IRS e-Strategy for Growth

Expanding e-Government for Taxpayers and Their Representatives

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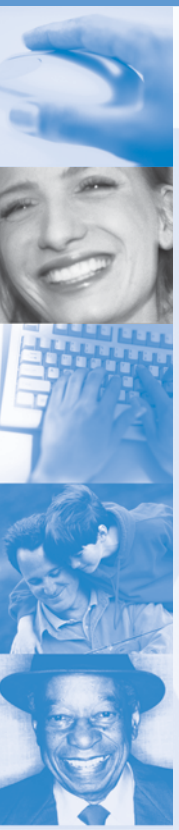

Introduction

The purpose of this document is to provide a comprehensive view of the IRS' strategic priorities for interacting with IRS customers electronically when they file, pay, and communicate with the Service. The IRS E-Strategy for Growth is modeled after the prior electronic tax administration strategic plan, "A Strategy for Growth," which was last issued in December 2000. At that time, the IRS implemented a new strategic planning and budgeting process and integrated electronic tax administration into the IRS agency-wide process, developing strategic plans to address specific customer segments. Although that process was effective, it did not provide a comprehensive view of what the IRS as a whole was doing in the area of electronic tax administration.

The current IRS E-Strategy for Growth focuses on electronic initiatives that are external customer facing, not electronic initiatives the Service is developing for internal use to improve how IRS employees do their jobs. Future E-Strategies may include both internal- and external-facing initiatives.

Current State of Electronic Tax Administration

Individual e-file Volumes Continue to Grow

Each year more taxpayers take advantage of the benefits that IRS *e-file* has to offer. Taxpayer satisfaction surveys have consistently shown that taxpayers that use an e-file program product are more satisfied with their filing experience than those who use the traditional paper method. The 2003 filing season was no exception. In 2004:

- 60.7 million individual income tax returns were e-filed through one of three electronic filing options,
- 42.5 million returns—an increase of 16 percent—were filed through an authorized e-file provider,
- 14.5 million taxpayers—an increase of 22 percent—filed their returns on-line from home, including 3.5 million who filed for free using the new Free File program, and
- 3.8 million people used TeleFile instead of filling out Form 1040EZ.

Electronic Signatures Take Off

The number of paperless returns e-filed using one of two signature alternatives continued to increase in 2004. Signature alternatives allow taxpayers and their tax professionals to sign returns electronically using a Personal Identification Number (PIN). During the 2004 filing season, 69 percent of e-filed individual income tax returns used these alternative signature methods to file, eliminating the need to file the paper jurat.

- Almost 12 million returns were e-filed using Self-Select PINs.
- 30 million returns were e-filed using the Practitioner PIN by taxpayers that file through a participating practitioner.

More Business Return e-filing Options Available

The IRS has several electronic filing options for business return filers. In addition to products for estate and trust returns, partnership income tax returns, and employment returns, new products were made available in 2004 for corporate and exempt organization returns. During the 2004 filing season:

- 1.3 million Form 1041, *U.S. Income Tax Return for Estates and Trusts,* were filed electronically with 1.8 million associated Schedule K-1s.
- Over 95,000 Form 1065, *U.S. Return of Partnership Income,* were filed electronically including 4.7 million Schedule K-1's.
- Over 413,000 Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return,* were filed, a 14.2 percent increase over 2003.
- 4.1 million Form 941, *Employer's Quarterly Federal Tax Return,* were filed, an 18 percent increase.

Taxpayer satisfaction surveys have consistently shown that taxpayers that use an e-file program product are more satisfied with their filing experience than those who use the traditional paper method.

Electronic Payment Options Expand

Over the years, the electronic payment program has expanded to offer additional payment methods and features. Electronic payment options are convenient, safe and secure, and give taxpayers an alternative to paying taxes by check or money order. Payments can be made 24 hours a day, 7 days a week. In FY 2004:

- Over $1.6 trillion of taxes were paid through the Electronic Federal Tax Payment System (EFTPS). During this time, more than 73 million tax payments were made using this method including over 7 million Internet transactions. EFTPS transaction volume increased by 6% in FY 2004.
- Over $1.5 billion of taxes were paid through the electronic funds withdrawal (Direct Debit) option. Participation has grown steadily with over 800,000 tax payments being made using this method, an increase of 24 percent compared to the prior year.
- Nearly $900 million of taxes were paid by credit card. Participation continues to grow with over 950,000 tax payments being made using this method, an increase of over 70% compared to the prior year.
- Over 5.2 million balance due Individual Income Tax Returns were e-filed, a 24 percent increase over last year.

