



E-File Systems Design for Payroll-related Tax Reporting

FTA Technology Conference

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NACTP

- Non-profit organization founded in 1969
- Includes in its membership over 50 payroll and tax preparation software companies, electronic filing processors, tax form publishers, and tax processing and payroll service providers
- Represents over 1 million employers in addition to individual taxpayers
- Worked extensively with IRS, SSA, and State Revenue Agencies to develop and design e-file systems and automated paper processing systems

NACTP Payroll Goals

- Serve as an advisor to taxing authorities to address payroll and information reporting issues
- Provide employers with a less costly, less time-consuming, more accurate method of form preparation than manually prepared forms
- Help agencies benefit from maximized compliance and minimized costs due to more limited manual processing through providing compliant products and services to employers
- Promote the standardization/simplification of electronic and alternative filing systems

Why We're Here

- State Revenue agencies are rapidly adopting new systems for electronic transmission of employment tax reports
 - Replacing magnetic media wage reporting programs
 - Worth a comprehensive planning effort
 - Separate systems are necessary
 - Individual employer filings (or small batch)
 - High volume filers (over one-third of wage records)
 - Focus first on high volume filers to gain higher numbers of e-filed returns
 - Early designs have been problematic
 - Resulting systems dramatically increase agency and private sector workload
 - Include industry in design phase

Electronic Filing Roles

- Some entities can serve multiple roles
 - Taxpayer/Employer
 - Preparer or Electronic Return Originator
 - Reporting Agent
 - Transmitter
 - Software Developer
 - Taxing Authority
- Recommend electronic filing systems address the needs of all participants

Agency Sponsored Data Entry Systems

- Requires time-consuming step of re-keying information from accounting software into data entry system increasing the probability of errors
- Problematic to maintain and market; counterproductive for the computerized return processing industry
- Only focuses on the taxpayer rather than the other participants
- Recommend building electronic filing systems for bulk filers

File Format Standards

- Recommend use of established data formats with no “tweaking”
 - FSET (Fed-State Employment Tax)
 - MMREF/EFW2 (Specifications for Filing Forms W-2 Electronically)
 - Publication 1220 (Specifications for Filing Forms 1098, 1099, 5498 and W-2G Electronically or Magnetically)
 - ICESA (Interstate Conference of Employment Security Agencies)

Specifications

- Even when standards are used, specifications need to outline elements such as:
 - Transmission and security protocols
 - XML schemas and versions; format
 - Business rules and edits
 - Applicable data elements; name tag protocol
- Recommend high level specifications be released for industry review one year prior to planned implementation

E-Services

- Recommend providing access to additional information via e-services based on the role of the participant
 - View returns, amendments, and notices for authorized periods
 - Permit taxpayers to view payments, returns, and any error conditions
 - Secure e-mail for account resolution

National Payroll Reporting Consortium (NPRC)

- NPRC is a non-profit trade association whose members provide payroll tax reporting and payment services to over 1.3 million employers nationwide - - *more than one-third of the private sector workforce.*
 - NPRC actively supports appropriate electronic filing and tax payment programs.
 - For over 30 years, NPRC members have supported electronic tax administration in every state

Intelligent design can minimize agency and private sector workload

- Design recommendations address industry characteristics and best practices; e.g.,
 - “Enrollment” in electronic filing systems
 - New edit capabilities – how far should you go?
 - How to manage authorizations
 - SSA vs. IRS models
- Recommendations include software developer and transmitter perspectives
 - E.g., Intuit Quickbooks – used by >1 million employers

Examples of Issues Addressed:

Lessons Learned, Best Practices, and Recommendations

Avoid Mandatory Enrollment in *e-file* Systems

- Employers are already registered with a valid EIN
 - Why register again for e-filing?
 - Don’t reject otherwise-valid electronic filings for lack of enrollment
 - Why not automatically enroll all employers?
- *If enrollments are necessary, use existing reporting systems to populate enrollment files*

Examples of Issues Addressed:

Lessons Learned, Best Practices, and Recommendations

How to manage authorizations

- How many service providers does it take to change a light bulb? Early assumptions.
- Paper world: Copies of signed authorization forms are sent to SWAs for slow, costly, painstaking recording and file maintenance
 - Future: Rely on a trading partner agreement ('memorandum of understanding') and electronic submissions of client information

Examples of Issues Addressed:

Lessons Learned, Best Practices, and Recommendations

Pre-filing data exchanges improve data quality

- Needed to achieve efficiencies and accuracy inherent in electronic filing
 - Conceptually a 'pre-filing' submission through existing filing systems to identify any problems
 - States have been conducting these data exchanges via magnetic media for many years
 - Those with effective systems eliminate 97% of the notices that would otherwise result.

Examples of Issues Addressed:

Lessons Learned, Best Practices, and Recommendations

Application of new edit capabilities is important

- Early systems rejected entire transmissions (thousands of employers) for a few errors
 - *At what level should reports be rejected?*
- New edits – What is appropriate?
 - Consistency with SSA, IRS, other agencies, other states, and prior practice?
 - E.g., punctuation, special characters in name fields:
 - *John Smith Jr., John O'Malley, St. Regis; N. Hollywood*

Examples of Issues Addressed:

Lessons Learned, Best Practices, and Recommendations

Transmission protocols are different for large files

- eFiling through Web Services:
 - Basic Authentication thru User ID/password over SSL
 - Leverage WS Security for additional authentication, encryption, signing
 - Leverage SwA (SOAP with Attachments) to support large binary attachments (e.g., ICESA layout)
 - Avoids complex file management requirements
- Acceptable Alternatives:
 - FTP with PGP encryption
 - FTP over SSL
 - SFTP using SSH
 - Third party software for TCP/IP (costly)
 - Least favored - - HTTP over SSL
 - (browser based & file size limitations)

ACH Debit and Credit Options Are Needed

- Embedding ACH tax payment instructions within electronic returns is not appropriate for high volume submissions
 - When there are file submission or processing problems, it's not clear whether banking instructions were released and for which returns.
 - When corrected files are submitted, duplicate transactions may result.
- Large companies are also prohibited from permitting external organizations to access their bank accounts directly for risk management purposes.
- Some software developers/transmitters do use ACH Debit.
- *Recommendation: Permit separate submission of tax payments and tax reports via ACH Credit, and support ACH Debit and Credit options*

Careful Design of e-file Systems Would Save Countless Resources

- NPRC and NACTP recommendations are available now
 - www.nprc-inc.org
 - www.nactp.org
- Early collaboration is helpful
- NPRC and NACTP members would like to work with interested state agencies who are working on or planning new electronic filing systems



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