



## IRS/FTA TACTICAL ADVISORY GROUP – “TAG”

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August 2003



### What is the TAG?

- Formed by request of IRS Electronic Tax Administration (ETA)
- IRS representatives from W&I, SBSE, and ETA with other resources as needed
- Representatives from CA, CO, IL, MD, NY, SC, and VA
- Facilitated by IRS and FTA
- Chaired by Frank Lanza, CA FTB



## TAG Charter



- Improve communications between states and IRS on e-initiatives
- Increase understanding of each other's challenges
- Enhance cooperation when considering e-initiative priorities and strategies
- Provide recommendations to maximize business value for both IRS and states while reducing burden for taxpayers



## Meetings, Meetings



- Recognized difficulty for state travel
- Quarterly face meetings
  - To date, met January, May, and July
  - Planned meeting for October
- Between meetings, task groups work on various issues by conference call and email



## So What Have We Done?



- First meeting (January 2003) brainstormed topics for investigation
- Realized need for states to understand IRS priorities and timelines
- Discovered that changes for 2004 efile were about to be finalized
  - Asked for chance to review proposed changes to prioritize for state value
  - Too late to impact decision to delay 1040 Single Point Acknowledgement to January 2005



## Joint Marketing Research



- Report produced by Kevin Richards (IL) and Jeane Olson (MD) for May meeting
- Produced survey for states
- Discussed ways to leverage remaining resources without IRS efile coordinators
- Discussed inclusion of generic Fed/State message in IRS marketing materials
- Discussed state access to IRS market research
  - What EROs producing V-coded returns?



## Joint Marketing Plans



- Continued leadership by Kevin Richards (IL) and Jeane Olson (MD)
- Finalizing survey results
- Access by states to IRS Statement of Work with ad agency
- Identify IRS marketing contacts for all states by September 1, 2003
- Produce "template" for joint marketing
  - How leverage existing resources – best practices
  - Aim for September 28, 2003 for October meeting



## Free File Alliance



- At May meeting, heard IRS report from program manager
- Heard discussion/concerns from states with their own free filing programs
- Recognized issues were mostly political rather than technical or programmatic
- Therefore decided FFA is not within scope of TAG to make recommendations



## Internet FEIN



- Discussion of limited SBA pilot program
- Feedback on two options for next steps
  - Fill-in option
    - Link from state application to IRS site
    - FEIN given to taxpayer – no disclosure issues
    - Need way to get back to state site!
  - Web services option
    - Sophisticated API – all done in background
    - State site must be C-2 certified
    - Disclosure issues



## Single Point W-2



- STAWRS initiative with scanned paper had limited success
- Proposal to revive initiative with electronically filed W-2's
- State driven – chaired by Nonie Manion (NY)
- "Owners" needed in IRS and SSA
- Related STAWRS initiatives will not be pursued further
  - Harmonized Wage Code
  - Single EIN

## Fed/State 1120



- Introduced by IRS at May eFile Symposium and TAG meeting
- IRS target January 2005
- Needed business requirements by November 2003!
- IRS presented concepts of how program might work
- TAG agreed to put together task force

## Fed/State 1120, cont.



- Task force includes CA, IL, MD, MI, NY, SC, and VA
- Corporate processing and audit as well as efile coordinators, with IRS support
- "Met" extensively since May via conference calls and email
- Identified 7 key issues
- Presented draft recommendations at July TAG meeting



## Fed/State 1120 Issues



- **Transmission/Format**
  - **Recommended IRS SOAP packaging**
    - Flexible to handle multiple return types within transmission – Fed, Fed/State, State Only
    - Already adopted by IRS and software developers
  - **Recommended state returns use XML**
    - Open standard – tools available in marketplace for development and mapping to legacy system
    - Front end schema validation
    - Leverage IRS structure and data elements



## Fed/State 1120 Issues



- **Authentication – two alternatives**
  - IRS can validate FEIN/name control to master file
  - IRS can validate signature presence
    - Practitioner PIN
    - Scanned 8453 in PDF format
- **Acknowledgement Recommendations**
  - Single point Acknowledgement system
  - Two levels: Transmission and Accept/Reject
  - Use of IRS XML Acknowledgement format for Level Two Acknowledgement



## Fed/State 1120 Issues



- **Payments Recommendations**
  - Separate federal and state payments attached to respective returns
  - IRS to pass through state payments
  - No co-mingling of funds
  - Use of existing XML payment format
- **Due Date Recommendations**
  - Must be flexible to handle varying due dates for varying fiscal years
  - Allow State Only filings to handle state due dates different from federal due date



