales transactions. All untaxed sales with Allegiance will be examined to determine proper tax treatment.

The audit is in the initial stages. We are in process of gathering additional information and documentation to address all untaxed transactions.

The Department of Revenue has not indicated any taxability issues to date

## **Pennsylvania**

The audit is in progress with the Department of Revenue. The audit is based on a statistical sample. No Allegiance transactions have been selected by the sample.

The Department of Revenue has indicated that there may be some taxability issues regarding untaxed sales of equipment and software. The Pennsylvania Department of Revenue takes the position that the public utility exemption is limited to certain types of telecommunication carriers, and that the type of transactions that qualify are limited as well.

We are in process gathering additional information and documentation to address all transactions sampled

## **Texas**

The audit is in progress with the Texas Comptroller audit division. The audit is based on a statistical sample. Several untaxed sales of equipment and software to Allegiance have been selected by the sample.

There is no tax exemptions based on particular uses of telecommunications equipment available to be claimed by customers. Also, Texas subjects all software to sales and use taxes. The only basis to exempt sales of equipment and software in Texas is the resale exemption.

We are in process gathering additional information and documentation to address all transactions sampled

## **Washington**

The audit has been completed. The Department of Revenue has assessed a Retail Sales Tax deficiency, interest and penalty on all untaxed sales of software and engineering services.

Untaxed sales of software and engineering services to Allegiance have been assessed.

Lucent has protested the assessment. We are in process of responding to the first set of interrogatories and requests for production of records made by Washington Board of Tax Appeals.