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## The Basics of E-File

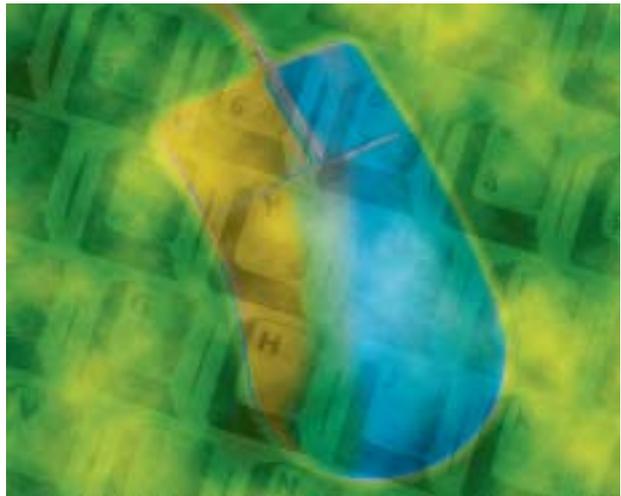
By Liga Spoge and Janet Trewin, CMA, CPA

**BEGUN AS A PILOT PROJECT IN 1986, E-FILE IS** the Internal Revenue Service's (IRS) program for the electronic filing of tax returns. It has been so successful that the IRS expects at least 80% of all returns will be filed electronically by 2007. Toward that end, 99% of forms and schedules could have been e-filed in 2002. Even the taxpayer's signature can be substituted with a self-selected Personal Identification Number (PIN), though additional information must be provided to authenticate the taxpayer's identity.

Although the IRS does not charge for electronic filing, neither does it provide direct filing or free e-file software. Taxpayers with a computer and tax preparation software can prepare their tax returns at home at any time, but an authorized service provider must transmit the returns to the IRS. The provider converts the tax return into the IRS-approved format and then submits the file to the IRS electronically. Some providers offer free services to select groups of taxpayers—such as active duty military personnel, those with adjusted gross income (AGI) less than \$27,000, or those who can claim the federal Earned Income Tax Credit (EITC)—but others charge everyone a fee. The fee varies by the provider selected and the services requested, but it is prohibited to be based on any figure on the tax return. A number of companies, tested and approved by the IRS, offer tax software (either installable on the user's computer or Internet-based), and some of these firms offer free or discounted electronic tax return submission. For example, TurboTax offers free electronic submission after mail-in rebate. The taxpayer's decision to use or not use any of these services will not

result in any specific treatment from the IRS.

Once the IRS receives a tax return from a provider, the return is immediately checked by computer for errors and missing information. If the IRS is unable to process a return, it sends the return back to the original provider for clarification of necessary information. Once a return is accepted, the IRS sends an electronic confirmation to the taxpayer within 48 hours.



E-file means fast refunds—about half the time when compared to paper returns. The average e-file refund is issued in 14 days, compared to four to six weeks for a paper return. If the direct deposit option is selected, refunds can be received in as few as 10 days.

When additional tax is due, payment can be scheduled for any day until April 15, if filing before the due date. This means that the taxpayer can file his or her

taxes in January and not pay until April 15. If the taxpayer is filing after April 15, the payment is due at the time of filing. There are several options for payment. First, a check payable to the United States Treasury using Form 1040-V, *Payment Voucher*, can be mailed. Another option is Direct Debit or Electronic Funds Transfer from the taxpayer's checking or savings account. The taxpayer can also elect to pay by credit card. Discover Card, American Express, Visa, or MasterCard are accepted. One of the advantages of the last two options is that the taxpayer receives instant acknowledgment from the IRS that the payment has been accepted.

Taxpayers can choose to file a completely paperless return by using a PIN as their signature. If use of a PIN is not elected, or certain paper

documents need to be submitted, the taxpayer must mail his or her signature on Form 8453-OL, *U.S. Individual Income Tax Declaration for an e-file On-Line Return*, to the appropriate service center after the return has been accepted.

When e-filing, the following forms are not required to be submitted: Form W-2, Wage and Tax Statement; Form W-2G, Certain Gambling Winnings; and Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts. Taxpayers must provide Forms W-2, W-2G, and 1099-R to the authorized e-file provider, however, before the provider sends the electronic return to the IRS. The taxpayers are advised to keep copies of these documents for their records.

Not all types of tax returns can be filed electronically. The following generally are not eligible for e-file:

- Returns other than for the current year.
- Tax returns with fiscal-year tax periods.
- Amended tax returns.
- Tax returns for decedents.
- Married Filing Separate filing status returns in community property states.
- Returns containing forms or schedules that IRS e-file is unable to process. See Publication 1345A, *Filing Season Supplement for Authorized IRS e-file Providers*.
- Tax returns with Taxpayer Identification Numbers (TIN) within the range of 900-00-0000 through 999-99-9999.
- Tax returns with rare or unusual processing conditions.

Thirty-seven states and the Dis-

trict of Columbia allow taxpayers to simultaneously file their federal and state tax returns electronically. This is called Federal/State e-file. Essentially, both returns are sent to the IRS, and the IRS forwards the state return electronically to the appropriate agency in the state. The following states accept the electronic filing of state tax returns: Alabama, Arizona, Arkansas, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, Virginia, West Virginia, and Wisconsin.

The IRS e-Help desk is available at (866) 255-0654. The e-Help desk supports e-file, Electronic Federal Tax Payment System, TeleFile, and future e-service customers.

E-file is faster and more accurate than the conventional paper tax filing. With the paper tax filing, the tax return arrives at the IRS service centers via U.S. mail, is sorted, and then data entry clerks enter the data into the IRS system. When filing electronically, the information is imported electronically into the IRS system upon acceptance, eliminating the data entry by the IRS and avoiding the human error factor. ■

*Liga Spoge is adjunct professor of accounting at Drexel University.*

*Janet Trewin, Ph.D., CMA, CPA, is assistant professor of accounting at Drexel University. She can be contacted at (215) 895-1454 or [trewinj@drexel.edu](mailto:trewinj@drexel.edu).*