IRS.gov Provides Taxpayers with Easy Access to Information and Self-Help Tools

IRS.gov, the IRS web site, continues to be a popular place for taxpayers to get answers to their questions, find tax forms and informational publications, and simple self-help tools.

- During the 2004 Tax Filing Season (January 1-April 15, 2004), the IRS.gov web site recorded over 83 million visits and over 574 million page views.[1]
- The IRS.gov web site hits exceeded 3.4 billion during the 2004 Tax Filing Season, an increase of 40.8 percent over the 2003 Tax Filing Season.
- There were 17.7 million requests by taxpayers in FY 2003 and 24 million requests in FY 2004 to check the status of their refund using the new "Where's My Refund?" internet-based service.
- Another 14.6 million requests in FY 2003 and 12.4 million requests in FY 2004 were received on-line from taxpayers checking on the status of their Advance Child Care Tax Credit.
- During its second year, almost 1.3 million business taxpayers used the Internet Employer Identification Number (EIN) application to obtain a new EIN.

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Refer to Appendix A for additional information on IRS electronic products and services.

[1] A visit is a series of actions that begins when a visitor views their first page from the web server and ends when the visitor leaves the site or remains idle beyond the idle-time limit of thirty minutes. A page view (also known as a page impression) is a measurement of the number of times that a web page is requested from a web server. In contrast, hits measure the retrieval of any item, like a web page or graphic, from a web server. For example, when a visitor to IRS.gov calls up a web page with four graphics, that is equivalent to 5 hits— one for the page and four for the graphics. However, it would only generate one page view.

Newest Additions to IRS Electronic Products and Services

E-FILE FOR BUSINESSES

As part of the IRS Modernization effort, a new e-file infrastructure has been developed. The Modernized e-File (MeF) system supports Extensible Mark-Up Language (XML) and allow for form standardization between the different IRS *e-file* programs. In February 2004 the first products developed for the new modernized system were rolled out. The MeF project provides for the filing of tax and information returns electronically through the Electronic Management System (EMS) and the Internet via registered transmitters and electronic return originators and makes important improvements in filing and processing efficiency through system-wide integration and standardization. The first release on the MeF system in February 2004 included Forms 1120, 1120S, for corporate returns and 990, 990EZ, 1120-POL, and 8868 tax-exempt returns. In July 2004 a second release enabled electronic filing of the remaining 53 forms and schedules that can be attached to corporate returns. In addition, release 2 provided a systemic interface to facilitate legislated public access to Exempt Organization Returns via IRS.gov. Additional forms will be developed for the MeF system in the future, and Fed/State capability will be added for all applicable programs. Eventually all e-file programs will use the MeF system to receive and process electronically filed returns.

E-SERVICES

e-services opens the door to a new era for the IRS of interactive communication with customers and provides opportunities to improve customer service and customer relationships. e-services is a suite of web-based products that allow tax professionals and payers, as well as states and other partners, to do business with the IRS electronically 24 hours a day, 7 days a week via the Internet. An important benefit to the IRS is that e-services provide incentives to increase e-filing by making it easier to become an approved e-filer and by providing volume e-filers with on-line tools to provide better service to their customers. The first products to be delivered in the suite of e-service products include:

- **Registration—** Creates an online account for conducting business electronically.
- **Preparer Tax Identification Number (PTIN) Application—** allows a paid preparer to obtain an ID used in lieu of SSN.
- **e-file application—** Enables firms who wish to become electronic return originators to submit an application to participate in the IRS *e-file* program.

- **Disclosure Authorization—** Allows authorized practitioners to establish a disclosure (Power of Attorney or Tax Information Authorization) electronically with the IRS.
- **Electronic Account Resolution—**Allows authorized practitioners to submit account related inquiries for their clients' individual and business accounts.
- **Transcript Delivery System—** Allows authorized practitioners, state tax representatives and internal IRS employees to request and receive online return, account and wage and income information or to designate delivery via fax, mail or to a secure mailbox.
- **Taxpayer Identification Number (TIN) Matching—**Allows payers of income subject to backup withholding to match name and TIN combinations with IRS records.

e-help Desk

The IRS combined the function of several help desks that provided support for Registered IRS e-Product Users to enable enhanced service to customers. The e-help desk supports: e-file, Electronic Federal Tax Payment System (EFTPS), TeleFile, e-services, and future e-Products.

