Electronic Filing MANDATES: Lessons Learned

Preliminary Version, June 2005

Subject to Revision

Washington, D.C.

visit: http://www.taxadmin.org/fta/edi/ecsnaps.php
for the most recent information on e-file mandates.

Foreword

In recent years, a number of states have adopted requirements mandating that certain taxpayers must file their tax returns electronically or that certain tax practitioners must file all returns they prepare in electronic form. Mandates have been applied to both individual income tax filing and business tax returns. While few will dispute the benefits of electronic filing for all parties, implementation of the mandates has raised a series of issues that states should consider if they choose to proceed with an electronic filing requirement.

States that have implemented have learned several lessons that can ease the implementation issues in subsequent states. Valuable input has also come from practitioners and software developers who have offered their own observations based on their experience in complying with the mandates and assisting their clients in doing so.

This report attempts to capture those issues, lessons and concerns. It has been gathered from a series of discussions among states and with practitioners. Discussions with practitioners, software developers and states will continue. The suggestions and observations below should be considered preliminary and subject to augmentation as discussions continue. The Federation thanks all who have contributed to this effort, and we look forward to working with them in the future.

Federation of Tax Administrators
June 2005

Electronic Filing Mandates: Lessons Learned

Background
All the evidence is clear: If you have an e-file capability, you certainly want taxpayers to use it. Tax administrators across the country have embraced electronic filing as a means to: (1) improve processing (including distribution of tax refunds); (2) eliminate key-entry errors; (3) improve customer service; (4) reduce the number of seasonal workers; and (5) make better use of staffing resources.

It stands to reason tax administrators are looking for ways to encourage taxpayers and tax practitioners to take advantage of the filing products that have been developed for this purpose. In an effort to encourage electronic filing, states have focused on incentives such as (1) quicker refunds[1]; (2) direct deposit on e-filed returns; (3) electronic refund inquiry; (4) electronic account update; (5) automated extensions; and (6) free tax preparation software.

Recently, states have become more aggressive by implementing mandates that require certain individual or business tax returns to be filed electronically. In the individual arena, the mandates generally require tax practitioners who file more than a specified number of returns in the prior year to file all their returns electronically in the current year. Over time, the threshold is often lowered, gradually increasing the base of practitioners that fall under the mandate. Other features that are sometimes present in individual income tax filing mandates are hardship exceptions that allow practitioners that cannot meet the mandate a grace period for implementation, "opt out" procedures that allow taxpayers to choose not to have their returns filed electronically, and penalties that may be imposed on practitioners that do not file the returns electronically as required.

Business filing mandates are built somewhat differently. Generally, mandates go into effect when a business' payments exceed a certain dollar amount; in other words, the threshold is determined by the monetary transaction, rather than by a quantitative count of returns processed. Also, to solidify business filing mandates, many states have stopped mailing out certain paper forms, thereby implementing a de facto mandate since a paper alternative is not easily available. States hope these efforts will lead taxpayers to not only accept electronic filing, but depend on it as the standard.

Thirteen states[2] currently have mandates in place for the electronic filing of individual income tax returns. Eighteen states[3] have mandated electronic filing programs for sales tax or withholding tax filings.

