



**Modernized e-File  
Status**

**FTA Technology  
Conference**

Internal Revenue Service

August, 2007

**MeF Tax Year 2006 Statistics  
as of July 14, 2007**

Total MeF volume 1,787,576 – 227% of the volume on this day in 2006

	Accepted Returns	Projected Returns	% Projection
1120	134,551	366,500	36.7%
1120S	480,037	900,900	53.3%
7004	812,121	1,085,600	74.8%
1065/B	324,439	250,000	129.8%
990/990EZ/PF	16,193	33,501	48.3%
8868	20,235	18,100	111.8%

### MeF July 14, 2006 Comparison Through July 14, 2007

	2006 Accepted Returns	2007 Accepted Returns	% of 2006 volume
1120	84,704	134,551	+159%
1120S	306,645	480,037	+157%
7004	380,930	812,121	+213%
990/990EZ/PF	6,738	16,193	+240%
8868	8,512	20,235	+238%

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### MeF Status – Mandated Returns as of July 14, 2007

There have been 18,122 returns with assets of \$10 million or more filed this year. This is 318% of the 2006 volume (5,692 were received through July 14, 2006)

- 10,920 of the 18,122 returns had assets greater than \$10 million but less than \$50 million.
- 7,202 of the 18,122 returns had assets of \$50 million or more
- Breakdown of \$50 million or more
  - 2,756 returns had assets over \$50 million and less than \$100 million
  - 3,479 returns had assets between \$100 million and \$500 million
  - 485 returns had assets between \$500 million and \$1 billion
  - 482 returns had assets over \$1 billion

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### MeF Status – Amended Returns as of July 14, 2007

- MeF has accepted 908 amended returns – 3 were TY2005 returns, 905 were TY2006 returns. Many amended or superseded returns are claiming TETR credits
  - 274 Form 1065 amended returns
  - 77 Form 1120 amended returns
  - 557 Form 1120S amended returns

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### Fed/State Returns as of July 14, 2007

- The IRS has made available 35,490 State submissions for seven states. **MD, MI, NY and PA are new this year** (no state submissions had been received by July 14, 2006)
- Corporate state returns – 33,902
  - Georgia – 2,388 returns
  - Kansas – 3,110 returns
  - Maryland – 4,225 returns
  - Michigan – 65 returns
  - New York – 13,462 returns
  - Pennsylvania – 32 returns
  - Wisconsin – 10,620 returns
  - The following states are anticipating opening for live Corporate Fed/State processing sometime in 2007:
    - AL, CO, DE, FL, ID, MO, OR, SC, UT
- Partnership state returns – 1,588
  - Kansas – 461 returns
  - Maryland – 1,121 returns
  - Michigan – 6 returns
  - The following states are anticipating opening for live Partnership Fed/State processing sometime in 2007:
    - AL, GA, NC, UT and WI
- Exempt Organization state returns
  - MI was moved to production status on July 17<sup>th</sup>

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## MeF Fed/State How Does It Work?



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## MeF Fed/State Information

- Taxpayer submits federal and state returns as separate submissions.
- A taxpayer submits a separate state return for each state they have a filing requirement
- Each state return has state data and taxpayer provided federal portion
- The federal data to be included in a state return is governed by each state (some states require first four pages of the federal 1120 while others require a copy of the entire federal return)
- **MeF only makes available to the states, what the taxpayer includes in the state return package!**

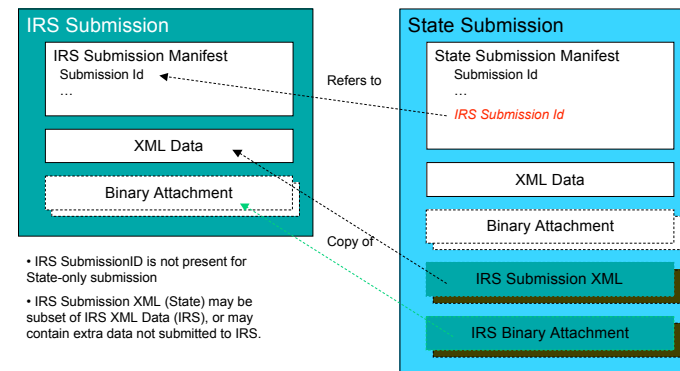
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## What is linked and unlinked

- State returns may be formatted as:
  - fed/state returns (state return is linked to the federal return)
  - stand-alone (unlinked – there is no association to the federal return)
- Linkage is determined by the state and taxpayer.
- The state decides whether they will support linked or unlinked or both. If they support both then taxpayer has choice of which they want to send.
- If the state requires linkage (linked), the federal return submission Id must be in the state manifest
- If the state allows stand-alone (unlinked) the federal return submission Id will not be provided in the state manifest

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## Linked Fed/State Submission



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## Processing State Returns on MeF

- **Linked returns**

- If the state return is a linked return, the federal return must be accepted or MeF will deny the state return (reject the return without forwarding it to the state).
- When federal and state submissions are contained in the same transmission, MeF is designed to process the federal return prior to processing the state return.

