

LEGAL UPDATES

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Alabama Tax Ruling Holds That Fiber Optic Cable Is Not a Machine

In *BellSouth Telecommunications, LLC et al. v. Ala. DOR*, Ala. Tax Tribunal, Dkt. No. S. 22-829-LP (Sep. 23, 2025), the Alabama Tax Tribunal upheld the Department of Revenue's denial of a sales tax refund sought by a telecommunications service company.

Alabama imposes a reduced machine sales tax rate of 1.5% for machines used in mining, quarrying, compounding, processing, and manufacturing of tangible personal property. A "machine" includes parts and attachments that are necessary to the operation of the machines and customarily so used.

BellSouth purchased the fiber optic cable for use in its provision of telecommunications services to customers and argued that the cable is used in processing data. It contended that since it was a necessary attachment to other qualified machines, it should be taxed at the lower rate. The department asserted that the fiber optic cable purchases should be taxed at the general sales tax rate.

The tribunal found that the cable merely transports information, rather than processing it into a marketable form or new product. It also distinguished the cable from other telecommunications equipment that qualified for the lower machine rate because they were integral to the production or processing, whereas the cable, though necessary, was not an integral function of the other telecommunications equipment.

Telecommunications providers as well as more "traditional" manufacturers can benefit from the court's analysis of how to apply the exemption. Specifically, the court referred to other cases where the transportation or transfer of product in a natural gas and document scanning context was also not processing, indicating a fairly narrow application of the reduced rate.

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Contact Husch Blackwell's State and Local Tax (SaLT) team for assistance in understanding how this development might impact you.