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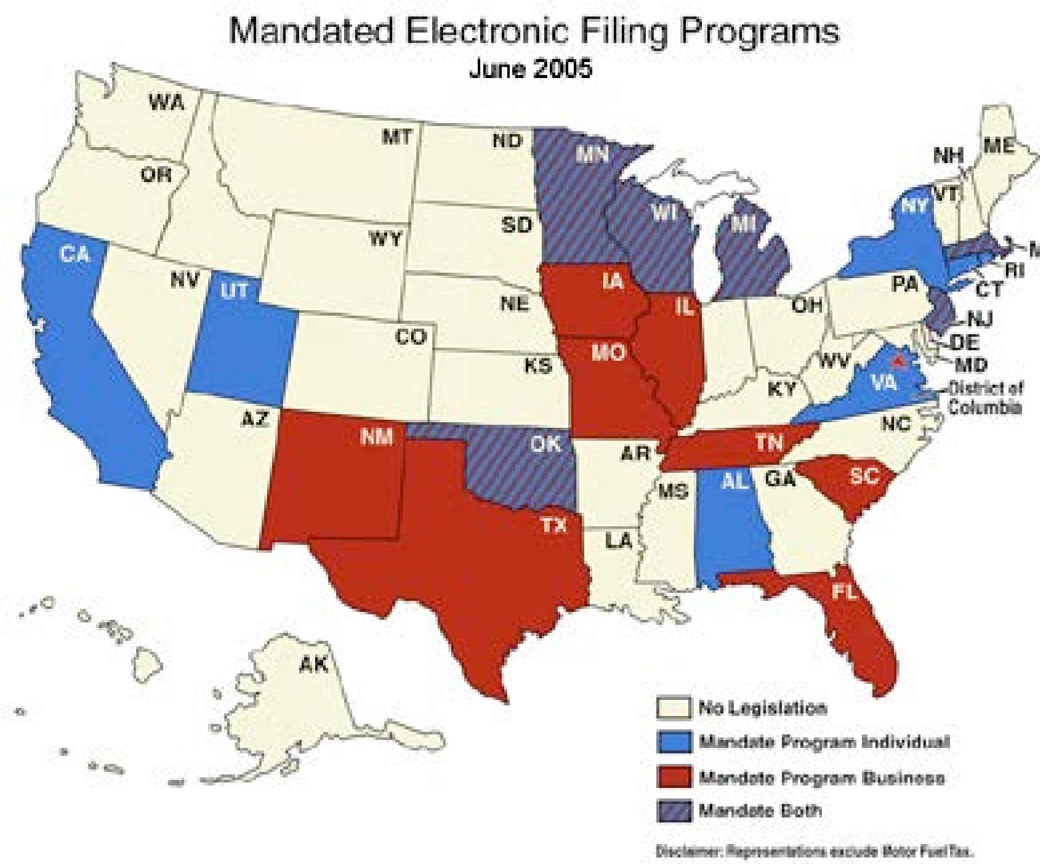
[1] States point out the response time difference between paper and electronically-filed returns is reported to be around 6-12 weeks (with paper being the obvious slower end of the equation).



Results have been more than promising. Individual income tax mandates had a substantial impact on the state and federal filing volume in 2004. Between 2003 and 2004, state electronic filing grew by 25 percent; however, if you remove the five states that instituted mandates from the equation, that increase drops by more than half to 12 percent. State-level mandates also increase federal electronic filing since state returns in Michigan, Oklahoma and Wisconsin are first filed with the IRS and are thus likely to be accompanied by a federal return. In Minnesota and California where practitioner returns are filed directly with the state, the infrastructure for state electronic filing is closely related to that for federal filing, and the marginal cost of also filing the federal return electronically is minimal. Overall, federal e-filing increased by 16 percent in 2004; excluding the mandate states drops the growth rate to 9 percent. It is estimated

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[2] Twelve states (Alabama; California; Connecticut; Massachusetts; Michigan; Minnesota; New Jersey; New York; Oklahoma; Utah; Virginia; and Wisconsin) have traditional mandate programs; Rhode Island's program is slightly different in that it targets software developers rather than taxpayers or practitioners.

[3] Eighteen states (Connecticut; District of Columbia; Florida; Illinois; Iowa; Massachusetts; Michigan; Minnesota; Missouri; New Jersey; New Mexico; North Dakota; Pennsylvania; Rhode Island; South Carolina; Tennessee; Texas; Wisconsin)

that the state-level mandates generated 2.5 million additional federal returns in 2004.[4] Over 50 percent of the net increase in total federal returns e-filed were from the five states with a mandate. These numbers imply that continued strong growth in e-filing may require the adoption of additional mandates.

As states have implemented electronic filing mandates, several lessons have been learned. Valuable input has also come from practitioners and software developers who have offered their own observations. The information below is gathered from discussions among states and with practitioners. Discussions with practitioners, software developers and states will continue. The suggestions and observations below should be considered preliminary and subject to augmentation as discussions continue.

