

Michigan e-file Mandates



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Today's Topics

- E-file mandates – What are they?
- Why did we issue the mandates?
- How did we implement the mandates?
- What worked and why?
- E-file growth
- Compliance and penalties
- Lessons learned



Mandates – What are they?

Personal Income Tax (PIT)

- **When: Tax year 2003**
- **How:**
 - **Income Tax Act [MCL 206.311(1)]**
- **Who:**
 - **Preparers with 200+ PIT returns**
 - **Developers must support e-file for all eligible forms included in software.**



Mandates – What are they?

Single Business Tax

➤ **When: Tax year 2003**

➤ **How:**

- **Single Business Tax Act [MCL 208.73(1)]**

➤ **Who:**

- **Developers must support e-file for all eligible forms included in software.**
- **All eligible SBT forms prepared with software must be e-filed.**



Why Mandates?

- **Budget reduction**
- **Less seasonal staff**
- **Maintain reasonable level of service**



Implementation

- **Communications with tax professional groups and software developers**
- **June 2003: First letter to developers and tax preparers**
- **October 2003: Second letter to tax preparers**



June 2003 Letter

Dear Software Developer:

In an effort to optimize operational efficiency and improve customer service, the Michigan Department of Treasury is planning several tax processing changes for next year. A major part of this effort is to mandate electronic filing for individual income tax and single business tax returns beginning in January 2004.

The Income Tax Act, MCL 206.311(1), provides, in part, “The taxpayer on or before the due date set for the filing of a return or the payment of the tax...shall make out a return in the form and content as prescribed by the commissioner, verify the return, and transmit it, together with a remittance of the amount of the tax, to the department” (*emphasis added*). In accordance with this statute, I am mandating e-filing for preparers who filed 200 or more income tax returns for tax year 2002.

Software developers producing software for professional tax preparers will need to support all Michigan income tax forms that are eligible for e-file. Information for software developers is available on a secure area of our Web site. Using your assigned user name and password, you can access the secure site from <http://www.michigan.gov/drafttaxforms>. If you need a user code and password, please call (517) 373-8891.

The Single Business Tax Act, MCL 208.73(1), provides, in part, “An annual or final return shall be filed with the department in the form and content prescribed by the department...” (*emphasis added*). Accordingly, I am mandating that all SBT returns using software must be filed through our Internet Portal.

Software developers supporting Single Business Tax e-file for tax year 2003 will need to support all SBT forms that are eligible for e-file. Preparers filing Single Business Tax returns for tax year 2003 must e-file all Michigan returns that are eligible for e-file. Information on SBT e-file is available on our Web site at <http://www.michigan.gov/SBTefile>. We will accept SBT e-file returns requiring payment for tax year 2003.

A teleconference is being planned to address your questions and concerns. You will receive further information on this in the near future.

If you have questions about any of these programs, please contact the Alternative Filing Office at (517) 636-4450, or e-mail to Mlefile2D@michigan.gov. This is a dedicated resource for tax preparers/software developers only and enables Treasury to provide better service to authorized e-file providers. Thank you for your cooperation and support.

June 2003 Letter

Dear Tax Professional:

As you know, Michigan, as well as states across the nation, is faced with a budget deficit. As a result of the deficit, resources will not be available to process paper tax returns as timely as in the past. Therefore, refunds from paper returns will be delayed. E-filing makes sense from a cost perspective and allows your clients to continue to receive their refunds in 7 days.

Beginning January 1, 2004, practitioners who prepared 200 or more Michigan income tax 1040 returns and credits are required to electronically file (e-file) these forms.

Our records indicate that you filed over 200 tax returns for the tax year 2002. Therefore, you will be required to e-file all eligible income tax returns for the 2003 tax year. For a list of returns eligible for e-file, please see Information for Tax Preparers at www.Mlfastfile.org. Treasury will continue its analysis to identify additional preparers meeting this criterion.

