



E-Filing Mandates and Compliance

New York's Experience

FTA E-File Symposium
May 2, 2012

Electronic Filing in NYS

Personal Income Tax: Available 1993, mandates began in 2006

Corporation Tax: Available 2007, mandates began in 2008

Sales Tax: Available 2008, mandates began in 2010

Withholding Tax: Available 2007-8, mandates began in 2008

E-file Rates				
Tax Type	2009	2010	2011	Q1 2012
PIT	58%	60%	71%	86%
Corp	25%	33%	60%	81%
Sales	10%	29%	61%	77%
WH	19%	24%	37%	43%

Need to Reduce Spending/Staffing

- In 2011, NYS DTF processed more than 12 million personal income tax returns/extensions (about half of total 26 million returns for all taxes).
- Outsourced paper processing costs more than \$40 million annually for all taxes (returns, extensions, payment vouchers).
- Paper returns take more staff time. Year to date, exception rates are 1.5% for paper and 0.5% for e-filed income tax returns.

End of Bank Contract

Daily Freeman

Bank of America to stop processing income tax returns at TechCity

Published: Tuesday, February 15, 2011

... the electronic filing of income tax returns has reduced the need for much of what has been done at TechCity over the years.

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Bank of America to shut processing center

Published: July 20, 2011 at 5:15 PM

KINGSTON, N.Y., July 20 (UPI) -- Bank of America Corp. will close a New York tax-processing center with 1,000 employees in part because people increasingly file online, the company said.

"The number of electronically filed tax returns continues to rise, and these trends continue to be promoted at the state and federal levels in an effort to lower costs and to accelerate the processing of tax returns," spokesman T.J. Crawford said.

Partly as a consequence, the 382,000-square-foot processing center in Kingston, N.Y., will lose its contracts to process New York state income-tax returns and New York City property-tax forms late this year, the company said.

"At the end of the day, we can't spend millions [of dollars] to operate a facility for which there is little to no work," Crawford told the Daily Freeman of Kingston.

"The earliest [employee] impacts will be late July, early August 2012," he told the newspaper, citing an agreed-upon post-contract transition period.

The center, on a 256-acre former IBM Corp. campus known as TechCity, has 100 full-time and 900 tax-season employees.

When it first processed tax returns in 1996, the center had 500 full-time and 2,000 seasonal workers, county officials said at the time.

"Any type of job loss is disappointing, and it's multiplied when economic conditions around the state are so challenging," Ulster County Executive Michael Hein told the newspaper.

U.S. Sen. Charles Schumer, D-N.Y., has been in contact with Bank of America Chief Executive Officer Brian Moynihan about using the location for other business opportunities, Hein said.

Bank of America of Charlotte, N.C., the nation's biggest lender, posted an \$8.8 billion quarterly loss Tuesday, its third loss in four quarters, as mortgage-related problems continued to overshadow operational improvements, the bank said.

The stock, which fell below \$10 a share Monday ahead of the loss report, rose 28 cents, or 2.93 percent, Wednesday to close at \$9.85 a share.

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E-file Mandate for Personal Income Tax

As of 2011 filing season:

- Mandated e-file for tax return preparers filing more than 100 returns
- If a taxpayer or preparer has reasonable cause not to e-file, they must maintain adequate documentation and provide it to DTF if they receive a penalty bill for failing to e-file.
- Once a preparer is subject to the mandate, it continues to apply in all following years, even if they no longer meet the threshold.
- If a return can't be e-filed (software or DTF website does not support e-filing), then it isn't required to be e-filed.

In 2011 Filing Season

No separate fee for New York State e-filing

- Tax practitioners and software developers are prohibited from charging a separate fee for filing a return electronically.
- Penalties
 - \$500 per return-first occurrence
 - \$1,000 per return-each subsequent occurrence

In 2011 Filing Season

No Client Opt Out

- “Opt out” removed as of January 1, 2011.
- Previously clients could choose to opt out of e-file for any reason.
- A client’s request to “opt out” of e-file is no longer “reasonable cause” for not complying.

New E-file Provisions for 2012

Preparer

- E-file mandate starting January 2012 for tax preparers filing more than 5 documents in years starting January 2011 (down from 100 returns)

New E-File Provisions for 2012

Individual

- DTF required to report by Sept. 15, 2011 on the percent of individual taxpayers who e-filed 2010 personal income tax returns through Aug. 31, 2011.
- If the e-file rate was less than 85%, new mandate for individual taxpayers would go into effect.