Lessons Learned

Individual Income Tax Electronic Filing Mandates

- ***Mandates should be phased-in.*** Most states have begun by imposing the mandate initially on the largest volume filers (e.g., those filing over 250 total returns in the prior year) and moving it to successively lower thresholds. This approach allows for a gradual transition to e-filing, especially for those tax practitioners that may not be fully automated (generally in the lower thresholds). The first year of a mandate will likely be a learning experience for the taxing authority, tax practitioner and software developer. The time and effort to educate all affected parties should not be underestimated, and the phased-in approach will allow for all parties to learn from the experience while minimizing the number of practitioners involved. Seven of the thirteen states with mandates in place have taken a phased-in approach that generally spans 2-3 years. Even if a state chooses not to phase-in mandates, they need to set a threshold in order to focus on the larger practitioners.
- ***Provide a "hardship" exception.*** Despite everyone's best efforts, some practitioners may not be able to convert to an electronic filing environment in the time allowed by a mandate. A hardship exception will allow a practitioner that is not capable of converting to an electronic environment to continue filing paper returns for a specified period of time. Generally, preparers with smaller volumes will face a greater hardship in transitioning to e-filing. This may be due to the cost of purchasing new hardware and/or software, learning a new tax preparation program, changing a business process, etc. States should work with these practitioners to ensure a successful conversion to e-filing. For example, Minnesota does not provide a preparer waiver in statute; however, exemptions were offered in the early stages of the mandate to assist with the transition. Minnesota also hired a business liaison experienced in conversion to e-filing to assist others in changing their business processes.
- ***Provide ability to "opt out."*** This allows a taxpayer to choose to have the return filed in the traditional paper method rather than through electronic means. Some taxpayers are more comfortable filing a paper return while others believe electronic filing will increase their exposure to audit. Regardless of the reason, states should consider allowing a taxpayer to opt

[4] McMillian, Howard. *"State e-File Impact on Federal e-file."* Wage and Investment Research Group 1, Internal Revenue Service, 2004.

out of the mandate at will. The majority of states provide an "opt out" exception for the individual taxpayer; this provision may take different forms. For example, California and Virginia have developed "opt out" forms while others have designated the signed paper original as proof the taxpayer has "opted out" of electronic filing. Although Minnesota provides an "opt out" for taxpayers, the paper "filing fee" still applies (see below). States can avoid abuse of the exception by monitoring to ensure that not all clients of a preparer are "opting out."

- ***Penalties for failure to file electronically.*** Only two states — California and Minnesota — authorize the imposition of penalties on tax preparers that fail to adhere to the mandate, and New Jersey is calling for penalty legislation. The California Franchise Tax Board may assess a penalty of $50 per return against preparers for every return that is not e-filed unless the failure to e-file is due to reasonable cause and not willful neglect. Reasonable cause can include a taxpayer's election not to e-file; however, no practitioner waivers are available. Minnesota imposes a $5 processing fee if a preparer submits a return on paper, unless the department requires the return to be filed on paper. Waivers are only permitted if IRS or Minnesota policy or technical reasons require the return to be filed on paper. State representatives and practitioners agree that monetary penalties should be a last resort; they should not be used except in severe situations. Broadly applied penalties will attract protest and resistance. Compliance is better achieved through an aggressive campaign of communication and education.
- ***Exclude low-volume forms from the scope of the mandate.*** Mandates should not include returns that require a low-volume form. Such returns should be filed on paper. It is not cost-effective to undertake the work necessary to electronically file forms that will be used only on rare occasion. California, for example, worked with the taxpayer community to identify specific low-volume forms that would exempt a return from the e-file provision. On the other hand, Michigan wanted each software company to add all forms to their software in order to get e-filing approval. This requirement was modified to require only that a software company ensure all forms included in their software for Michigan could be filed electronically.
- ***Care Should Be Taken in Defining the Scope of the Mandate.*** Tax practitioners will encourage states to carefully consider the definition of "preparer" in formulating a mandate. Most states currently use the federal Employer Identification Number (EIN) to define "preparer" and treat any office or branch of an entity operating under a single EIN as a "preparer" subject to the mandate. For a nationwide preparation firm, this may mean that some offices in every state are treated as a "preparer" in each state with a mandate, even though they may file only a small number of returns in the mandated state. Resolving this issue will require consultation and coordination with the practitioner community since the EIN is the most straightforward means of identifying preparers and may be the only record on which the states can build.

