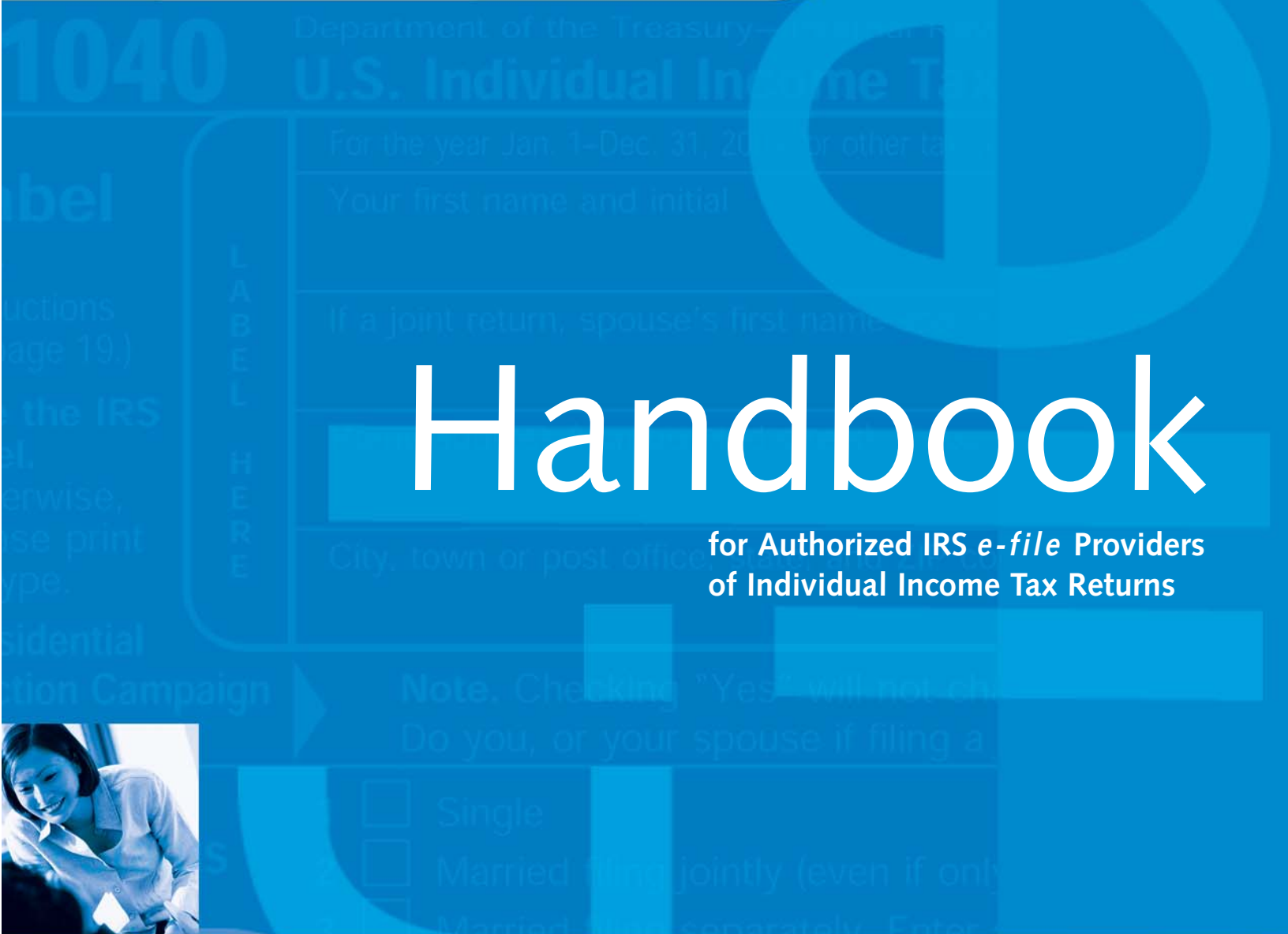


How To Setup A Paperless Office. See <http://denvertax.com/paperless-filing/>



[www.irs.gov/efile](http://www.irs.gov/efile)



# Handbook

for Authorized IRS *e-file* Providers  
of Individual Income Tax Returns



consider it done

How To Setup A Paperless Office. See <http://denvertax.com/paperless-filing/>

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# Stay Informed

## Why a New Publication 1345?

This edition of Publication 1345, *Handbook for Authorized IRS e-file Providers*, replaces the previous edition revised January, 2001. Information previously included in this publication, pertaining to application, and to participation in IRS *e-file* by all Authorized IRS *e-file* Providers, is now in the revised Publication 3112, titled *IRS e-file Application and Participation*. Some information in this publication is reorganized to more clearly show the rules that apply to all Authorized IRS *e-file* Providers filing Individual Income Tax Returns. Some rules may have previously appeared to pertain only to Electronic Return Originators. This publication continues to address only the rules and requirements for participation in IRS *e-file* by Authorized IRS *e-file* Providers filing Individual Income Tax Returns and related forms and schedules.

Following is a brief description of changes included in this publication:

### ■ Chapter 1 – Stay Informed

“Where to Get Additional Information” is updated to include:

- The new web site feature Where’s My Refund;
- Subscription services for *QuickAlerts* and the *IRS Digital Dispatch*;
- New telephone numbers for e-Help and the Refund Hotline; and
- Information regarding Nationwide Tax Forums may also be found on the IRS web site at *irs.gov*.

### ■ Chapter 2 – Must Read Information

- Married Filing Separate filing status returns in community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, Wisconsin) is removed from returns not eligible for IRS *e-file*.

### ■ Chapter 3 – Electronic Return Origination

- The Provider must not alter the Direct Deposit information in the electronic record after taxpayers have signed the tax return.
- References to Direct Debit are changed to “electronic funds withdrawal.”
- Payments of balance due for Form 2350, *Application for Extension of Time to File for U.S. Citizens and Resident Aliens Abroad Who Expect to Qualify for Special Treatment* can be made by electronic funds withdrawal.
- Taxpayers can pay balances due and estimated taxes year round using the Electronic Federal Tax Payment System (EFTPS). Payments may be scheduled 365 days in advance. Taxpayers must first enroll.
- List of taxpayers who are ineligible to sign using an electronic signature is updated.
- Form 8879, *IRS e-file Signature Authorization* is used by taxpayers to authorize an ERO to enter their PINs on Form 1040 series returns and Form 8878, *IRS e-file Authorization for Application of Extension of Time to File* is used by taxpayers to authorize an ERO to enter their PINs on all extension applications Forms 4868, 2688, and 2350.
- Form 8879, *IRS e-file Signature Authorization* is also used by taxpayers to sign using the Practitioner PIN method of electronic signature on Form 1040 series returns. Form 8878, *IRS e-file Authorization for Application of Extension of Time to File* is also used by taxpayers to sign using the Practitioner PIN method of electronic signature on Form 4868, *Application of Extension of Time to File an Individual Income Tax Return*.
- By entering its PIN in the EFIN/PIN field the ERO is attesting to the ERO Declaration. For returns prepared by the ERO firm the return preparer is declaring under the penalty of perjury that the return was reviewed and is true, correct, and complete. For returns prepared by other than the ERO firm, the ERO attests that the return preparer signed the copy of the return and that the electronic return contains tax information identical to that contained in the paper return.
- The ERO should check acknowledgement records regularly to identify returns requiring follow up action.

## ■ Chapter 4 – Transmission

- The Transmitter must send the acknowledgment file containing all conditions on accepted returns, including debt indicator, non-receipt of PIN, etc. to the ERO or Intermediate Service Provider within two work days of retrieving the acknowledgment file.
- The requirement for a Transmitter participating in Online Filing to not allow more than five Online returns from the same IP Address within a sixty minute time-frame is eliminated.
- A Transmitter participating in Online Filing must provide the IP Time Zone.
- A transmitter must enter into agreements with companies to allow access to Online Filing only if companies correctly capture the IP Address of the computer submitting the return and the date, time, time zone of the computer receiving it.
- The requirement that a Transmitter may not offer, nor in any way participate in or facilitate, a Refund Anticipation Loan (RAL) in connection with any return filed using Online Filing was eliminated effective tax year 2001.

## ■ Chapter 5 – Other Authorized IRS *e-file* Provider Activities

- The requirement for an Intermediate Service Provider participating in Online Filing to ensure that no more than five returns are filed electronically by one taxpayer is corrected to read “ensure no more than five electronic returns are originated from one software package or from one e-mail address.”
- The requirement that an Intermediate Service Provider may not offer, nor in any way participate in or facilitate, a Refund Anticipation Loan (RAL) in connection with any return filed using Online Filing was eliminated effective tax year 2001.
- Software Developers must ensure their software allows for input of different addresses on appropriate forms and schedules.

## ■ Chapter 6 – IRS e-file Rules and Requirements

- Requirements relating to Refund Anticipation Loans (RALs) also apply to other financial products that are based on taxpayers' refunds.
- Information regarding RALs, related fee restrictions, Advertising Standards, Disclosure of Tax Return Information, and Preparer Penalties is consolidated and clarified to emphasize the importance of the requirements.
- Providers must advise taxpayers of all fees and other known deductions to be paid from their refund and the remaining amount the taxpayers will actually receive.
- Advertisements must not imply that Forms W-2, W-2G, and 1099-R are not needed or that pay stubs or other documentation of earnings can be used to file individual income tax returns.

## ■ Appendix


- Revenue Procedure 2000-31 has been removed from this publication because it is being revised. It is on the IRS web site and remains in effect.
- The new Revenue Procedure will replace the Revenue Procedure 2000-31 on the IRS web site after its effective date.
- The Application Process has been removed as the information is now included in Publication 3112, *IRS e-file Application and Participation*.

## Where to Get Additional Information

The IRS offers a number of ways to find out what you need to know. Below are the best sources of information for frequently asked questions.

### Where can I find the most current information about IRS e-file?

Visit the IRS web site at:

- <http://www.irs.gov>
- Click on “e-file for Tax Professionals”
- Click on the IRS e-file logo. 



## **How does the IRS keep Authorized IRS e-file Providers informed of operational issues?**

All important operations information is posted to the Electronic Filing Bulletin Board at 859-292-0137 (not toll free).

The IRS also notifies Providers of important information via “QuickAlerts” e-file Messaging System and the *IRS Digital Dispatch*. Subscribe to these Services on the IRS web site:

- <http://www.irs.gov>
- Search and click on “Subscription Services”
- Click on “Subscribe to the *QuickAlerts* e-file Messaging System” to receive important e-file messages via fax, e-mail, or telephone.
- Click on “Join the *IRS Digital Dispatch*” to receive national tax news and information. Also, click on the “IRS e-News for Tax Professionals” to receive localized information for tax professionals specifically for your geographic area.

## **If I get correspondence from the IRS, who can I call for more information?**

All letters from the IRS have a contact telephone number to reach the person best able to help you with your questions.

## **Where can I find telephone numbers and addresses for other services provided by the IRS?**

Addresses and telephone numbers may be found in current year tax packages that are available on the IRS web site.


## **What is the Refund Hotline number I should give taxpayers so they can inquire about the status of their individual income tax refunds?**

Taxpayers may call 1-800-829-1954 (toll-free), but they may prefer to check the status of their individual income tax refunds using the “Where’s My Refund” feature on the IRS web site.

## Chapter 1 Stay Informed

### Where can I get information about electronic payment options?

Via the Internet at the IRS web site:

- <http://www.irs.gov>
- Click on the IRS *e-file* logo 
- Click on “*e-file* for Tax Professionals”
- Click on “Electronic Payment Options”

### Where can I report fraud or suspicious activity I observe?

Any time you observe or become aware of fraud or suspicious activity, report it to the IRS by calling 1-800-829-0433 (toll-free).

