



STATE SALES TAX E-FILING: THE ECONOMIC RATIONALE FOR CREATING WIN-WIN MANDATES

E-FILING SYMPOSIUM – ATLANTA, GA



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INTRODUCTION

The first mandates we've witnessed in the business tax arena were for e-Payments (EFT) and were targeted at firms who represented large amounts of tax revenue in a particular jurisdiction. E-Payment mandates can best be described as "revenue enhancement" activities on the part of states and enable governments to realize a greater percentage of the money they are entitled to in a more efficient fashion. E-filing mandates are best described as "cost reduction" and "cost avoidance" activities on the part of states. They enable governments to realize savings by reducing the processing costs of paper filing.

The win-win e-filing scenario occurs when a state's rules, surrounding e-Filing, eliminate or reduce cost in the compliance chain rather than increase or shift cost from government to business or vice-versa. The following guiding principles are based upon the idea of cost reduction or elimination from the total compliance process, not shifting the cost burden from one entity to another.

GUIDING PRINCIPLES: IMPROVING BUSINESS TAXPAYER E-FILING ADOPTION

PRINCIPLE #1: PROVIDE E-FILING OPTIONS THAT ADDRESS AUDIENCE NEEDS

The taxpayer who has automated his tax compliance process views filing (and payment) as an extension of this process, not a separate event. Multi-jurisdiction and multi-company filers generally comprise this class of business taxpayer.

States who accept an electronic transmission of a user-created file containing data necessary to file tax obligations are on the path toward meeting customer requirements. States who require users to fill out an electronic form on their Web site in order to e-File, are inadvertently encouraging this class of taxpayer to file via a paper return.

For example, New Jersey is phasing out paper returns in favor of web filing (great for smaller, in-state filers) but not offering upload capabilities to their automated taxpayers or bulk filers.

PRINCIPLE #2: MAKE THE TRANSMISSION OF THE DATA EASY

The World Wide Web (WWW) is easily accessible. Getting on the Internet is as easy and as fast as turning on your television. Most taxpayers will have access to the WWW from the office, or their home.

States offering Web filing include: Alabama, Florida, Kansas Minnesota, North Carolina, Oklahoma, Pennsylvania, South Carolina, South Dakota, Texas, Washington, Wisconsin

Another form of transmission involves using a VAN (Value Added Network). There are all sorts of communication protocols, necessary third-party communication software, and the ability to "script" the communication. This is not like opening up a browser and uploading a file.

Tennessee only offers a VAN transmission method while Florida offers both VAN and web file capabilities.



PRINCIPLE #3: KEEP THE DATA FILE TECHNOLOGY SIMPLE

A good example is using/accepting XML or Comma Separated Values (CSV) files. The taxpayer can easily create this file by using Excel. States who accept CSV files include Alabama, Kansas, Oklahoma, Pennsylvania, Minnesota, South Dakota, and Washington. States who accept XML: Wisconsin

While the use of Transaction Set 813 does make use of a standard, the specifications to explain the creation and layout of the file are large (15-30 pages). Comparatively, Oklahoma's explanation of the file creation and layout for a CSV file is a one page, two-column document.

States that accept 813s: Florida, North Carolina, South Carolina, Tennessee, and Texas.

PRINCIPLE #4: KEEP AS MUCH DATA AS POSSIBLE IN THE DATA FILE

In the case of Wisconsin and Pennsylvania, everything necessary to file and process the return is in the data file including the registration number, filing period, relevant tax data, and payment information.

PRINCIPLE #5: MAKE ACCESS TO THE FILING MECHANISM SEAMLESS

By following Principle #4, a state can make access to the filing mechanism seamless. An excellent example of this is Wisconsin. The taxpayer is validated through the elements in the file rather than requiring the taxpayer to go through a manual process before they can transmit.

Some states require you to pick your filing period, pick your applicable return type (monthly, quarterly), log-in, and enter password before transmitting the data.

Two examples: Alabama and Oklahoma.

PRINCIPLE #6: ACCEPT MULTI-COMPANY, MULTI-TAX TYPES AND MULTI-RETURNS IN ONE FILE

Many large businesses consolidate their tax compliance and filing activity within a single department. The idea is to consolidate similar processes and realize economies of scale by serving multiple businesses with this department.

Examples of states who accept multi-company, multi-tax type, and multi-returns in one file are: Alabama, Florida, South Carolina, Texas, Pennsylvania, and Wisconsin. Iowa is expected to offer multi-company with their rollout of e-file in July 2005.

PRINCIPLE #7: ACKNOWLEDGE BULK FILING AT THE INDIVIDUAL RETURN LEVEL

Acknowledgements should be detailed enough to differentiate between companies and tax types that were successfully transmitted. This would allow for a quick turnaround of rejected returns or data and help "Bulk Filers" (multi-division or multi-company) identify the specific entity for which they need to make a correction.

Examples of states who acknowledge bulk filing at the return level are: Pennsylvania and Texas.



PRINCIPLE #8: ACCEPT ONE OR MORE TEST RETURNS FROM TAXPAYERS

Some revenue departments recommend that all taxpayers send a test return before their first electronic filing. If your test submission is error free, the DOR will send acknowledgement that you can begin sending EDI files.

Examples of states who accept and recommend test returns from taxpayers: Tennessee, North Carolina

About Dick Eppleman

Dick Eppleman, Director of Government Markets at Vertex, served in sales, marketing, and new business development roles over an 18 year span in the information technology industry with 3M prior to joining Vertex. He is a member of the Institute for Professionals in Taxation and has spoken before various business and government groups on topics including the Streamlined Sales Tax Project, Electronic Filing, and Economic Value.

About Vertex Inc.

Vertex Inc. is the leading provider of tax technology products and process management services for more than 10,000 customers worldwide. Vertex technologies and services help companies streamline tax compliance processes, as well as leverage information to discover new strategic tax savings that enhance decision information across every major line of business tax including income, sales, consumer use, value added, communications, and payroll. To serve its customers, Vertex works in partnership with leading software and service providers, including SAP, Oracle, Microsoft, IBM, and PeopleSoft.

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