E-file needs you to be successful. Beginning in 2004, Treasury will be monitoring tax returns as they are filed. For many preparers, e-filing will be a new experience. Before you can e-file Michigan returns you must become an Electronic Return Originator (ERO). The first step is to submit Form 8633, *Application to Participate in the IRS e-file Program*. Information is available on the IRS Web site at <http://www.irs.gov/taxpros/providers>. Once accepted by the IRS, enrollment in the Michigan e-file program is automatic. The *Michigan Income Tax e-file and 2-D Barcode Handbook*, related publications, and program updates are published on our Web site at www.Mlfastfile.org. Please look here periodically for new information.

If you have questions, please contact the Alternative Filing Office at (517) 636-4450, or e-mail to Mlfile2D@michigan.gov. This is a dedicated resource for tax preparers/software developers only and enables Treasury to provide better service to authorized e-file providers. The Alternative Filing Office is not able to provide return status information.

For Your Information: If you also prepare Single Business Tax returns, software developers have been advised that all SBT returns prepared with software must be e-filed through Michigan's Internet portal.

Thank you for your cooperation and support.

October 2003 Letter

Dear Tax Professional:

The Michigan Department of Treasury is committed to bringing the advantages of technology to our work, wherever it can improve efficiencies and accuracy, reduce costs, and enhance the state's filing, refund and/or audit processes. As part of this continuing effort, practitioners who prepare 200 or more Michigan income tax 1040 returns and credits are required to electronically file (e-file) these forms, effective January 1, 2004.

Our records indicate that your firm filed more than 200 tax returns for the tax year 2002. Therefore, you will be required to e-file all eligible income tax returns for tax year 2003. For more on this requirement, Michigan's *Alternative Filing Programs Handbook for Tax Preparers*, related publications, and program updates, visit www.Mlfastfile.org. Please check back periodically for the very latest information.

E-filing will be a new experience for some tax preparers. It is important to note that, before you can e-file Michigan returns you must become an Electronic Return Originator (ERO). To do this, submit Form 8633, *Application to Participate in the IRS e-file Program*, to the Internal Revenue Service. Information is available on the IRS Web site at <http://www.irs.gov/taxpros/providers>. Once accepted by the IRS, you are automatically enrolled in Michigan's e-file program.

If you have questions, please contact the Alternative Filing Office at (517) 636-4450, or e-mail to Mlfile2D@michigan.gov. This is a dedicated resource for tax preparers/software developers only and enables Treasury to provide better service to authorized e-file providers. The Alternative Filing Office is not able to provide return status information.

For Your Information: If you also prepare Single Business Tax returns, software developers have been advised that all SBT returns prepared with software must be e-filed through Michigan's Internet portal.

