

California Mandatory e-file Summary

Prepared for

The Federation of Tax Administrators
2005 e-file Symposium
Atlanta, Georgia

By

The Franchise Tax Board
State of California

Franchise Tax Board
Mandatory e-file Program Overview

I. Legislative Summary

- Department of Finance placed in proposed FY03/04 Budget as a cost savings measure.
- Assembly Bill 1756 added into law August 2003 as part of State Budget Trailer Bill.
- Part of fiscal year 2003/2004 State Budget that cut 45 positions from our operating budget, up-front.
 - Amended California Revenue and Taxation Code sections:
 - 18621.9 (criteria)
 - 19170 (penalty/reasonable cause)
- Effective 1/1/04, for returns required to be filed on and after 1/1/04.
- For preparers who prepare more than 100 returns at least one of which was prepared using tax preparation software.
- Law includes Reasonable Cause opt-outs including a taxpayer's election to not e-file.
- Makes the preparer liable for a \$50.00 per return penalty for every return was not e-filed if the inability to e-file was due to "willfull neglect" and not "reasonable cause".
- AB2480 – Chaptered into law in August 2004, repealed the penalty provision for one year delaying our authority to issue a penalty until on or after January 1, 2005.

II. Mandatory Basics

- Applies at both the preparer and the firm level. In other words if an individual preparer prepares less than 100 returns but their firm as a whole prepares more than 100 then the entire firm is included in the mandate. (This requires out of state offices of large firms who may file only a few non-resident returns to e-file them since cumulatively the form filed in excess of 100 CA returns).

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- Applies to current year individual income tax returns only, including resident, part-year and non-resident returns.
- Once a preparer is in they are always in, unless their volume drops below 25 two years in a row.
- EROs must enroll in the IRS Program, then in our program.
- There is no waiver out of the mandate completely.

III. Implementation plan

- Education and Outreach Key Component
- Approached administration of law from a non-antagonistic partnering approach.

Following is an overview of our communications efforts:

- ✓ Established Mandatory e-file Stakeholder Team and developed communications plan
- ✓ Partnered with Professional Organizations
- ✓ Partnered with IRS
- ✓ Conducted bi-weekly conference calls with external partners.
- ✓ Identified practitioner base affected by mandate
- ✓ Developed materials, including presentations, to communicate mandate
- ✓ Developed, planned and implemented seminars to discuss and answer questions regarding mandatory e-file
- ✓ Developed and implemented Mandatory e-file webpage
- ✓ Included Mandatory e-file information in FTB Tax News publications
- ✓ Facilitated internal communications

Specific Products produced included

- ✓ Dedicated web page at www.ftb.ca.gov for mandate
- ✓ Frequently updated FAQ page about the mandate
- ✓ Development (with external stakeholder team) of form FTB 8454 *e-file Opt-Out Record*, for use by preparers to record why a return was not e-filed.
- ✓ Developed and released e-file Office Tutorial- Web-based “How To” on setting up and transitioning your office to e-file

IV. Results Achieved

2004

- Practitioner e-file growth 109% (6.1 million)
- e-file total volume 7.1million (+88.%)
- New California e-file applications increased by over 100%

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2005

- Practitioner e-file growth 11.5% YTD (6.35 million)
- e-file total volume 7.7million (+14.6%)

Overall

- Over 30,000 EROs enrolled since 8/03
- Limited negative response to the Mandatory e-file Program
- Re-established a solid relationship with key California IRS representatives
- External Stakeholders' input during bi-weekly conference calls resulted in the design and implementation of form FTB 8454, *2003 e-file Opt-Out Record*.
- Developed online, fileable, FTB 8633 *e-file Enrollment Form*
- Achieved buy-in from the tax practitioner community with the inclusion of a panel of tax professionals at our seminars. At 11 seminars attended by over 2700 preparers, the panel answered practitioner questions and discussed their experiences (good and bad) with e-file. Due to the excellent feedback we received from attendees, we've including the panel in future seminars.
- Tipping point reached: e-file and e-programs now norm. Paper processes now exception.