Electronic Payment Options

The IRS combined the function of several help desks that provided support for Registered IRS e-Product Users to enable enhanced service to customers.

For 2005 additional electronic payment features will be added. Taxpayers will have more electronic options for paying their Federal tax obligations, making it easier, safer, and more secure than paying by check or money order. Some of the new payment options include:

- Partner with authorized Financial Institutions who offer "no interest" 90-day loans. This would allow any third party (financial institution or Tax Professional) who meets IRS requirements to transmit tax payment on behalf of their client.
- Allow individuals to make a credit card payment for the preceding tax years, with or without an Installment Agreement, subject to collection statute limitations.
- Allow individuals to schedule recurring credit card payments for Installment Agreements.
- Increase the number of tax practitioners in the United Kingdom participating in a pilot to convert foreign currency into electronic federal tax payments.
- Expand Electronic Funds Withdrawal options for business e-filers. This will include payment options in XML version of Forms 8868, 990-PF and 7004.
- Allow state tax authorities to process federal tax levy requests electronically. (State Income Tax Levy Program)

Mission, Vision Statement, Goals and Key Strategies

Mission

Ease taxpayer burden and increase compliance through innovative e-government solutions that use technology to meet business needs.

Electronic Tax Administration (ETA) is critical to the overall Mission of the IRS, which is to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. ETA fully supports IRS' overall plans for the future and the strategic goals of:

- Improve Taxpayer Service
- Enhance Enforcement of the Tax Law
- Modernize the IRS through its People, Processes and Technology

Vision

The future vision of IRS electronic tax administration is one in which any exchange or transaction that currently occurs in person, over the phone or in writing can be accomplished electronically. The former Chairman of the Electronic Tax Administration Advisory Committee (ETAAC) expanded on this concept in his remarks before the IRS Oversight Board on January 27, 2003 by stating that under this vision, "taxpayers would have multiple choices in terms of how they interact with the IRS (e.g., directly or through an authorized representative, electronically or by mail) and what value-added services they choose to use (e.g., on-line preparation and filing services from a variety of competing vendors). In this vision, taxpayers would not only be e-filers, but e-customers. They could decide among a variety of options how they would like to view their own IRS account information, perhaps choosing traditional paper correspondence, maybe through a secure session at IRS.gov or potentially as part of an electronic financial portfolio offered securely by a private sector financial institution."

The ETAAC Chairman went on to further state that in this future vision of electronic tax administration, "Tax practitioners would choose from a variety of third party software products offering highly interactive e-services, made possible through on-line communication with IRS' systems. A full range of e-services

would be available, allowing practitioners to make a clean break from their paper processes. Those services would include the ability to e-file all form types, research taxpayer account information on-line or through a direct software interface, correspond electronically with the IRS, easily obtain electronic taxpayer signatures and maintain all records electronically. Information returns would be filed electronically by employers and financial institutions and made available timely to practitioners and tax agencies."

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During 2003 the IRS established a Submission Processing Visioning Taskforce. The Taskforce was charged with developing a two to six year vision for Submission Processing. The Taskforce, also known as the Tax Administration Vision and Strategy (TAVS) for Submission Processing, studied both how to improve electronic processing and how to handle paper more efficiently. The TAVS study laid out an initial vision for Submission Processing that was heavily e-enabled. The taskforce made recommendations for the IRS to continue building towards enhanced taxpayer offerings, including for the short-term developing more convenient communication and for the long-term developing entirely new offerings and reducing requirements to file. The taskforce also made recommendations for transitioning e-filing programs to the Modernized e-File platform. Their recommendations have been used to develop the sequencing plan for Modernized e-File.

Strategic Goals

Taxpayers, practitioners and third parties expect a wide variety of electronic options for filing, paying and communicating, as well as other automated services. Congress has set a goal of having 80% of all tax and informational returns be filed electronically by 2007. The Service has made considerable progress in electronic filing, in the transition from paper correspondence to e-mail, and in the use of the Internet for access to services. However, considerable effort is needed to achieve the 80% goal and to provide additional automated services.