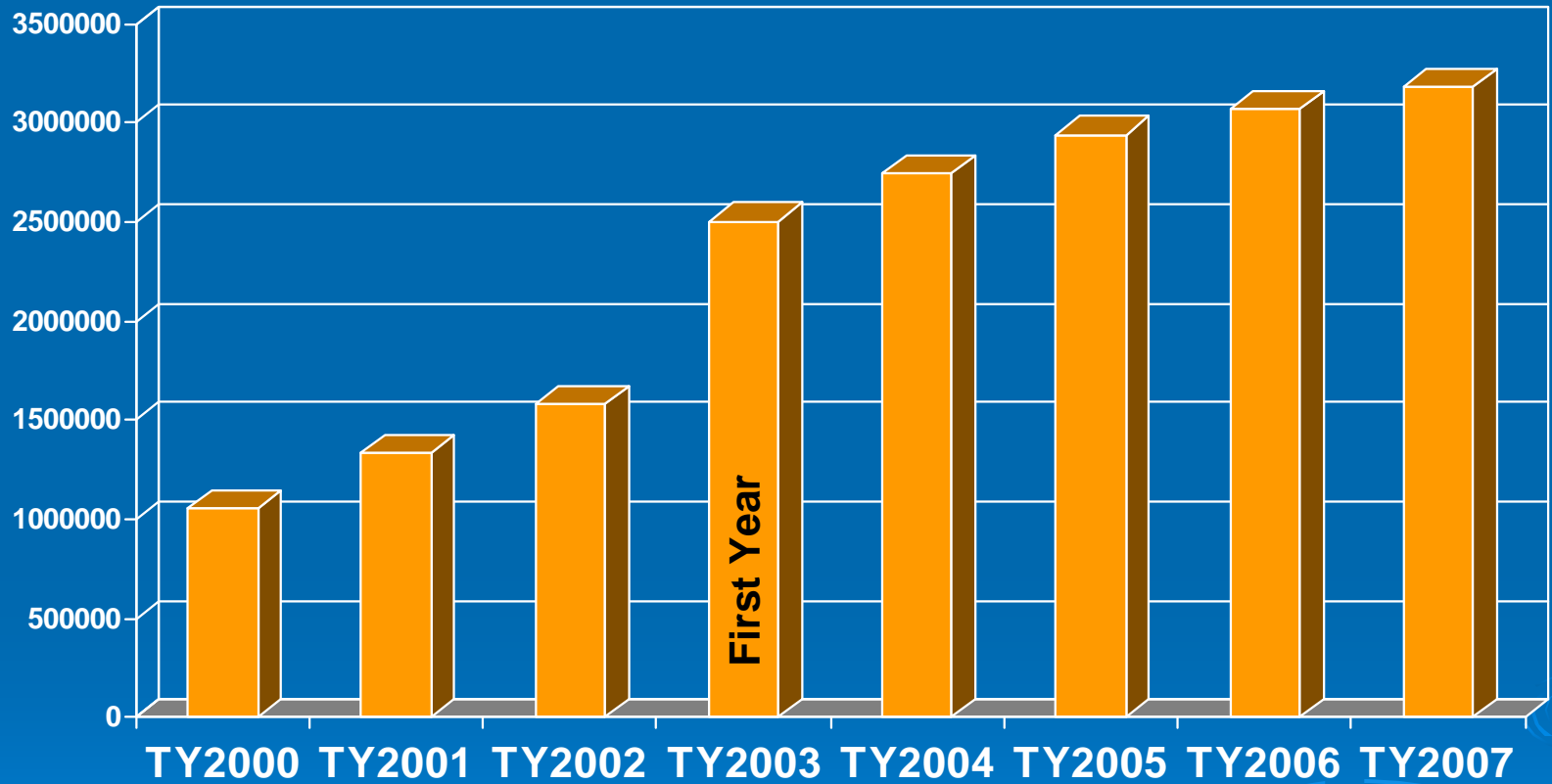
Thank you for your cooperation and support.

What Worked and Why?

- **Learn from other states' experiences**
- **Governor's support**
 - **“State government must be a leader, and should not step backwards, in making the innovative technology changes necessary to successfully operate in today's competitive business environment.”**