### My software doesn't work, what should I do?

The IRS does not develop or sell tax preparation or electronic return data transmission software. If you have problems, you should contact the vendor who sold you the software or the technical support operation that comes with the software package.


### Where can I get information about the IRS Nationwide Tax Forums?

Via the Internet at the IRS web site:

- <http://www.irs.gov>
- Click on “Tax Professionals”

### Where can I get more information about filing both Federal and state individual income tax returns?

Additional information and a list of state e-file contacts are on the IRS web site:

- <http://www.irs.gov>
- Click on the IRS *e-file* logo. 
- Click on “e-file for Tax Professionals”
- Click on “Federal/State e-file”

Often, the Authorized IRS *e-file* Provider offering comprehensive one-stop tax service is the most successful. If you are not participating in Federal/State e-file, you are missing a golden business opportunity to offer your clients and customers the benefits and convenience of filing both Federal and state tax returns electronically. See the Federal/State e-file section in Chapter 2.

# Must Read Information

## Publications for Individual Income Tax Returns

**Publication 1345**, *Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns*, provides rules and requirements for participation in IRS *e-file* of Individual Income Tax Returns and related forms and schedules. Violating a provision of this publication may subject the Provider to sanctions. Providers should familiarize themselves with both the revenue procedure and Publication 1345 to ensure compliance with requirements for participation in IRS *e-file*. Publication 1345 is updated on an as needed basis.

**Publication 1345A**, *Filing Season Supplement for Authorized IRS e-file Providers*, is an important document that is published annually and contains the most current, up-to-date information regarding IRS *e-file* of Individual Income Tax Returns and related forms and schedules. Publication 1345A supplements the revenue procedure and Publication 1345 with updates, IRS *e-file* contact information and addresses, a comprehensive list of Error Reject Code (ERC) Explanations, and Form Field Exhibits. Publication 1345A is provided annually, prior to the beginning of the filing season, to Providers in good standing.

**Other important publications** for participants in IRS *e-file* include Publication 3112, *IRS e-file Application and Participation*, and Publication 1346, *Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns*. All IRS *e-file* publications are available on the IRS web site.

## Safeguarding IRS e-file

Safeguarding of IRS *e-file* from fraud and abuse is the shared responsibility of the IRS and Authorized IRS *e-file* Providers. Authorized IRS *e-file* Providers must be diligent in recognizing and preventing fraud and abuse in IRS *e-file*. Neither the IRS nor Providers benefit when fraud or allegations of abuse tarnish the integrity and reputation of IRS *e-file*. Providers appoint an individual as a Responsible Official who is responsible for ensuring the firm meets IRS *e-file* rules and requirements. Providers with problems

involving fraud and abuse may be suspended or expelled from the IRS *e-file* program, be assessed civil and preparer penalties or be subject to legal action.

Any time you observe or become aware of suspicious activity, report it to the IRS by calling 1-800-829-0433 (toll-free).

## “Returns Filed” Using IRS *e-file*

A “return” filed using IRS *e-file* may be a composite of electronically transmitted data and certain paper documents or be completely paperless. The paper portion of a composite return may consist of paper declarations such as Form 8453, *U.S. Individual Income Tax Declaration for an IRS e-file Return*, or Form 8453-OL, *U.S. Individual Income Tax Declaration for an IRS e-file Online Return*, and other paper documents that cannot be electronically transmitted and must be mailed to IRS attached to the applicable Form 8453 (See Chapter 3).

Filing individual income tax returns using IRS *e-file* is limited to tax returns with prescribed due dates in the current year. An individual income tax return cannot be electronically filed after the 15th day of October following the close of that tax year even if the taxpayer has been granted an extension to file a return beyond that date. If the 15th day of October falls on a Saturday, Sunday, or legal holiday, the due date is the next succeeding day which is not a Saturday, Sunday, or legal holiday.

State individual income tax returns that are filed as part of Federal/State *e-file* become part of the electronically transmitted data. States often require the submission of paper documents to complete the return, but they are separate from paper documents for federal returns. EROs should process State paper documents according to applicable state rules.

### Returns Not Eligible for IRS *e-file*

The following individual income tax returns and related return conditions cannot be processed using IRS *e-file*:

- Other than current year tax returns;
- Tax returns with fiscal year tax periods;
- Amended tax returns;

- Returns containing forms or schedules that cannot be processed by IRS *e-file*. Publication 1345A, *Filing Season Supplement for Authorized IRS e-file Providers of Individual Income Tax Returns*, published in December of each year contains a list of accepted forms and schedules for the current tax year;
- Tax returns with Taxpayer Identification Numbers (TIN) within the range of 900-00-0000 through 999-99-9999. **Exception:** Adopted Taxpayer Identification Numbers (ATIN) and Individual Taxpayer Identification Numbers (ITIN) may fall within the range above. Valid ATINs contain the digits 93 in the fourth and fifth positions. Valid ITINs contain digits within a range of 70 through 80 in the fourth and fifth digits. See “Verifying Taxpayer Identification Numbers” in Chapter 3 for more information on ATINs and TINs; and
- Tax returns with rare or unusual processing conditions or that exceed the specifications for returns allowable in IRS *e-file* cannot be processed electronically. These conditions change from year to year. Your software should alert you to these conditions when they occur. If electronic return data with one of these conditions is transmitted to the IRS, it will reject and the tax return must then be filed on paper. The software package documentation or the software’s support program should provide more specific information.

## Submitting a Timely Filed Electronic Tax Return

All prescribed due dates for filing of returns apply to e-file returns. All Authorized IRS *e-file* Providers must ensure that returns are promptly processed. However, a Provider that receives a return for electronic filing on or before the due date of the return must ensure that the electronic portion of the return is transmitted on or before that due date (including extensions). An electronically filed return is not considered filed until the electronic portion of the tax return has been acknowledged by the IRS as accepted for processing and a signature for the return has been received, either electronically or on the appropriate version of Form 8453. However, if the electronic portion of a composite return is successfully transmitted on or shortly before the due date and the Provider complies with the requirements for signing the return, the return will be considered timely filed. The requirements for signing the return include completing the applicable paper declaration in accordance with its instructions. If the electronic portion of a return is transmitted on or shortly before the due date and is ultimately

## Chapter 2

### Must Read Information

rejected, but the Provider and the taxpayer comply with the requirements for timely resubmission of a correct return, the return will be considered timely filed. For additional information about the filing of a return through IRS *e-file*, see “Submitting the Electronic Return to the IRS” in Chapter 3.

Transmitters may provide electronic postmarks to taxpayers for individual returns if the Transmitters adhere to the requirements in Chapter 4. The receipt of an electronic postmark will provide taxpayers with confidence that they have filed their return timely. The date of the electronic postmark is considered the date of filing when the date of electronic postmark is on or before the prescribed due date and the return is received by the IRS after the prescribed due date for filing. All requirements for signing the return and completing a paper declaration, if required, as well as for timely resubmitting of a rejected timely filed return must be adhered to for the electronic postmark to be considered the date of filing.

## Federal/State e-file

Federal/State e-file is a cooperative tax-filing effort between the IRS and most states. Authorized IRS *e-file* Providers may file both Federal and state returns electronically for clients and customers. In addition to accepting Federal and state individual income tax returns electronically in a single transmission, State Only returns may be accepted and forwarded to the State Retrieval System. A State Only return may be accepted if, 1) a state return was previously rejected by the state; 2) the state return is originated separately from the Federal return; 3) part-year residency return, 4) non-resident state return; or, 5) married filing separately state return but filing joint Federal return.

Adding Federal/State e-file to your business is very similar to the process you went through to become an Authorized IRS *e-file* Provider. Refer to Publication 3112, *IRS e-file Application and Participation* for further details. Also contact the state coordinators for the state programs in which you will be participating for further explanation of state rules and requirements.

# Electronic Return Origination

## Obtaining, Handling, and Processing Return Information from Taxpayers

An ERO originates the electronic submission of returns it either prepares or collects from taxpayers wishing to have their returns e-filed. The ERO must always identify the paid preparer (if any) in the appropriate field of the electronic record of returns it originates. EROs may either transmit returns directly to the IRS or arrange with another Provider to transmit the electronic return to the IRS. An Authorized IRS *e-file* Provider, including an ERO may disclose tax return information to other Providers for the purpose of preparing a tax return under Section 301.7216. For example, an ERO may pass on return information to an Intermediate Service Provider or a Transmitter for the purpose of having an electronic return formatted or transmitted to the IRS.

An ERO that chooses to originate returns that it has not prepared, but only collected, becomes an income tax return preparer of the returns when, as a result of entering the data, it discovers errors that require substantive changes and then makes the changes. A nonsubstantive change is a correction limited to a transposition error, misplaced entry, spelling error, or arithmetic correction. All other changes are considered substantive and the ERO becomes an income tax return preparer. As such, the ERO may be required to sign the tax return as the income tax return preparer.

### Safeguarding IRS *e-file* From Fraud and Abuse

While all Authorized IRS *e-file* Providers must be on the lookout for fraud and abuse in IRS *e-file*, EROs must be particularly diligent while acting in their capacity as the first contact with taxpayers filing a return. An ERO should always seek to recognize and prevent fraud and abuse of IRS *e-file*. An ERO should exercise due diligence in the preparation of returns involving the Earned Income Tax Credit (EITC), as it is a popular target for fraud and abuse. Section 6695(g) of the Internal Revenue Code requires paid preparers to exercise due diligence in the preparation of returns involving EITC. Be sure to complete all required worksheets and meet all record keeping requirements. A potentially abusive return is a return that is not fraudulent, is required to be filed by the taxpayer, but contains inaccurate information that may lead to an understatement

## Chapter 3

### Electronic Return Origination

of a liability or the overstatement of a credit resulting in a refund to which the taxpayer may not be entitled. Indicators of an abusive or fraudulent return include unsatisfactory answers to filing status questions, multiple returns with same address, and missing or incomplete Schedules A and C income and expense documentation.

#### Verifying Taxpayer Identification Numbers

To safeguard IRS *e-file* from fraud and abuse an ERO should confirm identities and TINs of taxpayers, spouses, and dependents listed on returns prepared by its firm. TINs include SSNs, EINs, Adopted Taxpayer Identification Numbers (ATIN), and Individual Taxpayer Identification Numbers (ITIN). To confirm identities an ERO might ask taxpayers not known to them to provide two forms of identification (picture IDs are preferable) that include the taxpayer's name and current address. Also, seeing Social Security cards and other documents will avoid including incorrect TINs for taxpayers, spouses, and dependents on returns. Care should be taken to ensure that all TINs are transcribed correctly. The TIN entered in the Form W-2 of the electronic return record must be identical to the TIN on the version provided by the taxpayer. The TIN on the Form W-2 should be identical to the TIN on the electronic return unless otherwise allowed by the IRS. Incorrect TINs, using the same TIN on more than one return or associating the wrong name with a TIN cause the largest number of returns to reject (see Acknowledgments of Transmitted Return Data in this chapter).

Additionally, the TINs for taxpayers, spouses, and dependents are identified by a Name Control. A Name Control is the first four significant letters of an individual taxpayer's last name as recorded by the Social Security Administration (SSA) or the first four letters/numbers of a business name. Having the wrong Name Control associated with a taxpayer's TIN contributes to a large portion of TIN-related rejects. The most common example for a return rejecting due to a mismatch between a taxpayer's TIN and Name Control involves newly married taxpayers. Typically, the taxpayer may file using a correct SSN along with the name used in the marriage, but the taxpayer has failed to update the records with the SSA to reflect a name change. To minimize TIN-related rejects, it is important to verify taxpayer TINs and Name Control information prior to submitting electronic return data to the IRS.



