State Corporate Tax E-Filing Teleconference

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Federal-State 1120 E-Filing Program Update

I. States' Involvement

A. Which states are live in the 1120 Program in 2008?

Alabama, Colorado, Florida, Georgia, Idaho, Kansas, Maryland, Michigan, Missouri, Montana, New York, Oregon, Pennsylvania, South Carolina, Utah, Wisconsin and New York City

B. Which states are live in the 1065 Program in 2008?

Alabama, Georgia, Idaho, Kansas, Maryland, Michigan, Utah and Wisconsin

C. Which states are planning to join 1120/1065 in 2009?

Delaware, Illinois, Indiana, Louisiana, Mississippi, New Mexico, North Dakota, Virginia and West Virginia

II. Relationship Between The IRS And States

A. What IRS does and doesn't do with state data

1) The transmitter sends both the federal (IRS) return and one or more state returns to the IRS. The state returns may be linked to the IRS return or stand alone. If a state return is linked to a federal return, the state data is not sent to the state unless the federal return is accepted. Stand-alone state returns are sent on to the state, even if the federal return is rejected. The IRS does not "open" the state return (which is a zipped file) or view its contents. The IRS *does* validate the FEIN of the state return (which is

contained in a data header) and sets an indicator to let the state know whether the FEIN is valid

B. What IRS data the states receive

1) The IRS does not give to the states any data from the federal return that it receives. The state may require that a copy of data from the federal return be included as part of the state return package. Depending on state law, this data may be the complete federal return, the first four pages of the federal return, or a state pro forma return – the same data that the state requires with a paper filing. This data is provided by the taxpayer or the taxpayer's electronic return originator (ERO) when the state return is created. It is packaged using the same XML format that is used by the federal return

III. Electronic Conversion Process

A. Signature options

1) Based on the ERO's capabilities and state law, there are two signature options:

a) A fully electronic signature, using a PIN and password

b) A traditional signature form (8453), which is signed, scanned, converted to a PDF file and packaged with the federal and state returns

B. Technological resources a taxpayer will need

1) The electronic signature with PIN and password simply requires the appropriate computer software. The PDF alternative requires a scanner to scan the signature form and create an image, and software to convert that image to PDF format and package it with the return

2) While there are several transmission methods available for IRS 1120 electronic filing, the Federal-State program supports only one method: application-to-application Web services. A transmitter (whether the taxpayer or the taxpayer's agent) will require software that not only creates the federal and state returns in the standard XML formats, but also supports Web services for communicating with IRS. The IRS supports Web services communications both with Microsoft .Net and Java J2EE technology environments

IV. Transmission Process

A. Due dates

1) For the IRS and most states, the corporate return is due March 15, or, if an extension is filed, on Sept. 15. However, some states have alternative due dates, and the filing date of the return may be different for filers with different fiscal years. The electronic filing program does not change due dates. The ability to send unlinked, stand-alone state returns to the IRS for distribution to the states lets the taxpayer file both federal and multiple state returns when each is due

B. Receipt and acknowledgement

1) When a transmitter sends the federal and/or state return to the IRS, the transmitter immediately receives a receipt, which essentially consists of a date/time stamp. The receipt does not indicate that the return was either accepted or rejected, only that the communications protocol indicates that the data was received intact

2) The acknowledgement tells whether the return is accepted or rejected. The transmitter will receive a separate acknowledgement for each federal and each state return. States transmit the acknowledgements of the state returns to the IRS, to be returned to the transmitter. All returns are electronically requested from the IRS by the transmitter. The IRS transmits whatever acknowledgements it has at the time

3) The IRS is currently making acknowledgements available in a matter of minutes. Some states, however, may take one or two days to process the returns on their back-end systems and return the acknowledgements. If the return was rejected, the acknowledgement contains detailed error messages describing what was wrong with the return

V. Security Features

A. Every effort has been made to ensure that the Federal-State Corporate E-File system is secure. The registration process, described below, is designed to ensure that only qualified parties access the IRS system. Both transmitters and states must change passwords regularly and must correctly return a security token supplied by the IRS in order to proceed with each transaction. The transmissions are all encrypted during transmission

VI. Registration Process

A. For taxpayers and practitioners:

1) The IRS defines separate roles for electronic filing

a) The ERO that actually creates the electronic return

b) The transmitter that transmits the returns to the IRS

2) These may be the same party, and certain large corporate taxpayers may serve as their own ERO and transmitter

3) EROs must submit an application to the IRS and receive an electronic filing identification number (EFIN). Transmitters apply for an electronic transmitter identification number (ETIN)

4) Registration is an online procedure at the IRS Web site. Initial passwords are returned by mail to the ERO's or transmitter's address of record, for security reasons. Because the Federal-State Corporate E-File program is based on computer-to-computer (application-to-application) transmission, each transmitter must also register its system with the IRS, designating a system identification number. The transmitter must also designate the parties with whom the IRS help desk will interact in the case of technical problems

VII. Contacts For More Information

A. Jonathan Lyon, Federation of Tax Administrators, Jonathan.Lyon@taxadmin.org

B. Terry Garber, chairwoman of ASC X12's Tax Information Group for EC Requirements Standardization ("TIGERS" work group), South Carolina Department of Revenue, GARBERT@sctax.org