

# Form 1040's and Bar Coding

FTA Symposium, May 2010



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## *How Do We Currently Process Returns*

- Electronic Filing
- Manual Transcription from paper
- Scanning – includes OCR and barcodes

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## ***Electronic Filing***

- Preferred method of filing
- Yields highest quality
- Fastest refund
- Most efficient (cost for processing)
- Future of submission processing
- 97 million 1040 family returns in 2010

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## ***Paper Returns are Still a Big Job***

### **1040/A/EZ Volume Projections (in millions)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Pre-Mandate	38.1	35.7	34.2	33.1	32.0	30.9
Post-Mandate	25.5	22.3	21.7	21.3	21.1	20.9

- Mandate in HR 3548 will help reduce paper return volumes

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# Current Methodology

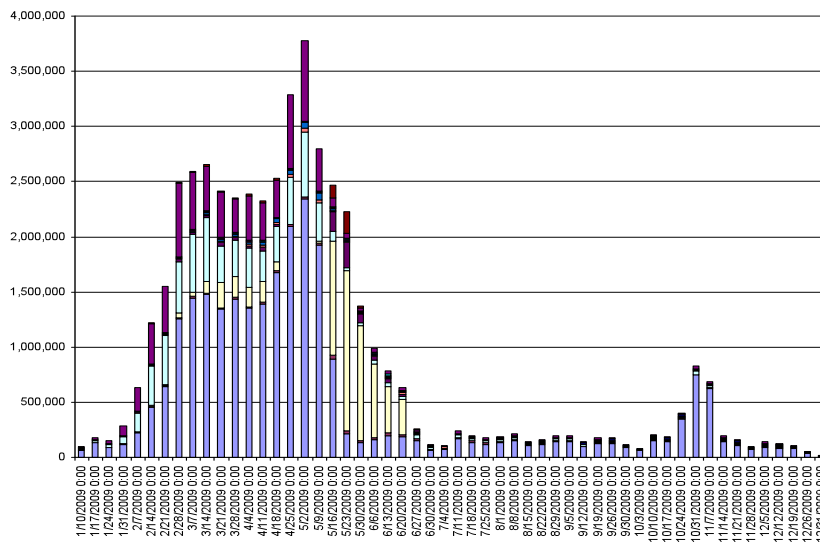
## ■ Manual Transcription

- Labor-intensive
- Expensive
- Slow
- Limited data capture
- Subject to operator error
- Subject to rising labor costs
- 4 decade-old system design from the early 60's (with technology updates)



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### 2009 Form 1040 Family Transcription Volumes



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## ***Need improvements in two key areas***

### Submission Processing Vision – Benefits

#### **Processing efficiency**



- Enhance productivity by processing paper more efficiently
- Reduce processing errors and taxpayer notices

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#### **Increased Data**



- Capture data consistent with e-filed returns
  - Allow better customer service
  - Realize full potential of Modernization

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## ***Current Methodology (Cont.)***

### ■ ***Scanning/Imaging***

- SCRIPS system used for over 105 million returns and documents
  - Information returns (1099's, etc.)
  - Fed. tax deposits
  - Forms K-1
  - Employment returns (Form 941)
  - Unemployment tax returns (Form 940)

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## ***Focus on 2-D Bar Coding***

- What is it?
- How does it work in the tax return arena?

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## ***What is a 2-D Bar Code?***

- A 2-Dimensional bar code visually encodes data both horizontally and vertically
  - Can accommodate 1200-1800 characters
  - Embedded error detection
  - Durable (writes data to more than one place)
  - Easy to incorporate



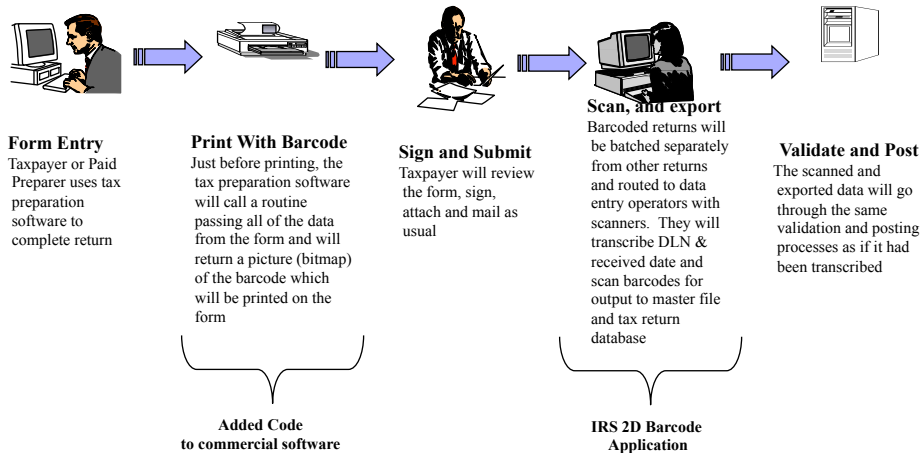
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## 2-D Characteristics