Some important implementation lessons to take into account:

- ***Provide lead time for implementation.*** Providing sufficient lead time for implementation of a mandate is crucial to the success of the program. As mentioned earlier, the time and effort required to educate the taxpayer community should not be underestimated. Software developers will require time to amend their programs and communicate with their customers on the details of the mandate. Tax practitioners will need time to transition to e-filing if they do not have the infrastructure currently in place. Taxing authorities will need time to develop materials to communicate the mandate and to develop their assistance programs. Practitioners believe states should announce a mandate at least 12 months prior to implementation and allow for a general comment period to identify issues and concerns prior to implementation. Allowing sufficient time to discuss the mandate, identify issues, and answer software developer and tax practitioner questions will achieve positive results once the mandate is in place. States may not have the luxury of announcing a mandate a full twelve months prior to implementation, given the exigencies of legislative cycles. These states will need to consider an aggressive education and outreach campaign to achieve a smooth transition to the mandate. Although California announced its mandate in June 2003 (legislation was adopted August 2003 for a January 1, 2004 implementation date), the state made great efforts to partner with professional organizations, IRS and external partners to ensure those affected by the mandate would receive the education and training necessary to transition to e-file. Because of this effort, California reported limited negative response to the mandate.

- ***Communication and taxpayer education vital.*** Both will be invaluable before, during and after implementation of the mandate. Taxing authorities must communicate with software developers, tax preparers and their own personnel to provide information on the scope of the mandate when it is announced. Software developers will require time to amend their programs and develop a communication strategy to help educate their customers on the details of the mandate. Developers may also have to absorb a sizeable new customer base into their operations. The taxing authority should consider establishing a mandatory e-file stakeholder team to develop a comprehensive communication plan. This may include (1) partnering with professional organizations; (2) partnering with IRS; (3) working with software developers on a communication strategy between developers and their tax practitioner base; (4) development of educational and implementation materials for the e-filing community and state personnel tasked with managing the mandate; (5) development of seminars to educate and also gain a better understanding of the concerns raised by software developers and tax practitioners; and (6) development of publications and web resources for all affected by the mandate. These should include easy-to-access web-based materials and FAQs. Clear and frequent communication is imperative to a successful mandate. This outreach should naturally extend to the taxpayer. As in any good relationship, clarity of thought and meaning among all the parties involved is absolutely essential.
- ***Coordinate with IRS on Electronic Return Originator (ERO) Certification.*** Prior to e-filing with IRS, tax preparation firms must apply to be an Authorized IRS e-file Provider. Most will elect to be Electronic Return Originators (EROs). State mandates will increase the number of entities seeking to be certified as an ERO because they bring new practitioners into the electronic filing arena and most states require a practitioner to be certified by the IRS as an ERO before they may file state returns electronically. States implementing a mandate should provide advance notice to return preparers so they can apply to be an Authorized IRS e-file Provider as soon as possible, allowing time to address any issues that can arise. The state should also notify IRS and coordinate with the Service. IRS reported processing and approval delays prior to the 2004 filing season and has speculated this was due to higher than

normal traffic caused by the imposition of mandates in some states, particularly California, where nearly 10,000 new ERO applications were received. To avoid delays in the future, tax preparation firms should register for e-services and complete an IRS e-file Application available at the IRS web site <www.irs.gov>, via e-services on the Tax Professionals page. For their part, "piggy-back" states should communicate to tax practitioners that adequate time must be given for the IRS registration and approval process and to encourage them to use the Web-based application process available on www.irs.gov. For example, Michigan educational documents suggest tax practitioners allow at least 45 days for the approval process.

