



Closing the Gap Between Recognizing and Realizing the Benefits of e-Filing

**How to Maximize the Number of
Paperless Returns, Increase Customer
Satisfaction, and Minimize Cost in Sales
and Use Tax e-Filing Mandates**

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The Mandate for Change

Revenue agencies have long recognized the potential benefits of eliminating paper returns. These include:

- Speed revenue collections (capture the float);
- Reduce operating costs;
- Improve data quality; and
- Increase customer satisfaction.

However, while an increasing number of agencies are considering the technical, financial, customer support, and political challenges of building effective e-filing systems, the distance between *recognizing* and *realizing* the above benefits can be great.

The purpose of this white paper is to share some critical observations acquired through many years of collaboration with revenue agencies as they have gone through this transition.

At the time of this publishing, 11 states have mandated paperless sales/use tax returns. Seven of those used legislative mandates, and four issued administrative rules. Eight implemented some form of dollar threshold requiring only a portion of businesses to e-file, while three required all customers to do so. Legislative mandates are enforceable, administrative rules may have enforcement limitations.

➡ The foundation observation that guides this discussion centers on **the common revenue agency goals for implementing a paperless return program:**

- Maximize the number of paperless returns
- Increase customer satisfaction
- Minimize cost

Understanding Your Customers—Business Tax Filers

In response to the question, “If we build it, will they come?” the market has answered with a resounding, “no.” Simply offering e-filing will not result in significant behavioral change. Historically, voluntary participation ranges from less than 1% to 5%. While mandates can force compliance, agencies are unlikely to achieve customer satisfaction goals and operating cost improvements without significant consideration of convenience for the filers. A system that is not designed with the customers in mind will result in an increased need for customer service (=higher cost) and increased user frustration (=lower satisfaction).

Recognize diverse needs. Customers in every state can be segmented into diverse groups, each with unique needs and technology capabilities. These groups include:

- practitioners (professional tax preparers)
- small businesses
- medium businesses
- large businesses
- multi-state businesses

A “one size fits all” approach simply cannot meet all groups’ needs. Yet many states initiate e-filing programs intending to offer filers only one choice for e-filing: the state agency web site. This is particularly difficult for multi-state filers and practitioners, since state web sites vary significantly from state to state, requiring multi-state customers to learn multiple systems to comply with each agency. This contributes to resistance from multi-state filers who would much prefer a single platform for all e-filing.

It is unlikely that sellers filing in 50 states would voluntarily change established paper processes to remit to a system that requires them to interact with 50 different systems. It’s also unlikely that a state could develop a single system that meets all these diverse needs without a significant investment—forcing agencies to take a close look at how much tax payer money they are willing to spend to assist businesses in collecting and remitting sales tax.

Open vs. Closed Systems. Currently, five mandated states are “open” and six are “closed.” Closed states require all electronic return data to enter through a single agency web site. Open states have taken proactive steps to enable private-sector vendors to act as electronic liaisons between filers and the state allowing them to efficiently “plug in” and deliver large volumes of electronic filing and payment data.

These vendors provide software and/or internet solutions that help filers electronically prepare and transmit returns and payments. The vendors then aggregate the data and deliver it to the state system. In an open system, filers can choose between multiple solutions, increasing the probability that their unique needs will be met.

- ➔ Essentially, open systems accommodate the diversity of your customers by allowing you to offer them choices for how they e-file, **without a significant investment from the agency.**

Benefits of an Open System

Customers may have filing and convenience needs that outweigh the benefits offered by a free single state online filing solution. Agencies that adopt an open system reduce the internal organizational tendency to focus exclusively on the state web site as the only means of e-filing. These agencies typically realize a number of benefits:

Convenience and cost savings. In an open system, private-sector vendors manage much of the customer relationship. They handle the lion’s share of service and support calls and

ensure filers have up-to-date filing specifications and current, compliant forms. This reduces the financial and human resource burden on agencies.

Increased e-filed returns and customer satisfaction. Because private companies deliver a convenient way for many customers to file, enabling them to efficiently plug in to state systems will result in a net increase of paperless returns and greater customer satisfaction.

Improved efficiency. Vendors transmit and monitor batches of e-filed returns at one time, rather than individually, which is more efficient and less risky for revenue agencies and customers.

A seamless transition for filers already using vendor software. Since many companies already use applications provided by these vendors, opening your system streamlines the transition to paperless for these customers. (Conversely, a closed system forces filers to alter their process to comply with yet another prescribed filing method.)

A road map to SSTP. The radical streamlining of the e-filing process envisioned by SSTP will require open systems that leverage the private sector. Closed systems block SSTP.

Instantly benefit from e-filing expertise. Partnering with vendors to plan and implement an e-filing system can significantly speed up your implementation and reduce the pressure on your agency. Software companies like Trustfile, Taxware, Vertex, RIA, and CCH have been aggregating business tax filing and payment data electronically for many years and have mastered the art and science of delivering this data efficiently and reliably to multiple agencies.

The Importance of Communication

Progressive agencies that choose open systems, must also communicate all filing options to their customers, rather than only notifying them about the availability of the agency system. Without complete and convenient communication, the benefits of an open system are negated. Possible public service communication methods include:

- Web site content, navigation, and links
- PR
- Help desk
- Mandate letters
- Seminars
- Listservs
- Registration process navigation

By working in partnership, agencies and private-sector companies can leverage their respective technical and communications resources to increase the number of e-filed returns.

Successful Implementation

The following are recommendations for a successful e-filing program implementation.

Own the process, but not the burden.

- Provide an open system. Enable efficient delivery of existing paperless return data from private software firms. Provide as many alternative electronic filing options as possible, recognizing that businesses have diverse needs and technology capabilities.
- Involve private partners in the design, implementation, and communication processes of your e-filing rollout. They have seen best and worst practices.
- Enable customer account management access through private systems.
- Consider the private sector as your partner, not a competitor.
- Support the TIGERS group as they seek to establish technology standards necessary for evolving into the SSTP vision.

Test early and communicate.

- Ensure open systems are functioning *prior* to mandating paperless returns.
- Communicate *all* paperless filing alternatives to your customers as noted above (public service disclosure).

Create the right incentives.

If you choose to implement a mandate or an administrative rule, consider incentives.

- Provide benefits for paperless filing vs. penalties (early deadlines).
- To reduce resistance to change, clarify cost savings and benefits of e-filing for customers when presenting a mandate.
- Some states may be imposing service fees to cover incremental paper return processing costs.
- Hold harmless paperless filers that attempt timely, good-faith filing.

Plan and measure.

- Plan for customer service needs when launching a program.
- Measure paperless returns received from all sources vs. only those through the agency system. Agency staff will work hard to channel filings according to what is measured.

Summary

Based on observations of states that have made the transition to e-filed sales and use tax returns, **what customers want is clear:**

- ➔ A convenient, reliable, and cost-effective filing tool that meets their unique filing needs
 - Communicated clearly
 - Available in advance of the mandate

If policy decisions remain focused on overall goals — maximizing the number of paperless returns, increasing customer satisfaction and minimizing costs — the resulting system will be beneficial to both revenue agencies and the business filers who are their customers.

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For more information about Trustfile, visit www.trustfile.com.