## Fed/State 1120 Issues



- **Disclosure Alternatives**
  - Include copy of federal 1120 inside state filing
    - Works for 1040!
    - No disclosure issues
    - Recommended alternative for immediate implementation
  - Disclose "common data"
    - Reduce duplication of data, size of files
    - Must be negotiated separately for each state
  - Ruling to allow IRS to give 1120 to states
    - Requires ruling by General Counsel
    - Best alternative long term, but will take time



## Fed/State 1120 Issues



- Validations/Rejections Recommendations
  - IRS can validate FEIN/Name Control
  - IRS can validate Business Tracking Number EFIN and Julian date
  - Other fields may differ between federal and state returns, so further validation is not practical
- If federal return is rejected, attached state returns are also rejected
  - State Only option allows state return to be filed stand alone if federal or state return is rejected



## Fed/State 1120 Next Steps



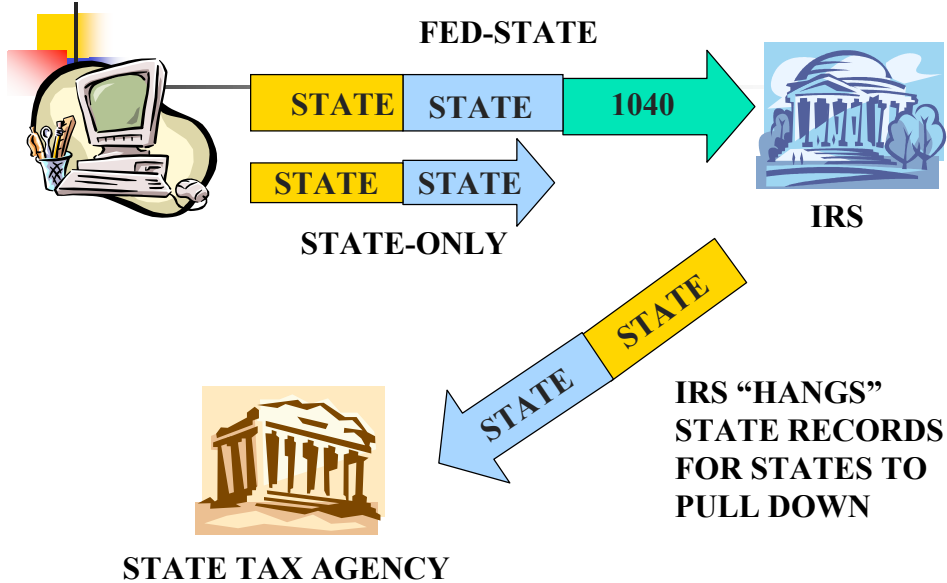
- Document summarizing all 7 issues and recommendations will be sent to all states by FTA for review and comment
- Document will be updated with state input for October TAG meeting, then finalized for November 1 submission to IRS
- TIGERS will begin work on state 1120 XML schemas at October meeting