## Be Aware of Non-standard Information Documents

The IRS has identified questionable Forms W-2 as a key indicator of potentially abusive and fraudulent returns (see “Safeguarding IRS *e-file* From Fraud and Abuse”). Be on the lookout for suspicious or altered Forms W-2, W-2G, and 1099-R and forged or fabricated documents. Always enter the “non-standard form” code in the electronic record of individual income tax returns for Forms W-2, W-2G or 1099-R that are altered, handwritten or typed. An alteration includes any pen and-ink change. The information must never be altered after the forms are given to the ERO.

Any time you observe or become aware of questionable Forms W-2, report it to the IRS as detailed on the IRS web site or by calling 1-800-829-0433 (toll-free).

## Be Careful with Addresses

Addresses on Forms W-2, W-2G or 1099-R; Schedule C or C-EZ; or on other tax forms supplied by the taxpayer that differ from the taxpayer’s current address must be input into the electronic record of the return. Addresses that differ from the taxpayer’s current address must be input even if the addresses are old or if the taxpayer has moved. EROs should inform taxpayers that the address on the first page of the return, once processed by the IRS, will be used to update the taxpayer’s address of record. The IRS uses a taxpayer’s address-of-record for various notices that are required to be sent to a taxpayer’s “last known address” under the Internal Revenue Code and for refunds of overpayments of tax (unless otherwise specifically directed by taxpayers, such as by Direct Deposit).

Finally, an ERO’s address must never be put in fields reserved for taxpayers’ addresses in the electronic return record or on Form 8453. The only exceptions are if the ERO is the taxpayer or the address of a power of attorney for the taxpayer for the tax return is the same as the address of the ERO.

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### Electronic Return Origination

#### Avoiding Refund Delays

EROs should advise taxpayers that they can avoid refund delays by having all of their taxes and obligations paid, providing current and correct information to the ERO, ensuring that all bank account information is up-to-date, ensuring that their Social Security Administration records are current, and carefully checking their tax return information before signing the return.

EROs can do a number of things for clients and customers to avoid rejects and refund delays. Here are some suggestions:

- Insist on identification and documentation of social security and other identification numbers for all taxpayers and dependents;
- Exercise care in the entry of tax return data into tax return preparation software and carefully check the tax return information before signing the tax return;
- Avoid taxpayers who insist on claiming dubious items on tax returns or present altered or suspicious documents;
- Ask taxpayers if there were problems with last year's refund; if so, see if the conditions that caused the problems have been corrected or can be avoided this year; and
- Keep track of client issues that result in refund delays and analyze for common problems; counsel taxpayers on ways to address these problems.

#### Refund Returns

When taxpayers are entitled to refunds, Providers should inform taxpayers that they have several options. An individual income tax refund may be applied to next year's estimated tax; received as a Direct Deposit or paper check; or be split so that a portion is applied to next year's estimated tax and the rest received as a Direct Deposit or paper check.

## Direct Deposit of Refunds

Taxpayers often elect the Direct Deposit option because it is the fastest way of receiving refunds. Providers must accept any Direct Deposit election to any eligible financial institution designated by the taxpayer. Refunds may be designated for Direct Deposit to qualified accounts in the taxpayer's name. Qualified accounts include savings, checking, share draft, or consumer asset accounts (for example, IRA or money market accounts). Refunds may not be designated for Direct Deposit to credit card accounts. Qualified accounts must be held by financial institutions within the United States and established primarily for personal, family, or household purposes. Qualifying institutions may be national banks, state banks (including the District of Columbia and political sub-divisions of the 50 states), savings and loan associations, mutual savings banks, and credit unions.

Taxpayers should be cautioned that some financial institutions do not permit the deposit of joint individual income tax refunds into individual accounts. The IRS is not responsible if Direct Deposits are refused for this reason. Check or share draft accounts that are "payable through" another institution may not accept Direct Deposits. Taxpayers should verify their financial institution's Direct Deposit policy before they elect the Direct Deposit option.

Taxpayers who choose Direct Deposit must provide Providers with account numbers and routing numbers for qualified accounts. The annual tax packages show how to find and identify these numbers. This information is best obtained from official financial institution records, account cards, checks or share drafts that contain the taxpayer's name and address. The sole exception involves accounts specifically created to receive refunds that repay Refund Anticipation Loans (RAL) and other refund products offered by financial institutions. In those cases Providers may supply the identifying account data.

Additionally, a Provider must never charge a separate fee for Direct Deposit and must accept any Direct Deposit election by a taxpayer to any eligible financial institution. The Provider must advise the taxpayer that a Direct Deposit election cannot be rescinded and that changes cannot be made to routing numbers of financial institutions or to the taxpayer's account numbers after IRS has accepted the return. The Provider must not alter the Direct Deposit information in the electronic record after taxpayers have signed the tax return. Providers with repeat customers or clients should check to see if taxpayers have new accounts. Some software

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### Electronic Return Origination

stores last year's information and reuses it unless it is changed. Taxpayers will not receive Direct Deposit of their refunds if account information is not updated to reflect current information.

Refunds that are not Direct Deposited because of institutional refusal, erroneous account or routing numbers, closed accounts, bank mergers, or any other reason will be issued as paper checks, resulting in refund delays of up to ten weeks. While the IRS will ordinarily process a request for Direct Deposit, it reserves the right to issue a paper check and does not guarantee a specific date by which the refund will be deposited into the taxpayer's account. Treasury's Financial Management Service (FMS) issues Federal income tax refunds and offsets taxpayers' refunds to pay off past-due child support or Federal agency debts such as student loans. Neither the IRS nor FMS is responsible for the misapplication of a Direct Deposit that is caused by error, negligence, or malfeasance on the part of the taxpayer, Authorized IRS *e-file* Provider, financial institution, or any of their agents.

## Balance Due Returns

Taxpayers who owe additional tax must pay their balances due by the original due date of the return or be subject to interest and penalties. An extension of time to file may be filed electronically by the original return due date, but it is an extension of time to file the return, not an extension of time to pay a balance due. Providers should inform taxpayers of their obligations and options for paying balances due. Taxpayers have several choices when paying any taxes owed on their returns as well as estimated tax payments.

## Electronic Funds Withdrawal

Taxpayers can e-file and, at the same time, authorize an electronic funds withdrawal. Taxpayers who choose this option must provide account numbers and routing transit numbers for qualified savings, checking or share draft accounts to the Authorized IRS *e-file* Provider. The IRS tax return instructions describe how to find and identify these numbers. This information is best obtained from official financial institution records, account cards, checks or share drafts that contain the taxpayer's name and address.

Providers should caution taxpayers to ensure, before they e-file, that their financial institution allows electronic funds withdrawal requests from the designated account. Payments cannot be authorized for this purpose from some credit union share accounts.

Taxpayers can schedule the payment for withdrawal on a future date. Scheduled payments must be effective on or before the return due date. For example, the Provider may transmit an individual income tax return in March and the taxpayer can specify that the withdrawal be made on any day on or before the return due date. The taxpayer does not have to remember to do anything at a later date. For returns transmitted after the due date, the payment date must be the same as the date the return is transmitted. Electronic Funds Withdrawal payments must be authorized at the time the balance due return or form is e-filed.

Payments can be made by electronic funds withdrawal for the following:

- Current year Form 1040 series return;
- Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*;
- Form 2350, *Application for Extension of Time to File for U.S. Citizens and Resident Aliens Abroad Who Expect to Qualify for Special Treatment*; and
- Form 1040-ES, *Estimated Tax for Individuals*. Only one estimated tax payment can be made at the time that the Form 1040 is electronically filed.

Providers should be careful to ensure that all the information needed for the electronic funds withdrawal request is included with the return. Taxpayers must provide all of the following:

- Routing transit number (RTN);
- Account number;
- Type of account (checking or savings);
- Date of scheduled electronic funds withdrawal (if applicable); and
- Amount of the withdrawal.

If taxpayers do not provide all of the needed information, Providers must contact the taxpayers. If the Provider is unsuccessful in obtaining the electronic funds withdrawal information but the returns are otherwise complete, the Provider should proceed with the origination of the electronic return data to the IRS. The Provider must notify the taxpayer(s) in writing that other arrangements must be made to pay the balance due.

## Chapter 3

### Electronic Return Origination

#### Credit Card Payments

Taxpayers may also pay electronically using a credit card. Credit card payments can be made when e-filing or separately via telephone or the Internet.

■ **Integrated e-file and e-pay:** Taxpayers can e-file and, at the same time, pay the balance due by credit card if the tax software used includes this option. Taxpayers who choose this option must provide Providers with the credit card number, expiration date, and possibly, the cardholder's address information. The credit card service provider will charge the taxpayer a convenience fee based on the amount of the tax payment. Taxpayers should be informed of the convenience fee before the return is filed. Providers should caution taxpayers to ensure, before they e-file, that the necessary line of credit is available.

■ **Pay by Phone or Internet:** Taxpayers may pay a balance due by phone or the Internet using a major credit card (American Express® Card, Discover® Card, MasterCard®, or Visa® card). This service is available through credit card service providers. The service providers charge a convenience fee based on the amount of the tax payment. Taxpayers will be advised of the fee during the transaction and can choose to end the transaction before the payment is completed and confirmed. EROs should inform taxpayers of this option and advise them that fees may vary between service providers.

Payments can be made by phone or the Internet via credit card for the following:

- Current year Form 1040 series returns, including balance due notices;
- Prior year Form 1040 series returns (applies to past due payments where no Installment Agreement);
- Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*;
- Form 1040-ES, *Estimated Tax for Individuals*; and
- Installment Agreement payments.

## Electronic Federal Tax Payment System (EFTPS)

Taxpayers can pay balances due and estimated taxes year round using the Electronic Federal Tax Payment System (EFTPS). Taxpayers enroll in EFTPS-OnLine via an official government site on the Internet, using a user-friendly Web interface. After enrollment, taxpayers receive a confirmation package by mail with instructions. For added security, a unique Personal Identification Number (PIN) is mailed separately to the taxpayers. To make payments on-line, taxpayers will need the PIN and Internet password. Taxpayers can refer to the confirmation package for instructions on obtaining an Internet password.

## Pay by Check

Taxpayers may pay the balance due by mailing a check accompanied by Form 1040-V, *Payment Voucher*. These forms are found in many individual income tax return packages. Authorized IRS *e-file* Providers must supply Form 1040-V to taxpayers, if needed, and help them identify the correct mailing address from the chart on the back of the form. Vouchers do not have to be mailed at the same time the electronic return is transmitted. For example, the return may be transmitted January and the taxpayer may mail the payment and voucher at any time on or before the return due date.

## Installment Agreement Requests

Taxpayers who cannot pay the amount they owe for Form 1040 series returns may submit Form 9465, *Installment Agreement Request*, to the IRS. Form 9465 may be transmitted electronically (if supported by software) with the taxpayer's electronic return data, or it may be submitted later, either electronically or on paper. If accepted, the IRS charges a user fee for setting up the installments.

## Chapter 3

### Electronic Return Origination

## Signing an Electronic Tax Return

As with an income tax return submitted to the IRS on paper, an electronic income tax return must be signed by the taxpayer as well as by the paid preparer if applicable. Taxpayers may sign individual income tax returns either electronically or on a paper declaration. There are currently two methods for signing individual income tax returns electronically (see “Electronic Signatures for Taxpayers”, below).

Whether using a paper or electronic signature, taxpayers must sign and date the Declaration of Taxpayer to authorize the origination of the electronic submission of the return to the IRS prior to the transmission of the return to IRS. The Declaration of Taxpayer includes the taxpayer’s declaration under penalties of perjury that the return is true, correct, and complete, as well as the taxpayers’ Consent to Disclosure. The Consent to Disclosure authorizes the IRS to disclose information to the taxpayers’ Authorized IRS *e-file* Providers. Intermediate Service Providers, Transmitters, and EROs are authorized by taxpayers to receive from the IRS an acknowledgement of receipt or reason for rejection of the electronic return, an indication of any refund offset, the reason for any delay in processing the return or refund and the date of the refund.