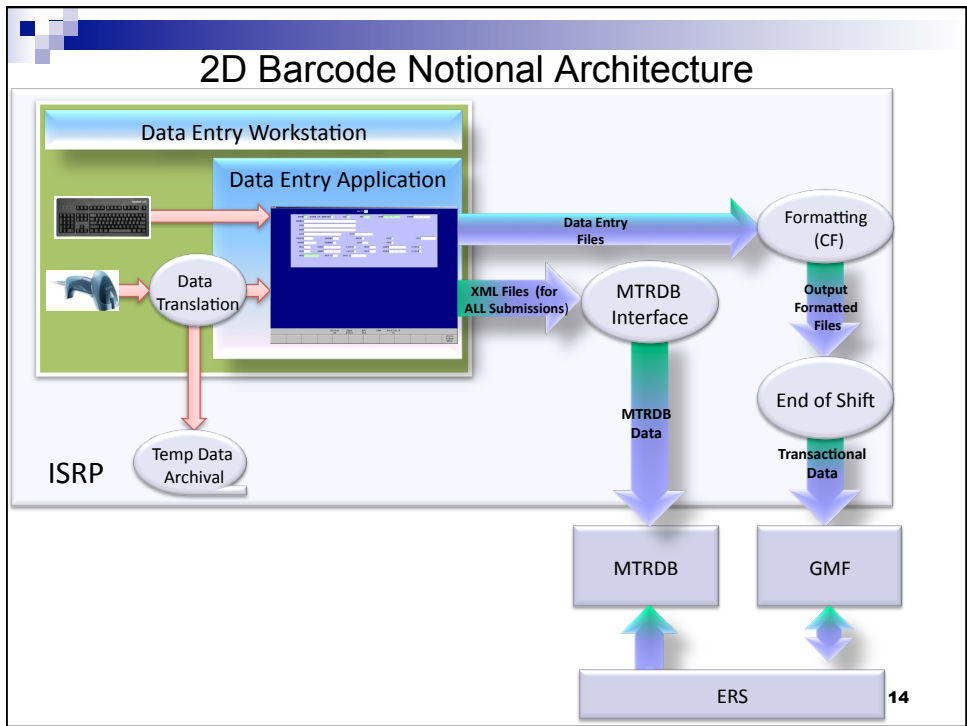
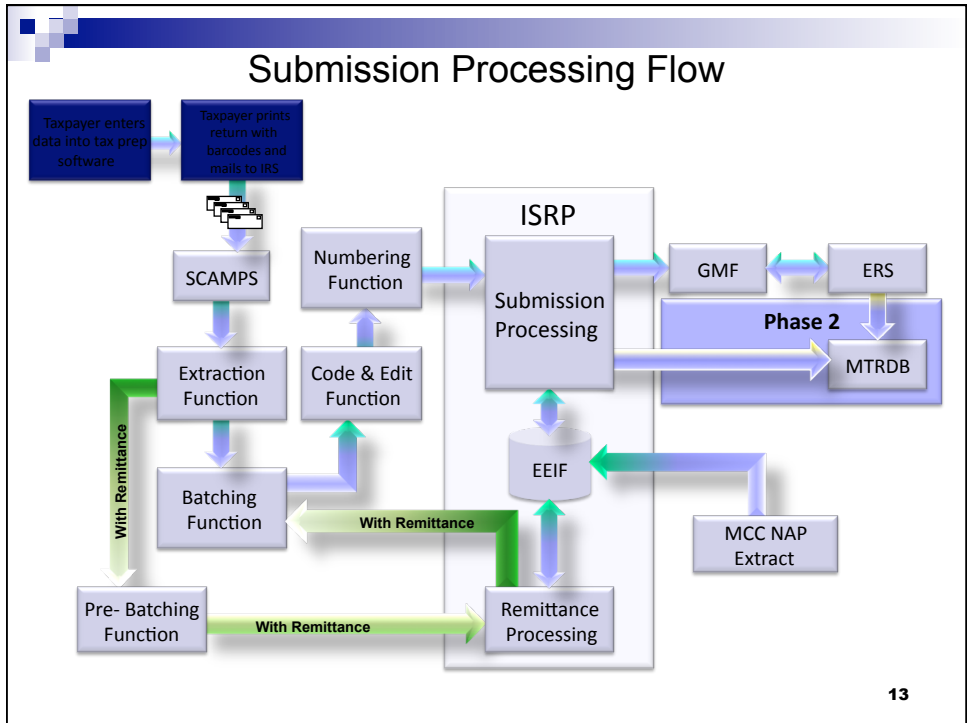
- Gathers 100% of the data in one read
  - All or nothing read (States seeing read rates in the mid 90% range)
- Data is 100% accurate
  - Embedded error detection and correction
- Durable
  - Can survive stray marks, staple holes, general abuse
- Easy to incorporate for software developer

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## How Does it Work In Return Preparation and Processing?



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## ***How will it work internally?***

- Bar codes will have the same kind of data as e-filed returns
- Bar codes will be on a separate cover page, not embedded in each form
- Data entry programs will apply the same kind of business rules as e-filing system
  - Enables much of Code & Edit to be automated
- Manually transcribe only what can not be in bar codes, e.g., document locator number, received date
- Legacy mainline processing programs will continue to receive the same data as from manually transcribed returns
- Modernized Tax Return Database will receive all bar code data translated to XML

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## ***Expected Results***

- Reduce cost of processing
  - Amount of reduction depends on rate of software developer and taxpayer participation
- Higher quality data/fewer transcription errors
- Availability of electronic data to downstream IRS users

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## ***2-D Barcode Project Status***

- Submission Processing and MITS have developed preliminary design concepts
  - System requirements have been compiled
  - Notional system architecture and hardware requirements have been outlined
  - Cost and benefit estimates made for various alternatives and bar code participation rates
- This effort included sending questions to the states through FTA
  - We are grateful for the thoughtful and useful responses received

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## ***2-D Barcode Project Status (Cont.)***

- Further progress depends on funding availability
- Overall IRS budget limitations and competing priorities make the funding outlook uncertain
- 2-D barcode plans need to be integrated with overall tax system modernization plans
- We look forward to further consultation and cooperation with state tax agencies as this project is further developed

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## ***Parting Thoughts***

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Taxes are the price we pay for a civilized society

**Oliver Wendell Holmes**

We're all in this together

**Anonymous**