## Fed/State eFile Models

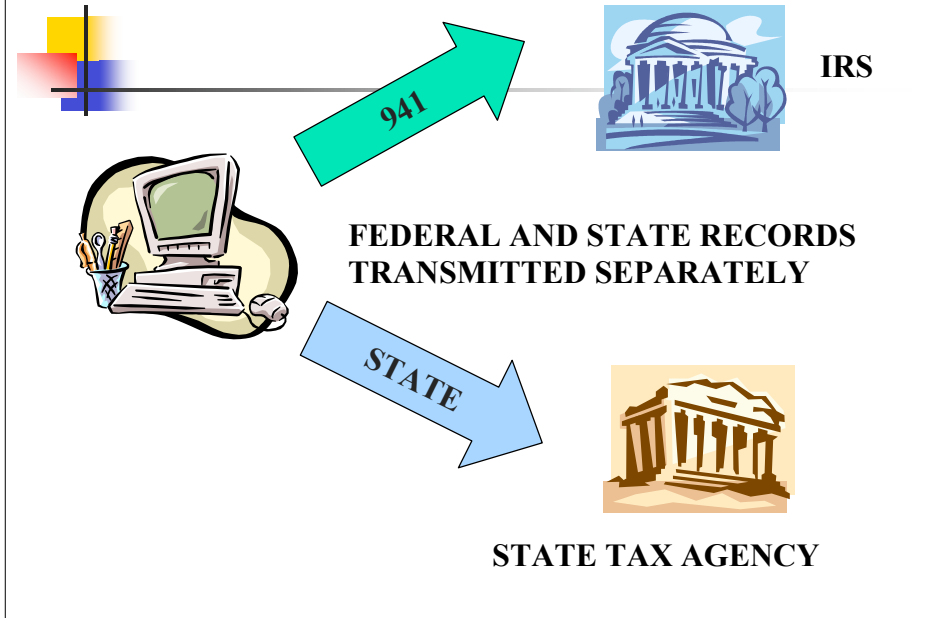


- Issue: 1040 eFile follows one model, FSET follows another, 1120 a third
- Is there a “best” model?
  - Leverage new technologies
  - Provide value to states
  - Reduce burden on software developers
- If so, what is it?
- What are implications for IRS planning?

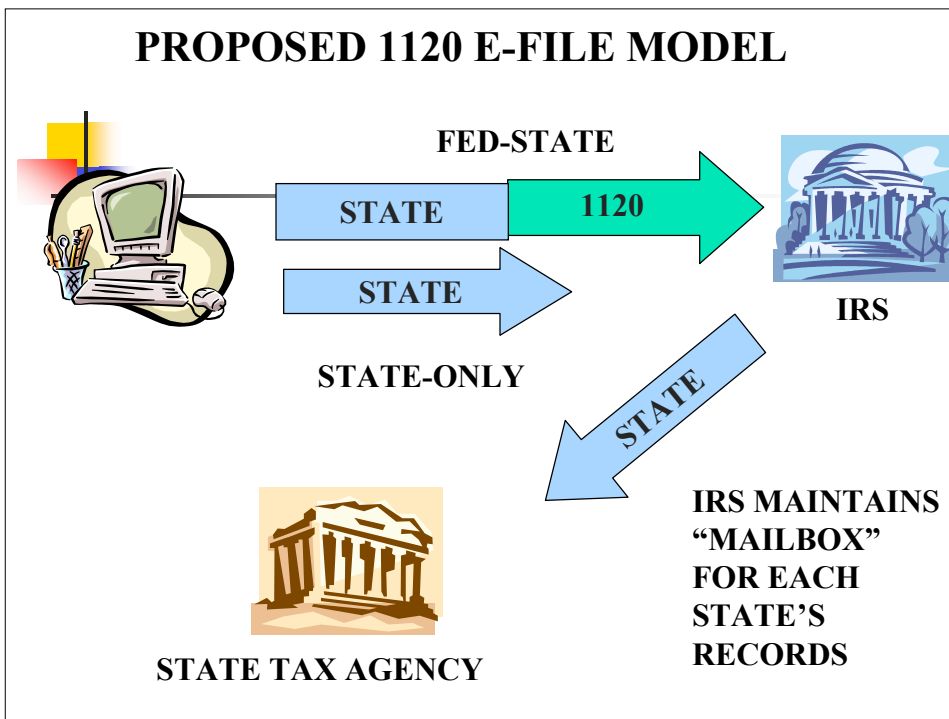
### CURRENT 1040 E-FILE MODEL



## CURRENT FSET E-FILE MODEL



## PROPOSED 1120 E-FILE MODEL





## “Best of Breed” Model



- Use of XML and SOAP
  - Leverage IRS efforts
  - TIGERS “Superschema” effort for state returns
- Single transmission channels for taxpayer filing and state retrieval
- Single Point Acknowledgements
- IRS validation of state fields
- Payments optionally included
- Copy of federal return may be included in state return in a standardized format



## eFile Models Next Steps



- TAG informally presenting “best of breed” model and possible timeline
- IRS to look at implications
  - Finalizing timeline and funding requests
  - Modifications to Fed/State 1120 plans (Single Point Acknowledgements)
  - Issues with migration of FSET to modernized eFile platform – when and how
  - Plans to discontinue old platform by 2009



## Fed/State Payments



- IRS/FMS desire to increase use of EFTPS
- Possible synergy, especially with withholding payments
  - “One-Stop” payment for taxpayers
- State concerns
  - Integration across state tax types
  - Need for data with payments
  - Existing bank relationships
- J. R. Simpson (VA) to lead research possibly leading to pilot effort



## So What's Next for TAG?



- TAG is intended to represent the interests of all states, so need input:
  - Fed/State 1120 recommendations
  - Joint Marketing survey
  - eFile Models discussion
  - Fed/State payments
  - Etc.
- FTA to distribute TAG output to states
- Plan to dialog with industry
- Let us know what you think!



Questions??