Taxpayers must sign a new declaration if the electronic return data on individual income tax returns is changed after taxpayers signed the Declaration of Taxpayer and the amounts differ by more than either \$50 to “Total income” or “AGI,” or \$14 to “Total tax,” “Federal income tax withheld,” “Refund,” or “Amount you owe.”

### Electronic Signatures for Taxpayers

There are two methods of signing individual income tax returns with an electronic signature available for use by taxpayers. Both methods allow taxpayers to use a Personal Identification Number (PIN) to sign the return and the Declaration of Taxpayer.

One method is referred to as Self Select PIN. The Self-Select PIN method requires taxpayers to provide their prior year Adjusted Gross Income (AGI) amount for use by the IRS to authenticate the taxpayers. When taxpayers sign using the Self-Select method and enter their PIN directly in the electronic return, signature documents are not required.



The other method is referred to as the Practitioner PIN and does not require the taxpayer to provide their prior year AGI amount. A signature authorization form must be completed when using the Practitioner PIN method (see “IRS *e-file* Signature Authorization”, later).

Regardless of the method of electronic signature used, taxpayers may enter their PIN in the electronic return. The ERO may select, or the software may generate, the taxpayer’s PIN if the taxpayer agrees by signing an IRS *e-file* signature authorization containing the PIN.

When taxpayers sign using the Self-Select method and enter their PIN directly in the electronic return, signature documents are not required. In all other instances, taxpayers must sign signature authorization forms. The Practitioner PIN method also requires use of the signature authorization forms (see “IRS *e-file* Signature Authorization”, later).

The following taxpayers are ineligible to sign individual income tax returns with an electronic signature using either the Self-Select PIN or Practitioner PIN method:

- Taxpayers who filed Form 1040-NR or 1040-SS the prior tax year; and
- Taxpayers required to file the following forms, which must be attached to Form 8453, *U.S. Individual Income Tax Declaration for an IRS e-file Return* or Form 8453 OL, *U.S. Individual Income Tax Declaration for an IRS e-file Online Return*:
  - Form 3115, *Application for Change in Accounting Method*;
  - Form 3468, *Investment Credit, Historic Structure Certificate*;
  - Form 5713, *International Boycott Report*;
  - Form 8283, *Non-Cash Charitable Contribution, Section B Appraisal Summary*;
  - Form 8332, *Release of Claim to Exemption for Children of Divorced or Separated Parents*;
  - Form 8858, *Information Return of U.S. Persons With Respect To Foreign Disregarded Entities*;or
- Form 8885, *Health Coverage Tax Credit*.

The following taxpayers are also ineligible to sign individual income tax returns with the Self-Select PIN method, but can use the Practitioner PIN method:

- Primary taxpayers under age sixteen who have never filed; and
- Secondary taxpayers under the age sixteen who did not file the prior tax year.

If the taxpayer is ineligible to use an electronic signature or chooses not to do so, a signature on a paper declaration must be completed (see “Paper Signatures”, later).

## Chapter 3

### Electronic Return Origination

#### IRS e-file Signature Authorization

In some instances, taxpayers may wish to sign electronically, but are unable to enter their PIN directly in the electronic return. Taxpayers authorize the ERO to enter their PINs in the electronic return record by completing the appropriate IRS e-file signature authorization form. Form 8879, *IRS e-file Signature Authorization* authorizes an ERO to enter PINs on Individual Income Tax Returns and Form 8878, *IRS e-file Authorization for Application of Extension of Time to File* authorizes an ERO to enter their PINs on Forms 4866, 2688, and 2350.

The ERO may enter the taxpayers' PINs in the electronic return record before the taxpayers sign Form 8879 or 8878, but the taxpayers must sign and date the appropriate form before the ERO originates the electronic submission of the return. In most instances, the taxpayer must sign and date the Form 8879 or Form 8878 after reviewing the return and ensuring the tax return information on the form matches the information on the return.

Taxpayers who provide a completed tax return to an ERO for electronic filing may complete the IRS e-file Signature Authorization without reviewing the return originated by the ERO. The line items from the paper return must be entered on the applicable Form 8879 or Form 8878 prior to the taxpayers sign and date the form. The ERO may use these pre-signed authorizations as authority to input the taxpayer's PIN only if the information on the electronic version of the tax return agrees with the entries from the paper return.

Taxpayers and the ERO representative must always complete and sign Forms 8879 or 8878 for the Practitioner PIN method of electronic signature. Taxpayers may use the Practitioner PIN Method to electronically sign Form 4868 if a signature is required. A signature is only required for Form 4868 when an electronic funds withdrawal is also being requested.

The ERO must retain Forms 8879 and 8878 for three years from the return due date or the IRS received date, whichever is later. EROs must not send Forms 8879 and 8878 to the IRS unless the IRS requests they do so.

## Electronic Signatures for EROs

If taxpayers sign returns using either of the electronic signature methods, the ERO must also sign with a PIN. EROs should use the same PINs for the entire tax year. The PIN may be manually input or software generated in the electronic record in the location designated for the ERO EFIN/PIN. The ERO is attesting to the ERO Declaration by entering a PIN in the EFIN/PIN field. For returns prepared by the ERO firm the return preparer is declaring under the penalties of perjury that the return was reviewed and is true, correct, and complete. For returns prepared by other than the ERO firm that originates the electronic submission, the ERO attests that the return preparer signed the copy of the return and that the electronic return contains tax information identical to that contained in the paper return. The paid preparer's identifying information (e.g. name, address, and SSN or PTIN) must also be entered in the e-file return.

## Paper Signatures

If providing the signature on a paper declaration, Form 8453, *U.S. Individual Income Tax Declaration for an IRS e-file Return*, must be completed and signed before the electronic data portion of the return is submitted. A substitute Form 8453 requires approval from the IRS prior to its use. The taxpayer's (and spouse's in the case of a joint return) name, address, social security number, and tax return information in the electronic transmission must be identical to the information on the Form 8453 that the taxpayer signed and provided for submission to the IRS. The form must be signed by both the taxpayer (and spouse in the case of a joint return) and the ERO.

- **Taxpayer(s)**— The taxpayer must sign and date the “Declaration of Taxpayer” section and check the correct box after thoroughly reading the declaration. The taxpayer must verify the information on the electronic portion of the return and on Form 8453. The taxpayer may verify the information on the electronic portion of the return by viewing this information on a computer display terminal. A taxpayer need not verify the electronic portion of the return prior to its transmission if the taxpayer provided a completed paper return for filing and the information on the electronic portion is identical to the information provided by the taxpayer.
- **ERO**— The ERO must sign and complete all the requested information in the “Declaration of Electronic Return Originator (ERO) and Paid Preparer” section after thoroughly reading the declaration. An ERO may authorize members of its firm or designated employees to sign

## Chapter 3

### Electronic Return Origination

for the ERO, but the ERO is still responsible for all electronically filed returns originated by its firm. EROs do not have to disclose their EIN or SSN on the copies they supply to taxpayers.

■ **Paid Preparer**— If the return was prepared for a fee, the paid preparer must also sign the Form 8453. If the paid preparer signs as or for the ERO, the preparer should check the “Also the Paid Preparer” box and not complete the “Paid Preparer’s Use Only” section. Paid preparers do not have to disclose their SSNs or EINs on the copies they supply to taxpayers. If a taxpayer gives the ERO a return already prepared by a paid preparer who did not sign the Form 8453, the ERO must attach a copy of pages 1 and 2 of the return that contains the paid preparer’s signature to the Form 8453. Write **Copy—Do Not Process** on both pages.

■ **Volunteer Program Sponsor**— Unpaid preparers in IRS Sponsored programs including Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), Outreach, and Taxpayer Assistance Centers in IRS offices must identify themselves or the volunteer program on Form 8453. Sponsors are not required to sign Forms 8453 as EROs, but may do so. Sponsors that choose not to sign as an ERO must include in the ERO declaration, the volunteer organization name or acronym, and if operating at multiple sites, the site designation number.

■ **Employer Offering IRS e-file as an Employee Benefit**— Employers are not required to sign Form 8453 as EROs, but may do so. Employers that choose not to sign as EROs must include in the ERO declaration their name, address, the designation “Employee Benefit”, and, if operating at multiple sites, the site designation number.

### Sending Paper Signatures to the IRS

After electronic return data is acknowledged as accepted (See “Acknowledgments of Transmitted Return Data”), EROs must mail within three business days the corresponding Forms 8453, with other required forms to the IRS. Forms W 2, W-2G and 1099-R should not be sent to the IRS. If an electronic signature was used in signing the document and was accepted, a Form 8453 is not used and is not submitted to the IRS (see “Electronic Signatures”, above). See Publication 1345A for the current mailing address. As a composite tax return is not considered filed until the Forms 8453 are received by the IRS, EROs who are lax, negligent or untimely in mailing Forms 8453 to the IRS may be sanctioned.

The IRS corresponds with EROs when Forms 8453 are not received or are otherwise determined to be missing or incomplete. EROs must supply replacements, complete with attachments. If EROs do not send replacement Forms 8453, complete with attachments, when requested, the IRS will contact the taxpayers to obtain them. This does not apply to returns that were electronically signed by the taxpayer.

## Submitting the Electronic Return to the IRS

An ERO must originate the electronic submission of a return as soon as possible after it is signed. Individual income tax returns must not be electronically filed prior to the ERO's receipt of Forms W-2, W-2G, or 1099-R. If the taxpayer is unable to secure and provide a correct Form W-2, W-2G, or 1099-R, the return may be electronically filed after Form 4852 is completed in accordance with the use of that form. If Form 4852 is used, the non-standard W-2 indicator must be included in the record and the Form 4852 must be retained by the ERO in the same manner required for Forms W-2, W-2G, and 1099-R.

An ERO must ensure that stockpiling of returns does not occur at its offices. Stockpiling refers to either collecting returns from taxpayers or from another Authorized IRS e-file Provider prior to official acceptance in IRS *e-file*. Or, after official acceptance to participate in IRS e-file, stockpiling refers to waiting more than three calendar days to submit the return to the IRS once the ERO has all necessary information for origination. Returns that are held prior to the date that electronic returns may be transmitted to the IRS are not considered stockpiled. EROs must advise taxpayers that returns will not be transmitted to the IRS until electronic returns may be transmitted.

## Submission of Paper Documents to the IRS

IRS *e-file* returns must contain all the same information as returns filed completely on paper. EROs are responsible for ensuring that all paper documents required to complete the filing of returns are submitted to the IRS. Attach all appropriate supporting documents that must be submitted to the IRS (such as a supporting Form 8332, *Release of Claim to Exemption for Child of Divorced or Separated Parents*) to the Form 8453 and send them to the IRS. EROs must sign and ensure the accuracy of the Form 8453. State income tax returns in the Federal/State Program often require that paper documents be prepared and forwarded to state tax administration agencies. Be sure to follow each state's rules when state income tax returns are prepared.

## ERO Duties After Submitting the Return to the IRS

### Record Keeping and Documentation Requirements

EROs must retain and make available to the IRS upon request, until the end of the calendar year in which a return was filed, the following material at the business address from which the return was originated. An ERO may retain the required records at the business address of the Responsible Official during any period of time the office is closed.

- A copy of signed Form 8453, any supporting documents that are not included in the electronic return data and copies of Forms W-2, W-2G, and 1099-R;
- A copy of signed IRS *e-file* consent to disclosure forms for taxpayers who signed using an electronic signature;
- A complete copy of the electronic portion of the return that can be readily and accurately converted into an electronic transmission that the IRS can process; and
- The acknowledgment file for IRS accepted returns.

Forms 8879 and 8878 must be available to the IRS in the same manner described above, for three years from the due date of the return or the IRS received date, whichever is later.