Significant challenges remain in transitioning from a paper-based environment to an electronic-based environment and in meeting the Congressional goal to have 80% of all returns filed electronically by 2007. This E-Strategy outlines the IRS' plans to reduce taxpayer burden and meet Congress' goal. To achieve the strategic goals the IRS will continue to develop and implement e-file marketing strategies, expand the use of electronic signatures, and enhance IRS web site services for both practitioners and taxpayers. Ultimately, the goal of the Service is to offer all taxpayers and their representatives the ability to conduct nearly all of their interactions with the IRS electronically.

To achieve its strategic goals the IRS will continue to partner with the states and other government entities. The IRS has had a close relationship with the state tax agencies working with them on our shared goal of increasing the use of electronic products for tax administration. While moving ahead to modernize our electronic filing systems the IRS will work with the states to incorporate their requirements into the new programs. Working with the Federation of Tax Administrators (FTA) the IRS established a Tactical Advisory Group (FTA TAG) in January 2003 to address common issues and coordinate tactical planning

for Federal/State electronic initiatives. Some of the group's accomplishments include producing an inventory of marketing practices and capabilities, encouraging all states to participate in the IRS Fed/State employment tax e-file application, and development of business requirements for the 1120 Fed/State project.

The IRS also works with other federal agencies to support our shared mission of providing service to the American people. The IRS is currently working several initiatives through the E-Government project that are part of the President's Management Agenda. The E-Government projects allow government agencies to work together to develop electronic solutions that will meet the needs of our shared customers.

Strategic Goals for 2007

- Electronically file 80 percent of individual tax returns, business tax returns, and information returns
- Reduce fully burdened IRS per return electronic transaction cost
- Achieve 99 percent transaction integrity and internal processing accuracy
- Achieve 90 percent taxpayer satisfaction
- Achieve 90 percent distributor satisfaction
- Achieve 90 percent IRS employee satisfaction

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Key Strategies

The IRS will accomplish its mission for Electronic Tax Administration and achieve its goals through eight key strategies.

1. Make electronic filing, payment and communication so simple, inexpensive, and trusted that taxpayers will prefer these to calling and mailing.
2. Substantially increase taxpayer access to electronic filing, payment, and communication products and services.
3. Aggressively protect transaction integrity and internal processing accuracy.
4. Substantially reduce IRS electronic filing per return processing costs.
5. Deliver the highest quality products and services as promised.
6. Seek the best people, ideas and partners to ensure success.
7. Create a work environment where employees and partners are skilled, informed and empowered to succeed.
8. Partner with states and other governmental entities to maximize opportunities to reduce burden for our common customer base.
9. Encourage private sector innovation and competition.

Challenges

The IRS continues to face many of the same challenges that have existed since the beginning of the program. Critical issues must be resolved for the program to move forward. They include:

- the IRS technical infrastructure,
- security and privacy,
- taxpayer suspicions, and
- the cost and complexity of products and services.

The IRS has made great strides in addressing these challenges in the past, however much work remains ahead.

Technical Infrastructure

The IRS has taken steps to develop a modernized technical infrastructure to support a robust Electronic Tax Administration program. The modernized technical infrastructure not only addresses needs for return filing products but it also provides a new platform that will offer new electronic services which will enable individual taxpayers and businesses to transact and communicate directly with the IRS. The development of the modernized infrastructure has been a joint effort between the IRS and a PRIME contractor hired to provide technology consulting and management services. The PRIME contract was awarded in 1998 to Computer Sciences Corporation and a team of companies who are leaders in the technology industry.

The strategic focus for the past three years has been to enable value-added e-services requested by the preparer community as incentives to promote and encourage IRS *e-file*. Another focus has been on developing a Modernized e-File (MeF) system to improve efficiency of the e-file products and to reduce the burden on industry partners using the system. Both of these systems must provide the highest security possible in order to allow the transmission of tax related information between external customers and the IRS. The Security and Technical Infrastructure (STIR) project was established to provide a secure infrastructure for all IRS systems. STIR delivers in incremental releases the common integrated technical infrastructure to support and enable the delivery of modernized business systems. The infrastructure is a combination of custom software modules and commercial-off-the-shelf (COTS) software and hardware and security solutions, integrated to form the technical foundation of modernization. The components were designed consistent with the technical architecture for modernization as envisioned in the Modernization Blueprint and further defined in the PRIME Alliance enterprise architecture.

