

**TIGERS SUMMARY FOR FED/STATE
MARCH 27-31, 2006**

FED/STATE 1120

1. IRS Status Report
 - There was a definite peak at March 15, reaching 114% of projections.
 - The volume March 12-19 was 75% extensions, over 200,000 implying that there will be a lot of very large returns in September.
 - There were over 3411 filings from corporations with assets over \$50M and 250 returns, out of 22,000 of which 11,000 are mandated to e-file.
 - File sizes were around 22 meg compressed. There was much PDF data, so file size was around 35 meg uncompressed. The system was tested with 1.5 gig returns, 500 meg XML plus one gig PDF, but it is believed that the largest return will be less than one gig.
 - There are three channels for submission. The majority of the returns came in through A2A, though there was considerable EMS. There were four extensions through IFA from large taxpayers wanting to self-transmit.
 - Next year fed/state returns will be accepted through IFA, though they will still be sent to states via A2A.
 - EMS is the legacy system and will not support fed/state. IRS still plans not to accept 1120 returns through EMS in 2008.
 - There are about 20 transmitters.
 - IRS is encouraging fed/state through Tax Executives Institute (TEI).
 - IRS is working on capacity planning for September and 2007. It was necessary to shut down ATS testing and borrow the CPUs during peak week. There was no problem bringing in the returns, and receipts were sent in one second or less, but processing and acknowledgments took up to 14 hours - still well within the 24 hours specified in Publication 1464.
 - Kansas and Wisconsin are still the only states in production, with no state returns received to date.

2. Strong Authentication
 - IRS has started testing strong authentication with the Illinois Java client. Testing has not been completed, due to some issues with error codes.
 - Testing has also begun with the Kansas .Net client.
 - IRS had hoped to complete testing by now. A prototype will be built, then taken to executive management for funding in the next month or so.
 - The work is being done in the A2A platform. IRS hopes to be able to distribute the Java and .Net code.
 - To prevent "man-in-the-middle" attacks, an existing field in the header will be used for a random value called "nonce." The new value ranges from 11 to 32 bytes; the existing field is eight bytes but may be increased in the final physical design.

3. Technical Issues
 - There is an issue with receipts look-up.
 - WSDLs must be corrected: the header message-id type should be 20 bytes, and on response the optional e(rror), d(uplicate) or r(esponse) makes 21. The submission-id type should also be 20, with the last 7 alphanumeric. The WSDLs were originally correct. Target date for corrections is the week of April 9.
 - There is an open issue on the date types, waiting for response from the contractor.

- Scott sent an email to Xan because he was again getting a SOAP fault from the message not deserializing properly; looks like the namespace issue reoccurring. Joan asked states to copy her and Carol whenever they email Xan.
 - The problematic count from February issues has been removed.
 - Retrieval by message-id was implemented March 8. This retrieves submissions for states, and acknowledgments for transmitters.
 - IRS has put in indexes to speed up response, but still suggests setting timeout interval to ten minutes.
 - The namespace fix for deserializing messages finally went in, although there may still be an issue per Scott.
 - ETIN query just went in.
4. Archiving State Returns
- There was no setting implemented for state returns ever to be purged, so we are okay for this year.
 - This was originally developed by the contractor, but is being transitioned to Operations & Maintenance. They have agreed to work on archive and purge.
 - All agreed that the setting for purge should be 150 days after the return is acknowledged.
 - Current plans are to purge all 2005 returns in December/January when the system is refreshed for the new filing season.
5. Style Sheets
- The first set of 2005 style sheets was posted Thursday. IRS cannot post the style sheets until the forms are finished.
 - There is an issue with Mike Farrell's viewing program, unless all of the directories are set up correctly. Mike will update the readme file for the program.
 - IRS will share the style sheets as long as they continue to use that method. There has been some discussion of alternate viewing technologies. A PDF solution could include printing.
 - There is a plan for Tax Forms to own the viewer and release with the forms, rather than going through the contractor.
6. State Schema Changes
- The DateType in IRS efileTypes limits the year to four digits; xs:date allows more characters. ACTION ITEM: identify xs:date elements in the state schemas and change them to DateType.
 - Kansas needs an immediate change to Distributive Share to add profit percentage to the number of shares and ownership percentage.
 - South Carolina needs a couple of efileType changes on South Carolina unique elements, and resolution of a duplicate element.
 - Wisconsin had two new elements that were added to Subtractions but should be in Additions.
 - New York added elements to Credits, and changed some efileTypes that were originally blank.
 - Kansas also has a few "me-too" elements to add, and a StateApportionmentFactor given as AmountType that should beDecimal99Type.
 - Jim Rowland also noted a message from Alabama that FederalOrdinaryIncome was listed with different efileTypes between Alabama and Kansas, and needs to be resolved.
 - Target timeline for resolution:

- Jim will put all proposed changes out on the listserve by March 31
- Responses if any issues are seen are due by April 7.
- The new version will be released for review on April 11.
- Target for live release will be Monday April 17.