EROs may electronically image and store all paper records they are required to retain for IRS *e-file*. This includes signed Forms 8453 and paper copies of Forms W-2, W-2G, and 1099-R as well as any supporting documents not included in the electronic record and Forms 8879 and 8878. The storage system must satisfy the requirements of Revenue Procedure 97-22, *Retention of Books and Records*. In brief, the electronic storage system must ensure an accurate and complete transfer of the hard copy to the electronic storage media. All records must be able to be reproduced with a high degree of legibility and readability (including the taxpayers' signatures) when displayed on a video terminal and when reproduced in hard copy.

## Providing Information to the Taxpayer

The ERO must provide a complete copy of the return to the taxpayer. However, the copy need not contain the social security number of the paid preparer. A complete copy of a taxpayer's return includes Form 8453 and other documents that cannot be electronically transmitted, when applicable, as well as the electronic portion of the return. The electronic portion of the return can be contained on a replica of an official form or on an unofficial form. However, on an unofficial form, data entries must be referenced to the line numbers or descriptions on an official form. If the taxpayer provided a completed paper return for electronic filing and the information on the electronic portion of the return is identical to the information provided by the taxpayer, a printout of the electronic portion of the return does not have to be provided to the taxpayer. The ERO should advise the taxpayer to retain a complete copy of the return and any supporting material. The ERO should also advise the taxpayer that an amended return, if needed, must be filed as a paper return and mailed to the submission processing center that would handle the taxpayer's paper return. Refer to the current year's tax package for addresses.

## Acknowledgments of Transmitted Return Data

The IRS electronically acknowledges the receipt of all transmissions. Returns in each transmission are either accepted or rejected for specific reasons. Accepted returns meet the processing criteria and are considered "filed" as soon as the return is signed electronically or through the receipt by the IRS of a paper signature. Rejected returns fail to meet processing criteria and are considered "not filed". The acknowledgment identifies the source of the problem using a system of error reject codes and form field numbers (sequence numbers). The error reject codes tell why the return rejected and the form field numbers tell which fields of the electronic return data are involved. Publication 1345A, *Filing Season Supplement for Authorized IRS e-file Providers* is issued annually and contains information to help identify the cause of the reject.

The acknowledgement record of an accepted individual income tax return contains other information that is useful to the originator. The record confirms if the IRS accepted a PIN, if the taxpayer's refund will be applied to a debt, if an elected electronic funds withdrawal paid a balance due, and if the IRS approved a request for extension on Form 2688. The ERO should check acknowledgement records regularly to identify returns requiring follow up action. The ERO should take reasonable steps to address issues identified on acknowledgement records. For example, if the IRS does not accept a PIN of an individual income tax return, the ERO must provide a completed and signed Form 8453 for the return.

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### Electronic Return Origination

The ERO must, at the request of the taxpayer, provide the Declaration Control Number (DCN) and the date the electronic individual income tax return data was accepted by the IRS. Form 9325, *Acknowledgment and General Information for Taxpayers Who File Returns Electronically*, may be used for this purpose. The ERO must also, if requested, supply the electronic postmark if the Transmitter provided one for the return.

Rejected electronic individual income tax return data can be corrected and retransmitted without new signatures or authorizations if changes do not differ from the amount in the electronic portion of the electronic return by more than \$50 to “Total income” or “AGI”, or more than \$14 to “Total tax,” “Federal income tax withheld,” “Refund,” or Amount you owe”. Taxpayers must be given copies of the new electronic return data. If new signatures are required, the taxpayer must be given copies of the new signatures.

In the Federal/State e-file Program, if Federal electronic return data rejects due to errors, the state electronic return data also rejects. The converse is also true. That is, if the state electronic return data is rejected by the IRS because of error, the Federal electronic return data also rejects. Once both the Federal and state electronic return data is accepted by the IRS, the subsequent rejection of state electronic return data by a state tax administration agency will not impact the accepted Federal electronic return data. States determine when state electronic return data received from the Federal/State e-file Program is accepted as filed. Contact the state tax administration agency when problems or questions arise.

### Resubmission of Rejected Tax Returns

If the IRS rejects the electronic portion of a taxpayer’s individual income tax return for processing and the reason for the rejection cannot be rectified, the ERO must take reasonable steps to inform the taxpayer of the rejection within 24 hours. When the ERO advises the taxpayer that the return has not been filed, the ERO must provide the taxpayer with the reject code(s) accompanied by an explanation. If the taxpayer chooses not to have the electronic portion of the return corrected and transmitted to the IRS or if it cannot be accepted for processing by the IRS, the taxpayer must file a paper return. In order to be filed timely, the paper return must be filed by the later of the due date of the return or ten calendar days after the date the IRS gives notification that the electronic portion of the return is rejected or that it cannot be accepted for processing. The paper return should include an explanation of why the return is being filed after the due date.



## Advising Taxpayers about Refund Inquiries

EROs should tell taxpayers how to follow up on returns and refunds by pointing out the “Where’s My Refund” feature on the IRS web site. If taxpayers do not have access to the Internet, the ERO should provide taxpayers with the Refund Hotline information. The Refund Hotline number is 1-800-829-1954 (toll-free) and will have information about taxpayers’ refunds (when it becomes available).

To call the Refund Hotline, taxpayers will need to enter the first Social Security Number shown on their tax return, the filing status, and the exact amount of the refund in whole dollars. Before checking on refunds, taxpayers should wait at least three weeks from the time the return data is acknowledged as accepted. Because refund information is updated each weekend, taxpayers should be advised not to call more than once a week. This will save taxpayers from checking on their refunds with no possibility of success.

## Refund Delays

Taxpayers often ask EROs to help them when refunds take longer than expected. Refunds may be delayed for a number of reasons, including the following:

- Errors in Direct Deposit information (refunds will then be sent by check);
- Financial institution refusals of Direct Deposits (refunds will then be sent by check) or delays in crediting the Direct Deposit to the taxpayer’s account;
- Estimated tax payments differ from amount reported on tax return (for example, fourth quarter payments not yet on file when return data is transmitted);
- Bankruptcy;
- Inappropriate claims for the Earned Income Tax Credit; or
- Recertifications to claim the Earned Income Tax Credit.

Taxpayers will receive a letter or notice explaining the issue(s) and how to resolve the issue(s). The letter or notice will contain the contact telephone number that the taxpayer can use for further assistance.

If taxpayers’ refunds are lost or misapplied, taxpayers do not receive notices or letters, or there is no information on the Refund Hotline (see “Advising Taxpayers about Refund Inquiries”, above), advise taxpayers to call the IRS Tax Help number listed in tax packages.

## Chapter 3

### Electronic Return Origination

#### Refund Offsets

The IRS offsets as much of a refund as is needed to pay off overdue taxes owed by taxpayers and notifies them when this occurs. The Financial Management Service (FMS) offsets taxpayers' refunds to pay off past-due child support or Federal agency debts such as student loans. Offsets to non-tax debts occur after the IRS has certified the refunds to FMS for payment but before FMS makes the Direct Deposits or issues the paper checks. Refund offsets reduce the amount of the expected Direct Deposit or paper check but they do not delay the issuance of the remaining refund (if any) after offset. If taxpayers owe non-tax debts they may contact the agency they owe, prior to filing their returns, to determine if their debts were submitted for refund offset. If the IRS determines at time the return is filed that refunds will be offset, a Debt Indicator is provided on the Acknowledgement File. FMS sends taxpayers offset notices if any part of their refund is applied to non-tax debts. Taxpayers should contact the agencies identified in the FMS offset notice when offsets occur if they dispute the non-tax debts or have questions about the offsets. If a refund is in a joint name but only one spouse owed the debt, the "injured spouse" should file Form 8379, *Injured Spouse Claim and Allocation*.

#### Other EROs

##### IRS Sponsored Programs

Often individuals or organizations serve as unpaid preparers in IRS sponsored programs including Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), Outreach, and Taxpayer Assistance Centers in IRS offices. For IRS sponsored programs, unless otherwise noted, all requirements of an Authorized IRS *e-file* Provider apply. A manual or electronic quality review system is required to review each electronically filed return. The IRS may designate an individual for this purpose. The IRS will advise the VITA or TCE sponsor how to submit or transmit returns. Some options available to the IRS include:

- Submission of returns by VITA or TCE sponsors on paper, magnetic disk, or in an electronic transmission to a designated IRS office;
- Submission of returns by VITA or TCE sponsors via direct transmission to the IRS; or
- Submission of returns by VITA or TCE sponsors through a third party transmitter.

A VITA or TCE sponsor can only accept a return for electronic filing that meets the criteria for VITA or TCE assistance. Only the returns and accompanying forms and schedules included in a VITA or TCE training course may be accepted for electronic filing by a VITA or TCE sponsor. A VITA or TCE sponsor may collect a fee only if it is that is directly related to defraying the actual cost of electronically transmitting a tax return. A VITA or TCE sponsor may also collect this fee on behalf of a third party Transmitter that electronically transmitted a VITA or TCE return. Before a VITA or TCE sponsor may collect a fee, the sponsor must advise the taxpayer that the fee is not for preparation of the return and the VITA or TCE service is offered without regard to either the electronic filing or the collection of a fee.

A VITA or TCE sponsor and the IRS may enter into an agreement that provides for the retention of copies of tax returns, Forms 8453, and IRS *e-file* Signature Authorizations by the IRS. This information must be retained by either the VITA or TCE sponsor or by the IRS. This information must not be given to a third party, including a third party Transmitter. The IRS is responsible for ensuring that Form 8453 is sent to the appropriate IRS office or submission processing center. However, the IRS may delegate to the VITA or TCE sponsor the responsibility for mailing Form 8453 to the appropriate local office or submission processing center.

## **Employers Offering IRS *e-file* as an Employee Benefit**

The following procedures apply to employers who choose to offer electronic filing as an employee benefit to business owners and spouses, employees and spouses, and/or dependents of business owners and employees. These rules do not apply if an employer contracts with an ERO to originate the electronic submission of the tax return.

An employer may offer electronic filing as an employee benefit whether the employer chooses to transmit tax returns or contracts with a third party to transmit the tax returns. If an employer contracts with a third party to transmit tax returns, the employer may collect from participating employees a fee that is directly related to defraying the actual cost of transmitting the electronic portion of the tax return.

An employer and the IRS may enter into an agreement that provides for the retention of copies of tax returns including Forms 8453 and IRS *e-file* Signature Authorizations. In the absence of such an agreement, the employer must retain this information. This information is not to be given to a third party, including a third party Transmitter.

# Transmission

## Requirements

**In fulfilling the requirements of a Provider participating in IRS e-file as a Transmitter you must:**

1. Transmit all electronic portions of returns to the appropriate IRS center within three calendar days of receipt;
2. Retrieve the acknowledgment file within two work days of transmission;
3. Match the acknowledgment file to the original transmission file and send the acknowledgment file containing all conditions on accepted returns, including debt indicator, non-receipt of PIN, etc. to the ERO or Intermediate Service Provider within two work days of retrieving the acknowledgment file;
4. Retain an acknowledgment file received from the IRS until the end of the calendar year in which the electronic return was filed;
5. Immediately contact the IRS at its e-Help toll-free number 1-866-255-0654 for further instructions if an acknowledgment of acceptance for processing has not been received within two work days of transmission or if an acknowledgment for a return that was not transmitted on the designated transmission is received;
6. Promptly correct any transmission error that causes an electronic transmission to be rejected;
7. Contact the IRS at its e-Help toll-free number 1-866-255-0654 for assistance if the electronic portion of the return has been rejected after three transmission attempts;
8. Ensure the security of all transmitted data;
9. Ensure against the unauthorized use of its EFIN or ETIN. A Transmitter must not transfer its EFIN or ETIN by sale, merger, loan, gift, or otherwise to another entity; and
10. Use only software that does not have an IRS assigned production password built into the software.