- ***Provide enhanced electronic services.*** Taxing authorities should consider offering enhanced electronic services to tax practitioners that embrace e-file. Examples of enhanced services may include electronic account access, electronic account update, payment extensions and the like. Many states are currently offering incentives to e-filers including (1) quicker refunds; (2) direct deposit on e-filed returns; 3) electronic refund inquiry, (4) electronic account update; (5) automated extensions; and (6) free tax preparation software. The greater the perceived benefits to the tax preparer community, the less resistance to e-filing in general.

Business Tax Electronic Filing Mandates

Many of the design and implementation issues noted above translate to business tax filing mandates. However, there are some guidelines specific to business tax e-filing:

- ***Provide optional methods of filing.*** The single most important guideline offered is that taxpayers must be provided optional methods of filing electronically. In the sales tax (and other business tax) area, most states provide a web-based application that enables taxpayers to file their returns electronically. Web-based e-file applications work well for large numbers of businesses, but they create significant issues for larger, multistate taxpayers. Large companies with sales tax obligations in multiple states will find it impractical to navigate to each state's web site and re-enter its sales tax return data (particularly if that involves a significant volume of local sales tax return information). While it may be cost-effective for the state to receive such returns, it is not cost-effective for the retailer to file the returns in that manner. Larger, multistate firms are generally seeking a filing system in which they can file directly with the state (or through a third party of their choosing) with data that can be extracted directly from their accounting system without the need for re-entering data at any point.

  State taxing authorities should recognize the needs of various groups of taxpayers and offer filing solutions to meet these needs. States should work together with FTA, other states, and software developers (such as with the established TIGERS standards group) to develop a standard data format that meets the filing requirements and consider accepting electronic transmissions of user-created files that meet the specified criteria. The goal would be to accommodate multiple modes of electronic filing by taxpayers so that they can choose a model that best fits their business operations. By using standard formats, the state should be able to receive and use the return data without manual intervention.

  States with sales tax (and other business tax) filing mandates should also provide alternatives through which taxpayers can deliver electronic returns to states without interacting with each individual web-based application. Those alternatives should allow taxpayers to deliver returns to a state straight from the company's accounting or tax administration information system without the need for redundant entry to accomplish the filing. This may also be accomplished by providing avenues for 3rd party sales and use tax compliance and return preparation software providers to transmit electronic returns in bulk directly to the state without going through the state Web portal or providing some other 'upload' functionality through which company-maintained data can be used to populate a tax return without redundant data entry.

- ***Allow for simple data files.*** Data standards employed by taxing authorities, such as EDI (Electronic Data Interchange) and recently XML (eXtensible Markup Language), have assisted many tax authorities in developing a uniform method of receiving tax information. Large companies were already using EDI to exchange information with business partners so the transition to tax filing was relatively easy. XML is designed to be easier still. Even with these technologies, some businesses would prefer a simple method of providing data files to the taxing authority, such as CSV files (Comma Separated Values). These files are easily created by the taxpayer using Excel and do not require a large monetary or technical investment by the business. Taxing authorities should consider the needs of various taxpayer groups and develop multiple data formats that may be used to e-file business tax returns.
- ***Foster seamless communication.*** State Web-filing portals should be designed to that they retain as much data as possible and are capable of quickly using that data to populate the appropriate tax return fields once the identity of the taxpayer has been authenticated. Wisconsin and Pennsylvania populate the data file with everything necessary to file and process the return including the registration number, filing period, relevant tax data and payment information. In addition, Wisconsin allows the taxpayer to be validated through the elements in the file rather than requiring a separate manual process before a file may be transmitted.
- ***Accept single file of consolidated returns.*** States should consider accepting returns from multiple companies for multiple types of taxes in a single data transmission to accommodate those large businesses that consolidate their tax compliance and filing activity within a single department. States such as Alabama, Pennsylvania, Texas and Wisconsin currently accept these types of tax files.
- ***Focus on education.*** As mentioned in relation to individual income tax mandates, communication with taxpayers and tax authority personnel should be comprehensive, clear and timely. Once a mandate is announced, the tax authority should be prepared to inform, educate and assist taxpayers and software developers to ensure a successful mandate.
- ***Focus on consistency.*** States should make efforts to be consistent in various aspects of their electronic filing programs—both among states and within a state. All states should conform to accepted electronic filing standards where they exist. This would include the use of adopted data format standards, data naming conventions, filing and transmission protocols and the like. Within a state, there should be an effort to strive for a single 'environment' for filing formats, security protocols, transmission protocols, etc. In short, the fewer nuances in any one state, the simpler e-filing will be.