7. Versioning

- Primary version number is by tax year. All production versions/releases are for tax year 2005.
- The combined 1120/1065 schema releases will begin with 2006.
- Format for the master schema is 2005vx.y – for state specific schemas should be ST_2005vx.y where “ST” is the standard state abbreviation.
- After some discussion, it was agreed not to delete any versions for 2005 or force states to upgrade unless necessary for that state. However, it was noted that any errors will be corrected in the latest version only.
- ACTION ITEM: a Change Request will be given to Joan to add the state version/release to the submission manifest.
- It was noted that submission version and validating schema version are both optional attributes of the error list in the acknowledgment schema.

8. Staging

- Minimal changes will be made to 2005 schemas, including those listed above.
- New states will work with the 2006 schemas.
- A core team of TIGERS volunteers will work with cleaning up the 2005 schema set as a base for 2006. This will include deleting elements not used by any state, consolidating like “building block” simple types (e.g. String50Type and StringType50), and consolidating complex types.

9. Vendor Survey

- Intuit is in the decision making process.
- Vertex will support mandated states only
- CCH is testing with Kansas
- Orrtax will support next summer 2007
- TaxWorks is working with Maryland.

FED/STATE EMPLOYMENT TAXES (FSET)

1. Survey

- The survey and cover letter were discussed and edited. They solicit information from states concerning enrollment requirements for electronically filing and paying employment taxes.
- Survey will be sent from FTA with instructions to forward to those responsible for employment taxes
- Responses are desired for the June meeting.

2. Enrollment Schema(s)

- The California EDD has developed a draft of an enrollment schema for an employer to send to the state agency. It covers full business registration data. The group walked through this schema. The group discussed the desire in many states to have employers use a web-based multi-tax type registration. At the same time, service providers do not want to hand-enter 50 or more customers at a time. The group agreed that there is a need to determine the scope of a project to meet the California needs.
- Ceridian and Intuit discussed the specific situation where an existing business wants to enroll for e-file or e-pay, and especially the desire for

a third party service provider to enroll its customers. Preston Barnett of Ceridian will create a draft schema for this purpose. Scott Mueller and Steve Veillieux will review.

3. FSET Modernization
 - There is a need to update FSET packaging to match the 1120/1065 model.
 - Florida noted a need to modify the structure to accommodate multiple wage records per employee, such as wages at multiple locations.
 - The timing and technology of any modernization of FSET must accommodate the three states currently utilizing the schemas, Wisconsin, Illinois, and Connecticut.
 - The issue was raised as to whether IRS would consider accepting and distributing FSET state returns on an unlinked (“state only”) basis until such time as the IRS is able to modernize the complete program.

FED/STATE 1065

1. Structure for Combined 1120/1065 Schema
 - Parent and Subsidiary apply to C-Corporations only.
 - C-Corporations don’t have schedules K or K-1 on Corporate returns, but can have them as information returns if the corporation is a partner.
 - The UnitaryConsolidated element will be renamed BusinessEntity and the complex type to BusinessEfileType, since it is used to report the primary business entity, whether C-Corporation, S-Corporation, or Partnership.
 - The same full complex type will still be used for BusinessEntity, Parent, and Subsidiary elements. The Distributive Share (K/K-1) structures will be separate.
2. Distributive Share and Allocation Structures
 - The new structure replacing K-1 will have EntityDistributiveShare and ShareholderPartner structures. ShareholderPartner will have ShareholderPartnerData and ProRataDistributiveShare. Both EntityDistributiveShare and ProRataDistributiveShare will be of DistributiveShareType.
 - Columns for DistributiveShareType can be based on the current Wisconsin ScheduleKType with addition of data from other states. It will be necessary to look at two levels of Alabama elements.
 - Elements for direct sourcing of income will be consolidated in the Allocation and Apportionment schema. A third tab for DirectAllocation will be added to StateAll and AandA.
3. Next Steps and Timeline:
 - 1120/1065 “SWAT team” will begin work as quickly as possible to clean up the existing schema set.
 - A small team will solidify the DistributiveShare work.
 - The revised 1120/1065 efileTypes, Categories, and spreadsheets with descriptions will be distributed to states the week of May 1.
 - Spreadsheets will be due May 26. Jim Rowland will review the input, identify candidates for boil down, and bring them to the June meeting.
 - First cut of 2006v1.0 will be reviewed at the June meeting.
 - Mark Wilcox, Steve Veillieux, and Scott Mueller will look at the FSET efileTypes and FSET schema modernization for the June meeting.