## Additional Requirements for Participants in Online Filing

In addition to requirements of all Transmitters in the IRS *e-file* Program, a Transmitter that participates in Online Filing has some additional responsibilities.

### **When participating in Online Filing, the Transmitter must:**

1. Ensure that it uses an EFIN or ETIN obtained for Online Filing;
2. Ensure that Intermediate Service Provider's EFIN is included in the electronic return data, when applicable;
3. Transmit in separate batches returns filed via Online Filing and returns filed using an ERO;
4. Assign a Declaration Control Number (DCN) to the electronic portion of each return received from a taxpayer;
5. Include the assigned DCN in the transmission of the electronic return data to the IRS;
6. Notify the taxpayer of the status of a return by sending an electronic transmission to the taxpayer or the Intermediate Service Provider, when applicable, within two work days of retrieving the acknowledgment file from the IRS or by mailing a written notification to the taxpayer within one work day of retrieving the acknowledgment file;
7. Ensure that it does not transmit or accept for transmission more than five electronic returns originating from one software package or from one e-mail address;
8. Provide the Internet Protocol (IP) information. The information consists of the IP Address, IP Date, IP Time and IP Time Zone;
9. Enter into agreements with companies to allow access to Online Filing only if companies correctly capture the IP Address of the computer submitting the return and the date, time, time zone of the computer receiving it;
10. Include the letter "O" in the "Transmission Type Code" field of the Trans Record "A".

## Chapter 4 Transmission

The Transmitter must notify the taxpayer of the following if the IRS **accepts** the electronic portion of a taxpayer's return:

- The date the transmission was accepted;
- The DCN;
- Where to put the DCN on Form 8453-OL;
- The requirement to properly complete and timely submit a Form 8453-OL with accompanying paper documents within one business day;
- The appropriate submission processing center's address to which Form 8453-OL with accompanying paper documents must be sent;
- That a Form 8453-OL must be received by the IRS, when applicable, before an Online filed return is complete.

The Transmitter must notify the taxpayer of the following if the IRS **rejects** the electronic portion of a taxpayer's return:

- That the IRS rejected the electronic portion of the taxpayer's return;
- The date of the rejection;
- What the reject code(s) means;
- What steps the taxpayer needs to take to correct the errors that caused the rejection; and
- That if the taxpayer chooses not to have the electronic portion of the return corrected and transmitted to the IRS, or, if the electronic portion of the return cannot be accepted for processing by the IRS, the taxpayer must file a paper return. In order to be filed timely, the paper return must be filed by the later of the due date of the return or ten calendar days after the date the IRS gives notification that the electronic portion of the return is rejected or that it cannot be accepted for processing. The paper return should include an explanation of why the return is being filed after the due date.

A Transmitter that receives returns from an Intermediate Service Provider for Online Filing must adhere to the same requirements as a Transmitter that transmits ERO returns received from Intermediate Service Providers.

## Electronic Postmark

A Transmitter may provide an electronic postmark to taxpayers that file Individual Income Tax Returns and Extensions of Time to File Individual Income Tax Returns, through an ERO or through Online Filing. The Transmitter creates the electronic postmark bearing the date and time (in the Transmitter's time zone) that the return is received at the Transmitter's host computer. The taxpayer must adjust the electronic postmark to the time zone where the ERO is located or where the taxpayer resides in the case of Online Filing to determine the postmark's actual time. For example, if the Transmitter provides an electronic postmark with a time in the Pacific Time Zone but the taxpayer resides in the Eastern Time Zone, the taxpayer must add three hours to the postmark time to determine the actual postmark time (Eastern Time Zone).

If the electronic postmark is on or before the prescribed deadline for filing but the return is received by the IRS after the prescribed deadline for filing, the return will be treated as filed on the electronic postmark's date. In order for a return to be treated as filed on the electronic postmark's date, all requirements for signing the return and completing a paper declaration must be met. If the electronic postmark is after the prescribed deadline for filing, the IRS actual receipt date, not the date of the electronic postmark will be the filing date. If a return is rejected, a corrected return must be filed in accordance with the rules for timely filing corrected returns after rejection of an electronic return.

A Transmitter is authorized to provide an electronic postmark if the Transmitter:

- a)** Creates an electronic postmark bearing the date and time (in the Transmitter's time zone) the return was received by the Transmitter's host system;
- b)** Provides the electronic postmark to the taxpayer or the ERO no later than when the acknowledgment is made available to the taxpayer in a format that precludes alteration and manipulation of the electronic postmark information;
- c)** Provides the same electronic postmark data to the IRS in the electronic record of the return;
- d)** Provides taxpayers with an explanation of the electronic postmark and when the IRS treats the electronic postmark as the filing date;
- e)** Refrains from using terms that currently have specific meaning in the postal industry such as "certified" or "registered" and similar terms, and from using "Internal Revenue Service",

## Chapter 4 Transmission

“IRS” or “Federal” as a definer of the electronic postmark when discussing the electronic postmark, including in all advertising, product packaging, articles, press releases, and other presentations;

- f) Retains a record of each electronic postmark until the end of the calendar year and provides the record to the IRS upon request;
- g) Transmits all tax returns and extensions of time to file that received an electronic postmark to the IRS within two days of receipt from the ERO or from the taxpayer in the case of Online Filing; and
- h) Retains the original electronic postmark of the rejected return for a corrected return that is received by the Transmitter through the last date for retransmitting rejected returns and creates a new postmark for all returns, including corrected returns received after the last date for retransmitting returns. All corrected returns retaining an electronic postmark of a date through the prescribed last day of filing must be transmitted to the IRS within two days of the date the return was received by the Transmitter or the twenty second day of the respective month of the prescribed due date, whichever is earlier.

### Transmitting for Federal/State e-file

If you participate in Federal/State e-file, your software should meet both IRS and state specifications. However, before electronic return data can be transmitted (in Federal/State e-file, both Federal and state electronic return data is transmitted to the IRS) all requirements for transmitting electronic data in IRS *e-file* must be met. Contact the appropriate state coordinator for additional requirements specific to that state.



# Other Authorized IRS *e-file* Provider Activities

In addition to Electronic Return Origination and Transmission previously discussed, there are other activities performed by Authorized IRS *e-file* Providers, including intermediate service and software development.

## Intermediate Service Providers

An Intermediate Service Provider receives tax information from an ERO (or from a taxpayer who files electronically using a personal computer, modem, and commercial tax preparation software), processes the tax return information, and either forwards the information to a Transmitter or sends the information back to the ERO or taxpayer (for Online Filing).

An Authorized IRS *e-file* Provider participating as an Intermediate Service Provider must meet the following responsibilities to participate in IRS *e-file*.

### **The Intermediate Service Provider must:**

1. Deliver all electronic returns to a Transmitter or the ERO who gave the electronic returns to the Intermediate Service Provider within three calendar days of receipt;
2. Retrieve the acknowledgment file from the Transmitter within one calendar day of receipt by the Transmitter and send the acknowledgment file to the ERO (whether related or not) within one work day of retrieving it;
3. Retain each acknowledgment file received from a Transmitter until the end of the calendar year in which the electronic return was filed;
4. Input the addresses on a Form W-2, W-2G, 1099-R, or Schedule C when they differ from the taxpayer's address on the electronic individual income tax return if inputting the electronic data; and
5. Send any return and Form 8453 needing changes as described in Chapter 3 back to the ERO for correction.

## Chapter 5

### Other Authorized IRS e-file Provider Activities

## Additional Requirements for Participants in Online Filing

When a return is filed using Online Filing, the Intermediate Service Provider processes information for a taxpayer so that a Transmitter can send the electronic return(s) to the IRS. **In so doing, the Intermediate Service Provider must:**

1. Ensure that it uses an EFIN obtained for Online Filing;
2. Ensure that its Online Filing EFIN is included in the electronic return data, when applicable;
3. Assign a Declaration Control Number (DCN) to the electronic portion of each return received from a taxpayer;
4. Send the transmission to the Transmitter within 24 hours of the receipt of the return from the taxpayer;
5. Ensure that no more than five tax returns are filed electronically by one software package or from one e-mail address;
6. Ensure that software used by the taxpayer does not have a IRS-assigned production password built into the software; and
7. Immediately forward to the taxpayer information received from the Transmitter as required for Online Filing. For example, a Transmitter receives information from the IRS regarding the status of the electronic portion of a taxpayer's return. See "Additional Responsibilities for Participants in Online Filing."

## Software Developers

A Software Developer develops software for the purposes of formatting electronic return information according to IRS *e-file* specifications and/or transmitting electronic return information directly to the IRS. IRS *e-file* specifications may be found in Publication 1346, *Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns*. Software Developers must pass PATS testing as prescribed in Publication 1436, *Test Package for Electronic Filers of Individual Income Tax Returns*.

**A Software Developer must:**

1. Promptly correct any software error which causes the electronic portion of a return to be rejected and then promptly distribute that correction;
2. Ensure that any software package that will be used to transmit electronic portions of returns from multiple Authorized IRS *e-file* Providers has the capability of combining returns from these Providers into one IRS transmission file. Sorting requirements of the Declaration Control Number (DCN) must be taken into account;
3. Ensure that an IRS assigned production password is not incorporated into its software;
4. Provide a copy of the software and accompanying documentation (a demonstration package is sufficient) to the IRS, if requested, upon successful completion of the communication testing;
5. Ensure that its software contains appropriate language and version indicators for Consent To Disclose and Jurat statements;
6. Ensure software contains IRS *e-file* Signature Authorization; and
7. Ensure its software allows for input of different addresses on appropriate forms and schedules.

## Additional Responsibilities for Participants in Online Filing

**A Software Developer that participates in Online Filing must also:**

1. Ensure that its software package cannot be used to transmit more than five electronic returns;
2. Ensure that its software, if available for use on an Internet web site, cannot be used to file more than five electronic returns from one e-mail address;
3. Ensure that its software contains a Form 8453-OL format that can be printed and used by a taxpayer to file with IRS;
4. Ensure that its software contains a payment voucher that can be printed and used by a taxpayer to file with the IRS;
5. Provide a copy of the software and accompanying documentation (a demonstration package is sufficient) to the IRS Headquarters Online Filing Analyst upon successful completion of testing (See Chapter 6 for address); and
6. Ensure the Internet Protocol (IP) statement is present.

# IRS *e-file* Rules and Requirements

All Authorized IRS *e-file* Providers must adhere to IRS *e-file* rules and requirements to continue participation in IRS *e-file*. Requirements are included in Revenue Procedure 2000-31, throughout this publication, and in other publications and notices that govern IRS *e-file* (See Publication 3112, *IRS e-file Application and Participation*). Adherence to all rules and requirements is expected of all Providers regardless of where published. Some rules and requirements are specific to the activities performed by the Provider and are included in appropriate chapters of this publication. The following list, while not all-inclusive, applies to all Authorized IRS *e-file* Providers of Individual Income Tax Returns, excepting Software Developers that do not engage in any other IRS *e-file* activity other than software development.

**A Provider must:**

1. Maintain an acceptable cumulative error or reject rate;
2. Adhere to the requirements for ensuring that tax returns are properly signed and when applicable, provide legible and complete paper declarations;
3. Properly use the standard/non-standard Form W-2 indicator;
4. Properly use the Refund Anticipation Loan (RAL) indicator;
5. Include the ERO's EFIN as the return EFIN for returns the ERO submits to an Intermediate Service Provider or Transmitter;
6. Include the Intermediate Service Provider's EFIN in the designated Intermediate Service Provider field in the electronic return record;
7. Submit an electronic return to the IRS with information that is identical to the information provided to the taxpayer on the copy of the return and when applicable, the paper declaration;

## Additional Requirements for Participants in Online Filing

In addition to the above, participants in Online Filing must adhere to the following:

1. Ensure that no more than five electronic returns are filed from one software package or one e-mail address;
2. Supply a taxpayer with an accurate DCN;
3. Provide effective instructions to a taxpayer concerning the entry of the DCN on Form 8453-OL; and
4. Submit any changes to the following information to the IRS Headquarters Online Filing Analyst, SE:W:CAS:SP:IEF:P, 5000 Ellin Road, Lanham, MD 20706, by the 31st day of December preceding the filing season:
  - The brand name of the software the Provider will be using, has developed, or will use for transmission. Required information about the software includes its Software Developer, Transmitter, retail cost, and any additional costs for transmitting the electronic portion of the taxpayer's return. Additionally, software changes involving its use to file Federal/State returns, Internet availability (including the Internet address), successful completion of Participants Acceptance Testing (PATS), and the Professional Package name under which the software was tested must be reported;
  - The Provider's point of contact for matters relating to Online Filing and the telephone number for the point of contact;
  - The applicant's customer service number; and
  - The procedures the applicant will use to ensure that no more than five returns are transmitted from one software package or from one e-mail address.