Electronic filing mandates are becoming an established feature of the tax administration landscape. Mandates maximize overall e-filing benefits and increase the value of the tax agency's infrastructure. E-filing cleanly and efficiently fits the way taxpayers and states do business; mandates are just the matchmakers bringing the public and the technology together. Several lessons have been learned during implementation of the mandates now in place. States need to allow plenty of time for the transition to take place. Also, as is the case with every technological evolution, consistent education and communication are invaluable to streamlining the process. Incentives will help bring more people on board and keep them on board. Beyond that, states should offer alternative filing options so that taxpayers can choose the model that best fits their operations. In this way, implementation of mandates can achieve the goal of increased electronic filing while, at the same time, not imposing undue stress on the system.

Appendix A

Individual Income Tax Mandates (13 states)

- Alabama
- California
- Connecticut
- Massachusetts
- Michigan
- Minnesota
- New Jersey
- New York
- Oklahoma
- Rhode Island
- Utah
- Virginia
- Wisconsin

Alabama. If a preparer prepares 250 or more acceptable individual income tax returns using tax preparation software in calendar year 2005, then for that calendar year, all acceptable individual income tax returns prepared by that preparer shall be filed using electronic technology. For 2006, the threshold is reduced to 100 or more acceptable individual income tax returns using tax preparation software. For 2007, the threshold is reduced to 50 or more acceptable individual income tax returns using tax preparation software.

California. Tax practitioners that prepare more than 100 individual state income tax returns annually and prepare just one or more using tax preparation software, including preparers residing or with an office outside the state, are required to file all California returns electronically. Beginning January 1, 2005, the state may impose a $50 penalty on income tax preparers who fail to electronically file individual income tax returns.

Connecticut. A regulation approved on April 26, 2005 requires return preparers who prepared 200 or more 2004 Connecticut individual income tax returns to file 2005 Connecticut individual returns electronically using the Federal/State Program (e-file). The same regulation will require return preparers who prepare 100 or more 2005 Connecticut income tax returns to file 2006 Connecticut income tax returns electronically, and return preparers who prepare 50 or more 2006 Connecticut income tax returns to file 2007 returns electronically.

Massachusetts. Effective February 16, 2004, software generated forms that are printed and mailed to the Department of Revenue must contain a 2-D barcode or the return will be sent back to the taxpayer unprocessed. For tax years beginning on or after January 1, 2004, income tax return preparers who completed 200 or more original Massachusetts Forms 1 and 1-NR-PY, including those e-filed, during the previous calendar year are required to use electronic means to file all personal income tax returns unless the taxpayer specifically directs on the paper form that filing be on paper. The threshold is reduced to 100 returns for tax years beginning on or after

January 1, 2005. The preparer must continue using electronic means to file returns in all subsequent years unless the preparer completed no more than 25 original individual income tax returns during the previous calendar year. Note: preparation of a substantial part of a return or claim for refund is treated as preparation of the entire return or claim for refund.

Michigan. Beginning January 1, 2004, preparers completing 200 or more personal income tax returns are required to e-file all eligible returns that are supported by their software. Software developers are required to support e-file for all eligible forms that are included in their tax preparation software.

Minnesota. Beginning tax year 2000 (processing year 2001), tax professionals who prepared more than 100 returns in the prior tax filing season must file every individual income tax return electronically in the current tax filing season. If preparer submits a return on paper, preparer is assessed a five dollar processing fee unless the department requires the return to be filed on paper. The department permits paper fee waiver only if IRS or Minnesota policy or technical reasons require the return to be filed on paper.