IV. Impacts from mandate

- e-file Help Desk-
 - Increase in call volumes and correspondence
 - New IVR/ Call Wise phone system installed.
 - Large increase in standard e-file error resolution correspondence due to large percentage of first time e-filers.
- Internal Cultural shift - e-file now majority of the returns.
 - Workload shift from paper to e-file shifted downstream processing peak to earlier in the year and cause the need for less staff during normal peak.
 - More e-file returns meant less errors and changes to returns, which in turn resulted in fewer notices and phone calls in response to notices.
 - Internally, people listen to us now and consider the e-file perspective much more in forms design and policy decisions, etc.
- Systems Improvements-
 - With so much more e-file and processing savings we have received funds for newer faster e-file systems and the go ahead to implement new programs like business entities e-file
 - Long time paper filers, especially the CPA community, are now more positive about e-file now that they've gone through the initial pain to make the switch and are now speaking

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positively to their partner offices in other states. We have heard other offices out of state are voluntarily switching to e-file as a result.

V. Compliance/Administration of Penalty

- Our approach to enforcement will be reasonable, focusing on “willful neglect” and significant non-compliance
- For the most part penalty situations are analyzed after 10/15
- Penalty assessments will be based on comprehensive analysis of facts and circumstances
- No penalty will be assessed prior to a preparer being given full opportunity to provide evidence, opt-out records, etc.
- Compliance activities include, letters, phone calls, site visits, and eventually penalties

VI. Conclusion

Our partnering and non-antagonistic approach as well as our intensive outreach and communication efforts helped make the first year of mandatory e-file in California a success.

Any questions should be directed to

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ATTACHMENT 1: FTB Mandatory e-file Website Page for Tax Professionals

The following information is shown on FTB's website: www.ftb.ca.gov

California law now requires individual income tax returns prepared by certain income tax preparers to be e-filed unless the return cannot be e-filed due to reasonable cause. Reasonable cause includes a taxpayer's election to opt-out (choose not to e-file).

You must e-file all of your clients' California individual income tax returns if you prepared more than 100 California individual income tax returns for the 2002 tax year and you prepare one or more current year returns using tax preparation software.

[Join e-file Program Now](#)

This page contains all the information you'll need to comply with the new tax law.

Mandatory e-file information

- [Frequently asked questions](#)
- [Frequently asked questions for download \(Adobe Acrobat Reader required\)](#)
- [Assembly bill 1756](#) (Original chaptered version. See page 61) [\(Adobe Acrobat Reader required\)](#)
- [Assembly bill 1742](#) (Includes the latest technical corrections. See page 3) [\(Adobe Acrobat Reader required\)](#)
- [Mandatory e-file quick reference](#) (FTB 1370) [\(Adobe Acrobat Reader required\)](#)
- [Approved e-file software for California](#)

e-file Opt-Out Record

California law requires individual income tax returns prepared by certain income tax preparers to be electronically filed (e-filed) unless the taxpayer elects not to e-file or the tax preparer cannot e-file the return due to reasonable cause.

In response to your requests, we've developed a downloadable, fillable and printable form (*2003 e-file Opt-Out Record*, FTB 8454) for your convenience.

- [e-file Opt-Out Record \(Adobe Acrobat Reader required\)](#)

Incorporating e-file into your office

Over the past year, we've met with a variety of tax professionals that have successfully incorporated e-file into their business and asked them how they did it. We've combined their advice, tips, and ideas into a helpful [e-file tutorial](#).

Internal Revenue Service (IRS) Spotlights Electronic Return Originators (ERO)

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The IRS has a new website called *ERO Spotlight*! Each month *ERO Spotlight* will feature a different tax professional who has become a successful ERO. Read, hear and view ERO testimonials about how e-filing tax returns has enhanced their practice. Check it out: <http://www.erospotlight.com>.

Are you wondering how to explain Mandatory e-file to your clients?

We developed a letter (FTB 1377 PC) you can provide to your clients that discusses the law and highlights some of the many benefits of e-filing. We also translated the letter to Spanish for your Spanish-speaking clients.

- [FTB 1377 PC](#)
- [FTB 1377 \(en Español\)](#)

Mandatory e-file letter

The following letter was mailed to tax practitioners or businesses who prepared more than 100 current year individual income tax returns in process year 2003, according to our records.

Our records are based on FTB and IRS return filing information. If you or your business did not file more than 100 current year individual income tax returns, then you are not required to e-file your client's returns next year.

If your records indicate you or your business did file more than 100 current year state individual income tax returns and you did not receive a letter, you are still required to e-file your client's returns next year.

- [FTB 1374 \(MEO\)](#)
- [FTB 1374 \(en Español\)](#)

What you'll need to join our e-file program

- [e-file program information](#)
- [e-file program enrollment form \(FTB 8633\)](#)
- [e-file forms & publications](#)
- [Contact the e-Programs Customer Service Unit](#)
- [e-mail an e-file question](#)
- [Join the IRS e-file program](#)