## Financial Products

### RALs and Other Financial Products

A Refund Anticipation Loan (RAL) is money borrowed by a taxpayer from a lender based on the taxpayer's anticipated income tax refund. Financial institutions also offer a variety of other financial products to taxpayers based on their refunds. The IRS is in no way involved in or responsible for RALs or the other financial products. Authorized IRS *e-file* Providers that assist taxpayers in applying for a RAL or other financial product have additional responsibilities and may be sanctioned by the IRS if they failed to adhere to the below requirements.

**The Provider must:**

- Ensure taxpayers understand that by agreeing to a RAL or other financial product they will not receive their refund from the IRS as the IRS will send their refund to the financial institution;
- Advise taxpayers that RALs are interest bearing loans and not a quicker way of receiving their refunds from the IRS;
- Advise taxpayers that if a Direct Deposit is not received within the expected time frame for whatever reason, the taxpayers may be liable to the lender for additional interest and other fees, as applicable for the RAL or other financial product (see explanation below);
- Advise taxpayers of all fees and other known deductions to be paid from their refund and the remaining amount the taxpayers will actually receive;
- Secure the taxpayer's written consent as specified in Section 301.7216 to disclose tax information to the lending financial institution in connection with an application for a RAL or other financial product;
- Ensure that if it is also the return preparer that it is not a related taxpayer to the financial institution or other lender that makes a RAL or other financial product agreement within the meaning of §267 or §707A; and
- Adhere to fee restrictions and advertising standards below.

There are no guarantees that refunds will be deposited within a specified time or in their entirety. For example, a refund may be delayed due to processing problems or, some or all of the refund may be offset. The Department of the Treasury is not liable for any loss suffered by taxpayers, Providers, or financial institutions resulting from reduced refunds or Direct Deposits not being honored, causing refunds to be issued by check.

## Fee Restrictions

Authorized IRS *e-file* Providers may not base their fees on a percentage of the refund amount or compute their fees using any figure from tax returns.

When assisting a taxpayer in applying for a RAL or other financial product, the Provider may charge a flat fee for that assistance. The fee must be identical for all customers and must not be related to the amount of the refund or the financial product. The Provider must not accept a fee that is contingent upon the amount of the refund or a RAL or other financial product from a financial institution for any service connected with a financial product.

The IRS has no responsibility for the payment of any fees associated with the preparation of a return, the transmission of the electronic portion of a return, or a RAL or other financial product.

## Advertising Standards

In addition to the advertising standards in Publication 3112, *IRS e-file Applications and Participation*, there are additional responsibilities for Providers of Individual Income Tax Returns.

Providers must not use improper or misleading advertising in relation to IRS *e-file*, including the time frames for refunds and RALs or other financial products. Any claims by Providers concerning faster refunds by virtue of electronic filing must be consistent with the language in official IRS publications. If the availability of a RAL or financial product is being advertised, the Provider and financial institution must clearly refer to or describe the funds being advanced as a loan or other financial product, not as a refund. The advertisement on a RAL or other financial product must be easy to identify, and in readable print. That is, it must be made clear in the advertising that the taxpayer is borrowing against the anticipated refund or

## Chapter 6

### IRS e-file Rules and Requirements

receiving another financial product, and is not obtaining the refund itself from the financial institution.

A Provider must not advertise that individual income tax returns may be electronically filed prior to the Provider's receipt of Forms W-2, W-2G, and 1099-R as the Provider is generally prohibited from electronically filing returns prior to receipt of Forms W-2, W-2G, and 1099-R. Advertisements must not imply that Forms W-2, W-2G, and 1099 R are not needed or that pay stubs or other documentation of earnings can be used to file individual income tax returns.

In using the Direct Deposit name and logo in advertisement, the Provider must use the name "Direct Deposit" with initial capital letters or all capital letters, use the logo/graphic for Direct Deposit whenever feasible, and may change the color or size of the Direct Deposit logo/graphic when it is used in advertising pieces.

## Disclosure of Tax Return Information

Under §301.7216, disclosure of tax return information among Authorized IRS *e-file* Providers for the purpose of preparing a tax return is permissible. For example, an ERO may pass on tax return information to an Intermediate Service Provider and/or a Transmitter for the purpose of having an electronic return formatted and transmitted to the IRS. However, if the tax return information is disclosed or used in any other way without the consent of the taxpayer, an Intermediate Service Provider and/or a Transmitter may be subject to the penalties described in §301-7216 and/or the civil penalties in §6713 for unauthorized disclosure or use of tax return information.



## Preparer Penalties

Preparer penalties may be asserted against an individual or firm meeting the definition of an income tax preparer under §7701(a)(36) and §301.7701-15. Preparer penalties that may be asserted under appropriate circumstances include, but are not limited to, those set forth in §§6694, 6695, and 6713.

Under §301.7701-15(d), Authorized IRS *e-file* Providers are not income tax return preparers for the purpose of assessing most preparer penalties as long as their services are limited to “typing, reproduction, or other mechanical assistance in the preparation of a return or claim for refund”. If an ERO, Intermediate Service Provider, Transmitter, or the product of a Software Developer alters the return information in a nonsubstantive way, this alteration will be considered to come under the “mechanical assistance” exception described in §301.7701-15(d). A nonsubstantive change is a correction or change limited to a transposition error, misplaced entry, spelling error, or arithmetic correction.

If an ERO, Intermediate Service Provider, Transmitter, or the product of a Software Developer alters the return in a way that does not come under the “mechanical assistance” exception, the Authorized IRS *e-file* Provider may be held liable for income tax return preparer penalties. See §301.7701-15; Rev. Rul. 85-189, 1985-2 C.B. 341 (which describes a situation where the Software Developer was determined to be an income tax return preparer and subject to certain preparer penalties).

A \$500 penalty may be imposed, per §6695(f), on a return preparer who endorses or negotiates a refund check issued to any taxpayer other than the return preparer. The prohibition on return preparers negotiating a refund check is limited to a refund check for returns they prepared. A preparer that is also a financial institution, but has not made a loan to the taxpayer on the basis of the taxpayer’s anticipated refund, may cash a refund check and remit all of the cash to the taxpayer or accept a refund check for deposit in full to a taxpayer’s account provided the bank does not initially endorse or negotiate the check; or endorse a refund check for deposit in full to a taxpayer’s account pursuant to a written authorization of the taxpayer. A preparer bank may also subsequently endorse or negotiate a refund check as part of the check-clearing process through the financial system after initial endorsement. Any income tax return preparer that violates this provision may be sanctioned.

In addition to the above specified provisions, the IRS reserves the right to assert all appropriate preparer and nonpreparer penalties against an Authorized IRS *e-file* Provider as warranted.

# Paperwork Reduction Act Notice

The collections of information contained in this publication have been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1708.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number. Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. § 6103.

The collections of information in this publication are in chapters 3, 4, and 5. This information is required to implement IRS *e-file* and to enable taxpayers to file their individual income tax returns electronically. The information will be used to ensure that taxpayers receive accurate and essential information regarding the filing of their electronic returns and to identify the persons involved in the filing of electronic returns. The collections of information are required to retain the benefit of participating in IRS *e-file*. The likely respondents are business or other for-profit institutions.

The estimated total annual reporting and recordkeeping burden is 3,636,463 hours.

If you have comments concerning the accuracy of these time estimates or suggestions for making publication simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001.

# Glossary

**Acceptance Letter** Correspondence issued by the IRS to applicants confirming they may participate in IRS *e-file* and annually to Authorized IRS *e-file* Providers confirming they may continue to participate in IRS *e-file*. See also “Credentials.”

**Acknowledgment (ACK)** A report generated by the IRS to a Transmitter that indicates receipt of all transmissions. An ACK Report identifies the returns in each transmission that are accepted or rejected for specific reasons.

**Acceptance or Assurance Testing (ATS)** Required testing for Software Developers that participate in IRS *e-file* to assess their software and transmission capability with the IRS, prior to live processing. PATS, BATS and CATS are acceptance or assurance testing specific to certain form types.

**Administrative Review Process** The process by which a denied applicant or sanctioned Authorized IRS *e-file* Provider may appeal the IRS’ denial or sanction.

**Adoption Taxpayer Identification Number (ATIN)** A tax processing number issued by the IRS as a temporary taxpayer identification number for a child in the domestic adoption process who is not yet eligible for a Social Security Number (SSN). An ATIN is not a permanent identification number and is only intended for temporary use. To obtain an ATIN, complete IRS Form W-7A, *Application for Taxpayer Identification Number for Pending U.S. Adoptions*.

**Authorized IRS *e-file* Provider (Provider)** A firm accepted to participant in IRS *e-file*.

**Automated Clearing House (ACH)** A system that administers electronic funds transfers (EFTs) among participating financial institutions. An example of such a transfer is Direct Deposit of a tax refund from IRS into a taxpayer’s account at a financial institution.

**Batch** A single transmission consisting of the electronic data from single or multiple tax returns.

**Communications Testing** Required test for all Transmitters using accepted IRS *e-file* software to assess their transmission capability with the IRS, prior to live processing.

## Glossary

**Credentials** Documentation issued by the IRS which indicates qualification of an Authorized IRS *e-file* Provider to participate in the IRS *e-file* Program. The documentation consists of identification numbers and acceptance letters.

**Debt Indicator (DI)** The Debt Indicator is a field on an ACK Report. It only indicates whether a debt offset of a taxpayer's refund will occur. It does not indicate how much the offset will be. Offsets taken by IRS may be for current and prior year tax obligations. Offsets taken by the Financial Management IRS (FMS) are for past due student loans, child support, Federal taxes, state taxes, or other governmental agency debts.

**Declaration Control Number (DCN)** A unique 14-digit number assigned by the ERO (or Transmitter, in the case of Online Filing), to each electronically filed tax return.

**Denied Applicant** An applicant that is not accepted to participate in IRS *e-file*. An applicant that has been denied participation in IRS *e-file* has the right to an administrative review.

**Depositor Account Number (DAN)** The financial institution account to which a Direct Deposit refund is to be routed.

**Digital Daily** The IRS web site located at <http://www.irs.gov>

**Direct Deposit** An electronic transfer of a refund into a taxpayer's financial institution account.

**Direct Filer** *see* "Transmitter".

**Drain** The IRS scheduled time for processing electronically filed return data.

**Drop or Dropped** An EFIN that is no longer valid due to inactivity or other administrative action.

**Due Diligence** Due Diligence when used in context with the Earned Income Tax Credit (EITC) refers to requirements that income tax return preparers must follow when preparing returns or refund claims that involve EITC.

**Earned Income Tax Credit (EITC)** The Earned Income Tax Credit is a refundable individual income tax credit for certain persons who work.

**EITC Recertification** A requirement for a taxpayer previously denied EITC to provide additional information on Form 8862, *Information to Claim Earned Income Tax Credit After Disallowance*, when they file a similar EITC claim on a subsequent return.