- **State Stand-Alone returns (unlinked)**

- If submitted as state stand-alone return, MeF will not look for a federal return associated with the state return.
- If state return passes validation criteria and the State allows Stand-Alone (unlinked) returns, the state return is made available to the state

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## Status of state returns

- Transmitter sends state return to IRS
- IRS validates state return
  - If linked return, check IRS SubmissionId and State Participation
  - If unlinked, check State Participation
- If valid, MeF makes state return available to state
- State retrieves state returns from MeF
- State sends receipt for state return to MeF
- State processes state return and sends state acknowledgement to MeF
- Transmitter retrieves state acknowledgement from MeF

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## Questions on Fed/State

- Is a taxpayer that uses the MeF Fed/State program to submit returns for more than one state prevented from using the Fed/State "linked" option and therefore required to use the state standalone method?
- Must transmit a separate state return for each state.
  - If the taxpayer has a filing requirement in more than one state, then they may submit each state return as a linked return
  - The taxpayer may submit one or more state returns as linked returns and other state returns as state-stand alone provided the state supports unlinked
  - Check with your state.

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## What's New for MeF !!

- Automated Enrollment will be implemented in fall 2007. The IRS will provide User Guides
- Processing Year 2008
  - 1120F will be implemented
  - State Manifest Change – Requested by TIGERS
    - Fed/State Change - Applicable to all MeF forms
    - Add an optional field in the state submission manifest
    - Tag name of the optional field: StateSchemaVersion
    - String type - Restriction up to 12 characters -No validation will be required on the format
    - State returns need to be stored for 1 year from the date that the state return was acknowledged by the state
    - Allow state returns to be submitted for federal returns that came in the prior year

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## MeF 1040 Status Update

Phase I	June 2009 ATS August 2009 Production	TY2008 (1040 and 11 forms*)
Phase I	November 2009 ATS January 2010 Production	TY2008 and TY2009 (1040 and 11 forms*)
Phase II	November 2010 ATS January 2011 Production	TY2010 1040 and all forms TY2008 and TY2009 (1040 and 11 forms*)

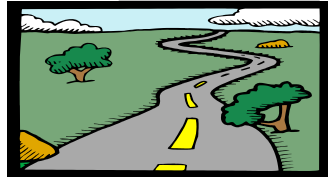
\* There is a possibility that an additional 11 forms may be added to Phase I

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## Changes for 1040

- IRS worked with TIGERS to come up with state business rules to be used for 1040 Fed/State
- IRS encourages states to start testing Web Services interface **early**
- IRS encourages new states to work with states that are already participating in MeF Fed/State Web Services

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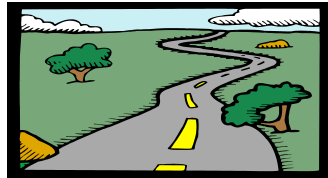
## Modernized eFile State Development

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Terry Garber  
South Carolina DOR  
Chair, TIGERS

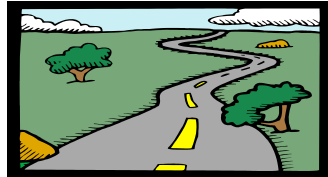
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### The Urgency:



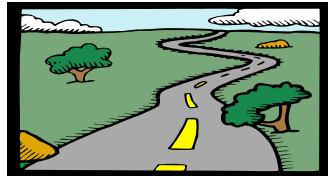
- 2009 is not that far away!
  - Work on Fed/State 1040 has already begun, and Fed/State 1120 is being revised
  - TIGERS brings together IRS, industry partners, and states
  - TIGERS needs business and technical participants from all 1040 efile states
  - Here's the process that we will follow
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## The First Steps:



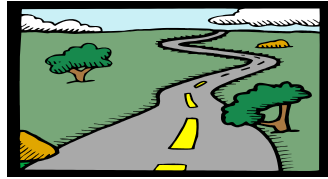
- Define Business Rules
- Fed/State 1120 project created eight basic Business rules, covering such areas as
  - Authentication of the taxpayer
  - Pass-through payments
  - Accommodating different due dates
  - Testing with IRS and Transmitters
- 1065 added rule to pull down returns by tax
- New rules were added for Fed/State 1040

## The Technology:



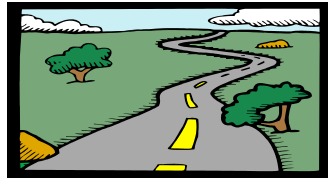
- Application-to-application resolves many of the issues of today's batch drains
- Web services technology has been new to most states
- Learning curve complicated by differences between Microsoft and Java shops
- Security technology is still being finalized by IRS; will require update by states