New Jersey. A special notice issued September 24, 2004, states that practitioners who prepared 200 or more 2003 New Jersey resident income tax returns must file their clients 2004 returns by electronic means. The tax division is seeking legislation to impose penalties against preparers who violate electronic filing requirements. Publication of proposed regulations on the new e-filing requirement is expected.

New York State and City. Recent legislation will require return preparers who file more than 200 original returns in calendar year 2005 for tax year 2004, and who use tax preparation software to prepare returns for the 2005 tax year to e-file their clients' returns. For subsequent years, the threshold drops from 200 to 100. The mandate applies to all returns required by Article 22 of the Tax Law that are authorized for e-file. The law goes into effect on January 1, 2006. For tax year 2005, the mandate will only apply to personal income tax returns. Paper returns with a 2-D bar-code attached will be considered electronically filed for tax year 2005, but not for subsequent years. There is an opt-out provision for taxpayers. The Law includes a $50 per return penalty for practitioners that fail to file electronically, unless their client opted out or they can establish reasonable cause

Oklahoma. Any tax return preparer that prepared more than 50 Oklahoma income tax returns for the prior year must file all Oklahoma income tax returns prepared for the current tax year electronically. This does not apply to a return upon which the taxpayer has indicated that the taxpayer did not want the return filed by electronic means.

Rhode Island. Any software developer/provider marketing tax return preparation software must either utilize 2-D bar coding technology in the final printed version of the completed tax form or support electronic filing.

Utah. Tax preparers that file 101 or more income tax returns in a calendar year beginning on or after Jan. 1, 2005, will be required to file all such returns using scan technology or by electronic means, under legislation enacted March 16.

Virginia. Effective July 1, 2004, preparers that prepared 200 or more individual income tax returns for the 2003 tax year must file all subsequent tax year returns electronically or file paper returns with barcodes. Preparers that prepare 100 or more individual income tax returns on or after the 2004 tax year will be subject to the electronic filing or barcode requirement for all subsequent tax years.

Wisconsin. Beginning January 2003, practitioners who filed 200 or more Wisconsin income tax returns in 2002 are required to e-file returns. Beginning January 2004, practitioners who filed 100 or more (2002) Wisconsin income tax returns in 2003 are required to e-file returns. The threshold will remain at 100.

Appendix B

Business Tax Filing Mandates (18 States)

- Connecticut
- District of Columbia
- Florida
- Illinois
- Iowa
- Massachusetts
- Michigan
- Minnesota
- Missouri
- New Jersey
- New Mexico
- North Dakota
- Pennsylvania
- Rhode Island
- South Carolina
- Tennessee
- Texas
- Wisconsin

Connecticut. Some taxpayers required to pay their Sales and Use tax via EFT are also required to file electronically using the CT DOR Fast-File system: taxpayers whose liability for a tax in the prior 12-month period ending June 30, 2004, exceeded $10,000, are required to remit the tax electronically. Notifications were sent to those business that remitted more than $10,000 in Connecticut sales and use taxes between July 1, 2003, and June 30, 2004.

District of Columbia. Beginning with corporation franchise tax returns due March 15, 2005, and unincorporated franchise tax returns due April 15, 2005, electronic filing and payment will be required for all taxpayers that owe more than $25,000. Penalties for the failure to file and pay electronically will apply where the taxpayer has been notified in writing to comply with the new electronic filing requirement and has failed to do so.

Florida. Mandated Sales, Local Option Sales, Communications Services, Intangible Personal Property, Motor Fuel tax e-filing/payment

Illinois. Telecommunication Tax e-filing/e-payment mandate imposed on taxpayers that pay $1,000 or more in tax each month; cigarette Tax e-filing mandate for taxpayers that file 30 or more schedule transactions each month; e-filing of Motor Fuel Taxes

Iowa. Beginning in January 2005, paper withholding tax returns will no longer be provided to 80,000 Iowa employers - eFile and Pay will be used (paper checks will still be an option for most taxpayers). Businesses that have an Iowa sales tax permit are scheduled to begin e-filing in July 2005.