**Electronic Federal Tax Payment System (EFTPS)** A free service from the U.S. Treasury through which federal taxes may be paid. Taxes can be paid via the Internet, by phone or through a service provider. After authorization, payments are electronically transferred from the authorized bank account to the Treasury's general account.

**Electronic Filing Identification Number (EFIN)** An identification number assigned by the IRS to accepted applicants for participation in IRS *e-file*.

**Electronic Funds Transfer (EFT)** The process through which Direct Deposit refunds are transmitted from the government to the taxpayer's account at a financial institution.

**Electronic Funds Withdrawal (EFW)** A payment method which allows the taxpayer to authorize the U.S. Treasury to electronically withdrawal funds from their checking or savings account.

**Electronic Postmark** The Electronic Postmark is the date and time the electronic return is first received on the Transmitter's host computer in the Transmitter's time zone. The ERO, or taxpayer in the case of Online Filing, adjusts the time to their time zone to determine timeliness.

**Electronic Return Originator (ERO)** An Authorized IRS *e-file* Provider that originates the electronic submission of returns to the IRS.

**Electronic Signature** Method of signing a return electronically through use of a Personal Identification Number (PIN). *See also* "Self-Select PIN Method" and "Practitioner PIN Method."

**Electronic Tax Administration (ETA)** Electronic Tax Administration (ETA) is the office within IRS with management oversight of the IRS' electronic commerce initiatives. The mission of ETA is to revolutionize how taxpayers transact and communicate with the IRS.

**Electronic Tax Administration Advisory Committee (ETAAC)** An advisory group established by the IRS Restructuring and Reform Act of 1998 to provide an organized public forum for discussion of ETA issues in support of the overriding goal that paperless filing should be the preferred and most convenient method of filing tax and information returns.

**Electronic Transmitter Identification Number (ETIN)** An identification number assigned by the IRS to a participant in IRS *e-file* that performs activity of transmission and/or software development.

**Electronically Transmitted Documents (ETD)** A system created to process electronic documents that are not attached to a tax return and are filed separately from the tax return.

## Glossary

**Error Reject Code (ERC)** Codes included on an Acknowledgment (ACK) Report for returns that are rejected by the IRS. ERC explanations are published annually prior to the filing season in Publication 1345A, *Filing Season Supplement for Authorized IRS e-file Providers of Individual Income Tax Returns*, and Publication 1346, *Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns*.

**Federal/State e-file** The Federal/State e-file option allows Federal and state income tax returns to be filed electronically in a single transmission to the IRS.

**Financial Institution** For the purpose of Direct Deposit of tax refunds, a financial institution is defined as a state or national bank, savings and loan association, mutual savings bank, or credit union. Only certain financial institutions and certain kinds of accounts are eligible to receive Direct Deposits of tax refunds.

**Financial Management Service (FMS)** The agency of the Department of the Treasury through which payments to and from the government, such as Direct Deposits of refunds, are processed.

**Form Field Number or Form Sequence (SEQ) Number** The identifier of specific data on an electronic tax return record layout as defined in Publication 1346, *Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns*.

**Fraudulent Return** A “fraudulent return” is a return in which the individual is attempting to file using someone’s name or SSN on the return or where the taxpayer is presenting documents or information that have no basis in fact. *Note:* Fraudulent returns should not be filed with the IRS.

**Indirect Filer** An Authorized IRS *e-file* Provider who submits returns to IRS via the services of a Transmitter.

**Individual Taxpayer Identification Number (ITIN)** A tax processing number that became available on July 1, 1996, for certain nonresident and resident aliens, their spouses and dependents. The ITIN is only available from IRS for those individuals who cannot obtain a Social Security Number (SSN). To obtain an ITIN, complete IRS Form W-7, *Application for IRS Individual Identification Number*.

**Intermediate Service Provider** An Authorized IRS *e-file* Provider that receives electronic tax return information from an ERO or a taxpayer who files electronically using a personal computer, commercial tax preparation software and a modem, processes the electronic tax return information, and either forwards the information to a Transmitter or sends the information back to the ERO or taxpayer.

**Internet Protocol (IP) Information** The IP address, date, time, and time zone of the origination of a tax return filed through Online Filing via the Internet. IRS requires Transmitters that provide Online Services via the Internet to capture the Internet Protocol Information of Online returns. By capturing this information, the location of the return's originator is transmitted with the individual's electronic return. See Publication 1346 for additional information.

**IRS e-file** The brand name of the electronic filing method established by the IRS.

**IRS e-file Marketing Tool Kit** A specially designed kit containing professionally developed material that EROs may customize for use in advertising campaigns and promotional efforts.

**IRS Master File** A centralized IRS database containing taxpayers' personal return information.

**Levels of Infractions (LOI)** Categories of infractions of IRS *e-file* rules based on the seriousness of the infraction with specified sanctions associated with each level. Level One is the least serious, Level Two is moderately serious, and Level Three is the most serious.

**Memorandum of Agreement (MOA) & Memorandum of Understanding (MOU)** The implementing document containing the set of rules established by the IRS for participating in IRS pilot programs.

**Monitoring** Activities the IRS performs in order to ensure that Authorized IRS *e-file* Providers are in compliance with the IRS *e-file* requirements. Monitoring may include, but is not limited to, reviewing IRS *e-file* submissions, investigating complaints, scrutinizing advertising material, checking signature form submissions and/or recordkeeping, examining records, observing office procedures and conducting annual suitability checks. These activities are performed by IRS personnel at IRS offices and at the offices of Providers.

**Name Control** The first four significant letters of a taxpayer's last name that are used in connection with the taxpayer SSN to identify the taxpayer, spouse, and dependents.

**Nonsubstantive Change** A correction or change limited to a transposition error, misplaced entry, spelling error, or arithmetic correction which does not require new signatures or authorizations to be transmitted or retransmitted.

**Originate or Origination** Origination of an electronic tax return submission occurs when an ERO either: (1) directly transmits electronic returns to the IRS, (2) sends electronic returns to a Transmitter, or (3) provides tax return data to an Intermediate Service Provider.

## Glossary

**Participants Acceptance Testing (PATs)** Required testing for all Software Developers that participate in IRS *e-file* of individual income tax returns to assess their software and transmission capability with the IRS, prior to live processing. *See also* “Acceptance or Assurance Testing.”

**PATS Communications Test** Required for all Transmitters using accepted IRS *e-file* software for individual income tax returns to assess their transmission capability with the IRS, prior to live processing.

**Pilot Programs** An approach that the IRS uses to improve and simplify IRS *e-file*. Pilot programs are usually conducted within a limited geographic area or within a limited taxpayer or practitioner community. The IRS rules for participating in pilot programs are embodied in an implementing document typically referred to as a “Memorandum of Understanding” (MOU) or “Memorandum of Agreement” (MOA). Pilot participants must agree to the provisions of the implementing document in order to participate in the pilot program.

**Potentially Abusive Return** A “potentially abusive return” is a return (1) that is not a fraudulent return; (2) that the taxpayer is required to file; (3) that may contain inaccurate information that may lead to an understatement of a liability or an overstatement of a credit resulting in production of a refund to which the taxpayer may not be entitled. *Note:* The decision not to provide a RAL or other bank product does not necessarily make it an abusive return.

**Practitioner PIN Method** An electronic signature option for taxpayers who use an ERO to e-file. This method requires the taxpayer to create a five-digit Personal Identification Number (PIN) to use as the signature on the e-file return.

**Preparer’s Tax Identification Number (PTIN)** An identification number issued by the IRS which paid tax return preparers may use in lieu of disclosing their Social Security Number (SSN) on returns that they prepared. A PTIN meets the requirements under section 6109(a)(4) of furnishing a paid tax return preparer’s identifying number on returns that he or she prepares. To obtain a PTIN, go to the IRS web site at *irs.gov*.

**Refund Anticipation Loan (RAL)** A Refund Anticipation Loan is money borrowed by a taxpayer that is based on a taxpayer’s anticipated income tax refund. The IRS has no involvement in RALs. A RAL is a contract between the taxpayer and the lender. A RAL may be marketed under various commercial or financial product names.



**Refund Cycle** The anticipated date that a refund would be issued by the IRS either by Direct Deposit or by mail to a taxpayer for a return included within a specific “drain”. However, neither the IRS nor FMS guarantees the specific date that a refund will be mailed or deposited into a taxpayer’s financial institution account.

**Request for Agreement (RFA)** A solicitation, normally a written document, used in establishing non-monetary memoranda of agreement. RFAs are not “acquisitions” as defined by the Federal Acquisition Regulations (FAR).

**Request for Procurement (RFP)** A solicitation, normally a written document, used in negotiated acquisitions estimated over \$100,000 (as opposed to sealed bids) to communicate government requirements to prospective contractors and to solicit proposals to perform contracts.

**Responsible Official** An individual with authority over the IRS *e-file* operation of the office(s) of an Authorized IRS *e-file* Provider, who is the first point of contact with the IRS, and has authority to sign revised IRS *e-file* applications. A Responsible Official is responsible for ensuring that the Authorized IRS *e-file* Provider adheres to the provisions of the Revenue Procedure and the publications and notices governing IRS *e-file*.

**Revenue Protection** A series of compliance programs designed to ensure that the revenue the government collects and/or disburses in the form of refunds is accurate and timely, and that disbursement of revenue is issued only to entitled taxpayers.

**Routing Transit Number (RTN)** A number assigned by the Federal Reserve to each financial institution.

**Sanction** An action taken by the IRS to reprimand, suspend or expel from participation in IRS *e-file*, an Authorized IRS *e-file* Provider based on the level of infraction. *See also* “Level of Infraction.”

**Self-Select PIN Method** An electronic signature option for taxpayers who *e-file* using either a personal computer or an ERO. This method requires the taxpayer to create a five-digit Personal Identification Number (PIN) to use as the signature on the *e-file* return and to submit authentication information to the IRS with the *e-file* return.

**Software Developer** An Authorized IRS *e-file* Provider that develops software for the purposes of (a) formatting the electronic portions of returns according to Publication 1346; and/or (b) transmitting the electronic portion of returns directly to the IRS. A Software Developer may also sell its software.

## Glossary

**Stockpiling** Stockpiling refers to waiting more than three calendar days to submit returns to the IRS after the Provider has all necessary information for origination of the electronic return. Stockpiling may also occur when returns are collected for e-file prior to official acceptance for participation in IRS *e-file*. Collecting tax returns for IRS *e-file* prior to the startup of IRS *e-file* is not considered stockpiling. However, Providers must advise taxpayers that the returns will not be transmitted to the IRS prior to the startup date.

**Suitability** A check conducted on all firms and the Principals and Responsible Officials of firms when an application is initially processed, and on a regular basis thereafter. The suitability check includes a background check conducted by the IRS to ensure the firm and individuals are eligible for participation in IRS *e-file*.

**Suspension** A sanction revoking an Authorized IRS *e-file* Provider's privilege to participate in IRS *e-file*.

**Transmitter** An Authorized IRS *e-file* Provider that transmits the electronic portion of a return directly to the IRS. An entity that provides a "bump-up" service is also a Transmitter. A bump-up service provider increases the transmission rate or line speed of formatted or reformatted information that is being sent to the IRS via a public switched telephone network.

**Treasury Offset Program (TOP)** Public Law established the Tax Refund Offset Program which permits overpayments to be offset against delinquent child support obligations, as well as debts owed to participating Federal and state agencies. FMS assumes responsibility and oversight for the Treasury Offset Program.

**Warning** Written notice given by the IRS to an Authorized IRS *e-file* Provider requesting specific corrective action be taken to avoid future sanctioning.

**Written Reprimand** A sanction for a level one infraction of the IRS *e-file* rules. It reprimands a Provider for an infraction but does not restrict or revoke participation in IRS *e-file*.

How To Setup A Paperless Office. See <http://denvertax.com/paperless-filing/>

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