New Mandate for 2012

Individual

- If an individual taxpayer prepares an income tax return using tax software, he or she must e-file that return.
- \$25 penalty for failure to file electronically, unless the taxpayer can show that the failure was due to reasonable cause

E-file Mandates - New Penalties for 2012

- New penalty for self-filers or clients failing to e-file:
 - \$25 penalty per income tax document
 - \$50 per other tax document
- A paper document is subject to the penalty for failure to file a return or report (this doesn't apply to individual income tax documents).
- Any overpayment claimed on a paper tax document that was required to be filed electronically will not be eligible to receive interest until it's filed electronically.

New E-File Provisions for 2012

- New mandate provisions for individual taxpayers and tax return preparers were due to sunset on December 31, 2012.
- Prior e-file mandate rules would be restored as of January 1, 2013.

Implementation

- Temporary authority for new mandates and penalties
- Focus on communication to promote voluntary compliance
- Identify preparers with poor track record of e-file mandate compliance and use penalties to change filing behavior

Communicating the 2012 Mandates

- Collaborate with software developers on messages to taxpayers
- Subscription service e-mails and notices
- Web site
- Outreach events
- Newsletter articles
- YouTube video
- Twitter

Communication

http://www.tax.ny.gov/efile/mandate_options.htm E-file mandate and filing/p...

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E-file mandate and filing/payment methods

	Electronic filing mandated?	Electronic filing methods ¹	Available payment methods
Personal income tax			
Income tax return	Yes	Tax Preparation Software or FreeFile	<ul style="list-style-type: none"> direct debit from bank account IT-201-V voucher & check credit card (includes convenience fee)
Request for extension	Yes	Tax Preparation Software DTF Web site	<ul style="list-style-type: none"> direct debit from bank account direct debit from bank account IT-370-V voucher & check credit card (with convenience fee)
Estimated tax	No	DTF Web site	<ul style="list-style-type: none"> direct debit from bank account
Partnerships			
Partnership returns (including IT-204-LL)	Yes	Tax Preparation Software	<ul style="list-style-type: none"> direct debit from bank account (LLCs and LLPs only)
Request for extension	Yes	Tax Preparation Software DTF Web site	<ul style="list-style-type: none"> N/A N/A
Fiduciaries			
Fiduciary return	Yes	Tax Preparation Software	<ul style="list-style-type: none"> direct debit from bank account
Request for extension	No	DTF Web site	<ul style="list-style-type: none"> direct debit from bank account IT-370-PF-V voucher & check
Sales tax			

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Compliance Initiative

- Goal: To change filing behavior, not to collect revenue for New York State
- Focus on tax preparers that file a significant percentage of returns on paper, although eligible for e-filing
- Building on our 2010-11 experience in issuing penalty assessments to preparers who appeared not to be in compliance with the Corporation Tax e-file mandate.

Compliance Initiative

- Look-back at preparer filing patterns for 2011
- Penalty assessment of \$50 per return not e-filed
- If tax preparer shows reasonable cause not to e-file, or substantial compliance with mandate, bill is cancelled

Compliance Initiative - Results

Random spot-check on 50 noncompliant preparers that were billed for failure to e-file for 2011 tax season:

- Last year, they filed 90% or more of their income tax returns on paper.
- In 2012, about 60% are electronically filing 90% or more of their income tax returns.
- Overall for the 50, we saw an increase in e-file performance of 62%.

2012 E-filing Results To Date

- 90% e-file rate for primary income tax forms for Tax Year 2011
- Compares to 83% at the same time last year
- Tax professional e-filing up 8% from previous year
- Individual self-prepared e-filing up 21% from previous year
- Varied perceptions of the mandate

Legislative Changes in 2012

- Repealed the \$25 penalty for individual failure to e-file
- Extended the sunset date for the new 2012 mandate provisions for one year, through 2013
- Changed the threshold for the preparer e-file mandate from “more than 5 tax documents” to “more than 10 different taxpayers”

Challenges Ahead

- MeF and transition to new front-end processor
- Striking the right balance on e-file compliance efforts
- Continuing to improve and meeting demands for electronic filing, online services and customer support
- Advocating for permanent statutory authority



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