Massachusetts. Rule requires entities with $10,000 annual combined payment liability for wage withholding, occupancy excise, or sales and use tax to submit returns via e-file; must pay electronically; required for zero-liability filers also. Beginning with the first calendar quarter of 2005, any employer or payor of income filing wage reports for 50 or more individuals would be required to file a quarterly wage report electronically, according to the draft release.

Certain fiduciaries with a net taxable income of $50,000 or more are required to file and pay electronically, as of Jan. 1, 2004.

Extension requests for corporate excise tax would have to be made electronically if the taxpayer is required to file and pay electronically under TIR 03-11 . Corporations with more than $100,000 in gross receipts, sales, or income would have to make extension requests and accompanying payments electronically as of Jan. 1, 2005. Also, as of Jan. 1, 2005, any corporation making a payment of $5,000 or more with its corporate excise extension request would be required to file the request and make payment using electronic means.

Michigan. Preparers are required to e-file all eligible single business tax returns that are supported by their software.

Minnesota. As of July 1, 2001 all sales and withholding taxpayers must file and pay electronically (including amended returns and past due returns) either over the Internet or by phone. Use of paper forms was discontinued; taxpayers have access to file using a free internet file and pay site, or if they do not have access, can also file using an automated telephone application.

Missouri. Mandated electronic filing and payment of quarter monthly withholding and quarter monthly sales tax accounts, with all businesses to be in compliance by January 1, 2004.

New Jersey. Beginning to slowly phase in mandate of Sales tax E-filing, at Director's discretion; also slowly removing paper as an option.

New Mexico. Oil and Gas taxpayers that have more than 150 lines of data are required to file electronically.

North Dakota. The only e-file mandates are for Oil & Gas Production Taxes, and recently passed legislation (for payroll services only) to file their employer clients' Withholding Tax returns, W-2s and payments electronically, if they are doing the federal filings electronically.

Pennsylvania. The Department of Revenue is making it easier for Sales and Use Tax account holders to file and pay their Sales Taxes by replacing its current paper-based system with two free electronic filing options: Filing via the Internet; Filing via a toll-free telephone filing system (before ‘05). Sales Tax and Use Tax account holders will not receive a paper coupon booklet for the 2005 calendar year.

Rhode Island. Any software developer/provider marketing tax return preparation software must utilize 2-D bar coding technology in the final printed version of the completed tax form, or support electronic filing. The specific tax forms and file layouts are listed on the Division of Taxation web site at http://www.tax.state.ri.us/ under software developers.

South Carolina. Mandated e-file for Sales and Motor Fuel taxpayers with over $15,000 annual tax liability.

Tennessee. Sales tax filing mandated for those required to pay electronically; mandate threshold is $10K in payments/month; takes effect this month with the return that is due on February 20, 2004. The sales and use electronic filing may either be through a web portal or through certified software vendors using EDI program. Also mandated X12-EDI Filing for Motor Fuel excise tax; filing direct to state via FTP or e-mail.

Texas. Texas requires companies that pay more than $100,000 in tax annually to both file returns and pay taxes electronically. Companies that cannot comply with some of the requirements may be eligible for a waiver. A 5 percent penalty will apply to a company that does not file electronically when required to; X12-EDI filing for Motor Fuel Excise via direct modem

Wisconsin. Sales and use returns are also now required to be filed electronically, after 90 days notice, beginning with monthly filing frequency taxpayers. Waivers are available. Also, the state has mandated X12-EDI Motor Fuel Excise tax filing via direct modem or Internet (since 1996)

Only Motor Fuel Taxes

Arkansas. Mandated X12-EDI Motor Fuel tax filing/payment via Direct Modem or Internet.

Colorado. Mandated X12-EDI Motor Fuel tax filing/payment via Direct Modem or Internet.

Kansas. Mandated X12-EDI based Motor Fuel tax filing via Web or direct modem

Nebraska. Web filing of Motor Fuel tax (X12-EDI format) via FTP protocol or E-mail.

Virginia. E-Filing of Motor Fuel Taxes - As of July 2003, Virginia mandated electronic filing for Suppliers, Terminal Operators and Importers. The remaining licensees will be required to file electronically by 2005.