■ **Modernizing the e-file system—** The IRS has developed a Modernized e-File (MeF) system that will enhance the current filing process and make it less complex. The MeF system uses Extensible Mark-up Language (XML) allowing the IRS to standardize the record layouts and reject codes for the different tax forms that are filed electronically (i.e., 1040, 1041, 1065, 990, 1120, etc.) as they are migrated to MeF. In the future the new system will also provide flexibility in handling returns that have errors that cannot be corrected by the filer. In the current e-file system those returns must be sent in on paper to be processed. The new MeF system will eventually allow the IRS to keep those returns, correct the errors and process them without rejecting them back to the filer. The first applications developed for the MeF system are the Forms 1120 and 1120S, Corporate Tax returns and the Forms 990, 990EZ, 1120-POL, and 8868, Exempt Organization forms. The programs that use the current Electronic Management System (EMS) (1040, 1041, 1065, 94x, etc.) will be moved to the MeF system over the next five to ten years. The IRS will also develop programs for additional forms that currently cannot be filed electronically over that period of time.

The strategic focus for the past three years has been to enable value-added e-services requested by the preparer community as incentives to promote and encourage IRS *e-file.*

■ **e-services—** In partnership with the PRIME contractor the IRS has developed the first group of electronic services for customers. The e-services are web-based products that provide an electronic means for IRS customers to interact with the IRS. The original electronic products were a means for customers to provide information to the IRS, either filing return data or payment data. e-services provide a means for two-way exchange of data. The first group of e-services rolled out was provided to third parties. Third parties may be electronic return originators, software developers, transmitters, service providers, tax practitioners, payers, states, etc. As the IRS moves to its future state, more e-services products will be developed to meet the needs of the different customer segments. Eventually, the IRS envisions that all taxpayers will have the option of conducting their transactions electronically whether they are responding to a notice, have an account problem or want to get information from a past year return. The e-services developed for the third party community include Registration, Preparer Tax Identification Number (PTIN) Application, e-file application, Disclosure Authorization, Electronic Account Resolution, Transcript Delivery System, and Taxpayer Identification Number (TIN) Matching.

e-services provide a means for two-way exchange of data.

Security and Privacy

Many taxpayers also have concerns about the security and privacy of electronic transactions with the IRS. The IRS must demonstrate through its words and deeds—through both the messages that it conveys in its marketing campaign as well as through the systems that it develops, implements, and maintains—that the security and integrity of its electronic systems and the confidentiality of taxpayer information are among the most important responsibilities that it has to the American people. While the IRS is expanding

its capabilities to receive tax information electronically, it must also enhance its capabilities for safeguarding taxpayer information and put in place the mechanisms needed to prevent those who would attempt to gain access to the system inappropriately. Toward this end:

- **IRS has adopted several authentication methods** that reliably validate the identity of IRS electronic system users who are filing returns, paying taxes, submitting applications, and requesting tax data information electronically. To authenticate system users, IRS requires identification information that may include the individual's name, date of birth, identification number [e.g., Social Security Number (SSN)], IRS issued PIN, and shared secrets such as the taxpayer's prior year adjusted gross income. IRS continues to explore long term authentication techniques that would be appropriate for all types of individual and business return filers and tax professionals.

IRS has adopted several authentication methods that reliably validate the identity of IRS electronic system users who are filing returns, paying taxes, submitting applications, and requesting tax data information electronically.

In December of 2003, the Office of Management and Budget issued an electronic authentication guidance document for federal agencies to follow when providing online Internet services to citizens. The guidance directs agencies to conduct authentication risk assessments on electronic transactions using identity assurance levels to determine whether authentication techniques are appropriate for potential risks. In addition, the National Institute for Standards and Technology (NIST) is developing an e-authentication technical guidance for agencies to use to identify appropriate technologies to implement requirements. IRS will work to ensure compliance with the new guidance.

- **ETA systems are being designed and implemented** in compliance with security certification and accreditation guidelines and the use of NIST and Federal Information Processing Standards for security standards appropriate to evolving activities.