## The TIGERS Goals:



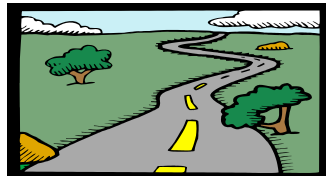
- Build data format standards for state data for Modernized Fed/State eFile
- Utilize XML schemas for data formatting
- Provide standards for common data components
- Provide flexibility for each state's unique tax forms and schedules
- Provide guidance in use of state standards

## The Challenge:



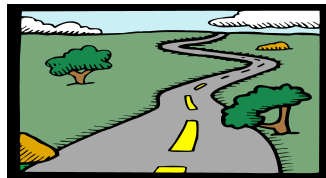
- Forms and tax law differ by state
- No one-to-one correspondence between state forms
- Each state has a different assortment of data elements
- Bottom line: there is no way to build a data format (XML schema) based on state tax forms that can handle all states.

## The First Try:



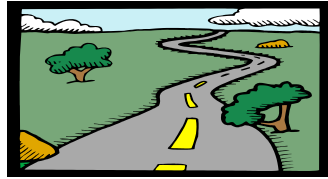
- Fed/State 1120 attempted to build a “master schema” with data elements from all states
- Data grouped into “Categories” rather than forms and schedules
- Concern for Fed/State 1040 that states and industry could not leverage current investment
- Concern that master schema approach not responsive to legislative changes

## The Proposal:



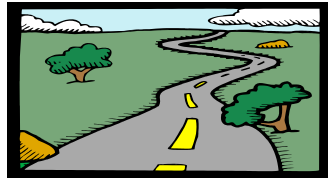
- TIGERS standard for overall XML schema structure for state return data
- TIGERS standards for common schema components such as Header, Financial Transaction and Binary Attachments
- Common tags and types for optional use
- States control XML schemas for forms and schedules within overall structure

## The Timing:



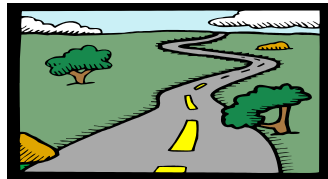
- Proposal will be presented in detail and voted on Wednesday afternoon joint session with TIGERS and NACTP
- Fed/State 1040 standards to be fully fleshed out by end of calendar year
- Fed/State 1120/1065 in transition
- “Best Practices” guidance under development to assist new states.

## The Reality:



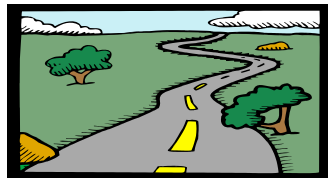
- It's a lot of hard, boring, painstaking work!!
- State forms must be mapped, line by line, to develop the state forms schemas to fit within the TIGERS standard schema structure
- Schema “packages” must be built, with version control, for use by software developers
- State business rules (edits) must be documented

## The State's Part:



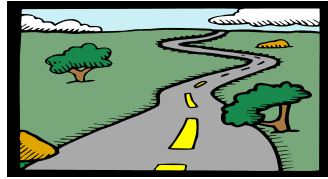
- Build web services gateway
  - Build process for taking input XML through input edits to back end processing system
  - Develop state schemas as described
  - Build system for viewing electronic returns
  - Sign MOU and obtain new ETIN(s)
  - Covered in detail in session tomorrow
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## The Cost:



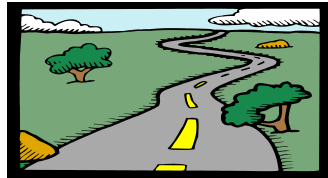
- Paid developer maintains standard schemas, common elements and types, and how-to documents including best practices
  - Costs spread across participating states
    - 1120 one-time year of entry \$1500 - \$2500
    - 1120 annual maintenance \$1100 - \$1900
    - 1065 one-time year of entry \$1000 - \$2000
    - 1065 annual maintenance \$900 - \$1800
    - 1040 one-time year of entry \$2800 - \$4600
    - 1040 annual maintenance TBD
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## The Benefits:



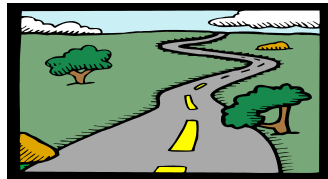
- One standard communications channel for 1120/1065/1040 saves effort and dollars
- XML data is flexible, can be worked with available low-cost tools
- Standardization across states reduces time and effort for software developers
- States have requested that IRS extend this solution to the Employment taxes

## The Meetings:



- TIGERS meets six times each year
- Three meetings with ANSI X12
  - Hefty meeting registration for non-members
  - Membership recommended for regular attendees
  - Membership benefits include free XML tools
- Three meetings sponsored by FTA
  - Modest registration fee to cover costs
- Participation is required for all states

## Questions???



- Terry Garber, TIGERS Chair, SC DOR  
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  - Jonathan Lyon, FTA,  
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  - Stephen Bouchard, Chair X12 Government Subcommittee,  
[SBouchard@comp.state.md.us](mailto:SBouchard@comp.state.md.us)
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