FED/STATE 1040

1. Decision on Program Timing
 - Lee Laurence reported that there is still no decision for Modernized e-File (MeF) after Release 5 for 1065. Business units within IRS and Bert DuMars, head of Electronic Tax Administration, are champions for 1040.
 - There is some opposition from OMB, who sees the successful existing 1040 e-file program based on EMS and do not understand why it must be replaced. IRS needs to retire EMS to realize the benefits of MeF.
 - FTA sent a letter to Commissioner Everson, stressing the benefits of MeF 1040, and requesting a definitive date for the program. IRS is responding that it does not have a definitive date at this time.
 - There is a proposal to create a "Schedule O" for 1040, so that the base 1040 return would be kept fairly static, with annual changes made to the Schedule O. Schedule O would eliminate the 1040A. It would accommodate late legislation, such as Katrina impact this past year, and make 1040 a bit smaller and more readable.
 - Current proposal for implementation:
 - 1040EZ for the 2008 filing season
 - 1040A for the 2009 filing season (or 1040 plus Schedule O)
 - 1040 full for the 2010 filing seasonAll would have fed/state functionality.
 - Unless a decision is made within a month, the above schedule will slip by one year, because there will not be time to develop for 2008.
 - Options for phasing over to MeF were discussed. IRS is committed to supporting both EMS and MeF the first year of full 1040 implementation. Beyond that will be determined by software developer acceptance of MeF and state readiness. Transmitters are asking for a longer parallel, but IRS wants to sunset EMS as quickly as possible.
 - There will be more discussion at the Software Developers Conference.
2. State Schemas – Category Review
 - The state 1040 schema set will be separate from the 1120/1040 schema set.
 - The categories for 1040 were reviewed from Terry Hunt's document. A revised document will be published for the team.
 - GeneralInformation will contain data and checkboxes that do NOT impact tax calculations. ExemptionsDependents will contain data and checkboxes that DO impact tax calculations.
 - Non-resident is generally a separate form, so resident and non-resident data do not need to be concurrent.
 - An efileType containing two elements, one for Primary and one for Secondary taxpayer, will be created for use in most 1040 elements, rather than creating separate elements. Similar structures may be needed for original and corrected amounts on the amended return.
 - New mini-category RefundDirectDeposit will be split out from the Header.
 - Some elements may be used both for Income computation and for Adjustments, and must be distinguished by usage.
 - Treatment of refundable vs. non-refundable credits must be finalized.
 - DonationsContributions will be handled generically with a recurring unbounded element of EntityDetailType. Each state may assign an enumerated list of donation/contribution selections.
 - Allocations and Apportionment category is needed by six states, and will come logically after Adjustments.

- Other forms, such as W-2 and 1099, will use the IRS schemas. This must not open the door for miscellaneous state forms that may be filed with the state 1040.

3. Business Rules

- Business rules must be developed for 1040. Existing 1120/1065 rules must be validated, and any new 1040 rules developed.
- This will be added to the June agenda.

4. Next Steps and Timeline

- Between now and June, the team will concentrate on 1120/1065, except for publishing the revised category definitions.
- June will work on defining e-file types and the spreadsheet. Spreadsheets, efileTypes, and definitions will be distributed, to be returned before the August meeting.
- August will analyze the data, adjust spreadsheets and efileTypes as necessary. The first cut schemas will be produced for the September meeting.
- September/October meeting will review the first cut schemas. Second pass spreadsheets will be distributed for new states, and will be boiled down for the December meeting.
- December will review second cut schemas.
- Goal is to have schemas ready for development no later than June 2007.