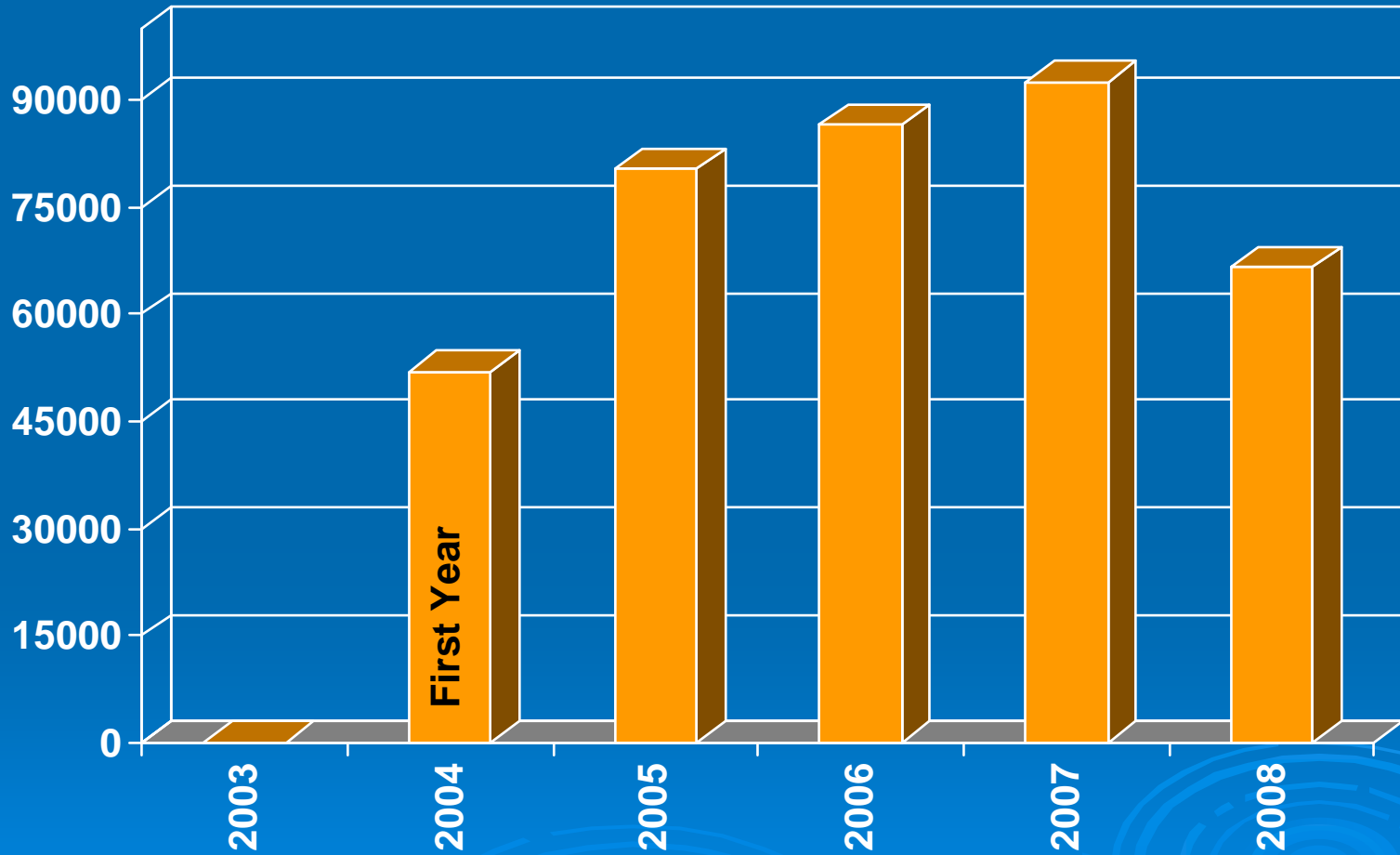


PIT e-file Growth



■ Michigan PIT e-file Returns (Tax Year)

Business e-file Growth



■ Michigan Business e-file Returns (Processing Year)

Compliance and Penalties

➤ Noncompliance

- Not approved to participate with IRS
- Shift from objection to satisfaction
- Continue to monitor

➤ Penalties

- Viewed as cooperative effort
- Shifts focus from mandate
- Additional legislation required



Lessons Learned

- **Include developers and tax preparers in early discussions**
- **Volunteer groups**
- **Public education**
- **Some flexibility in first year**
- **FAQ for public and staff**



Lessons Learned

- **Leverage Web site as a communication tool**
- **Expect initial negative response from preparer communities to diminish**
- **Expect demand for “free filing” from taxpayer communities to grow**
- **Expect to reach a ‘saturation’ point**



THANK YOU