- **The IRS is working with trading partners to increase security** in the bridge between their systems and the ETA systems. Beginning in 2005 all Sensitive But Unclassified (SBU) data will be encrypted during transmission. Encrypting the transmissions between the trading partners and the IRS would enhance and complete the existing security provided by the trading partners' systems and by the IRS security zone. Subsequent research has resulted in a solution for dedicated line filers using IPsec (Internet Protocol Security) tunneling and one for dial-up filers using SSL (Secure Socket Layer) over the Internet.

- **ETA further recognizes that taxpayer privacy is protected** by designing programs that collect and maintain the minimum amount of taxpayer information necessary to accomplish tax administration purposes.

Taxpayer Suspicions

Another barrier that the IRS has worked to overcome is the public's perception that there is a greater chance that they will be contacted or audited by the IRS if they file electronically. This is absolutely not true. Electronically filed returns have proven to be more accurate than paper returns which reduces the likelihood of contact by the IRS to resolve errors. Furthermore, IRS' audit selection criteria do not take

Taxpayers who file electronically have fewer hassles, fewer contacts with the IRS, faster and safer refunds, and safer and more accurate payments than if they file on paper.

into account whether a return was filed electronically or by paper. Although these suspicions are unfounded, the IRS has taken proactive steps to dispel these concerns and to build taxpayer trust and confidence in its new systems. First, by conducting market research studies, the IRS is gaining a better appreciation of taxpayer attitudes towards electronic tax administration. Second, the marketing campaigns for IRS *e-file* communicate the important messages that it's fast, accurate and secure. Taxpayers who file electronically have fewer hassles, fewer contacts with the IRS, faster and safer refunds, and safer and more accurate payments than if they file on paper.

Product and Service Cost and Complexity

The e-file system must be improved to make it less complex and more attractive to both taxpayers and practitioners. The e-file system is rapidly becoming antiquated having remained basically unchanged since the mid-Eighties. Paper signature jurats and some forms are still required with the system, preventing it from being entirely paperless. These factors complicate the e-file system and drive up the costs for practitioners which unfortunately are passed on to the consumer—the American taxpayer. The IRS is taking a series of actions to remove these barriers to make IRS *e-file* more convenient and cheaper to use for both practitioners and taxpayers. Some of these actions include:

- **Providing No-Cost Options—** Through the IRS Free File initiative the majority of American taxpayers were eligible for free online tax preparation and free electronic filing during the 2003 and 2004 tax filing seasons. The IRS entered into a partnership agreement with the Free File Alliance, LLC, a private-sector consortium of tax software companies to provide convenient user-friendly e-filing to taxpayers. More than 3.5 million taxpayers took advantage of the initiative in 2004.

The IRS is taking a series of actions to remove barriers and make IRS *e-file* more convenient and cheaper to use for both practitioners and taxpayers.

- **Expanding Use of Electronic Signatures—** As a part of the effort to increase electronic communication with individual and business filers and tax professionals, IRS has successfully implemented several methods to sign electronically filed returns, applications, and other transactions. Signature methods approved for taxpayers and tax professionals to sign electronic transactions include the Self-Select PIN, the Practitioner PIN, the Customer Service Number PIN, the ERO EFIN/PIN, the Customer Database PIN, the Form 941 TeleFile PIN, the e-services Self-Select PIN, and the scanned Form 8453, *U.S. Individual Income Tax Declaration for an IRS e-file Return*. Although these methods are designed to encourage electronic transactions with the greatest number of customers, as with electronic authentication, IRS must continue to seek an innovative electronic signature solution that is suitable for all types of system users.

- **Modernizing the e-file system—** As discussed previously, the IRS rolled out a Modernized e-File platform in 2004 and will move our existing programs to the new platform over the next several years. The Modernized e-File platform will make e-filing less complex and more convenient for transmitters, practitioners and taxpayers.

Products and Services

The IRS will provide taxpayers and their representatives increased options for electronic transactions and communications with the IRS to file returns, make payments, provide additional information needed, and receive tax assistance. This will be accomplished by providing expanded, seamless service delivery channels through the internet, secure email, telephone, and other options. Taxpayers will have access to expanded automated self-service applications with easy to use self-assist/self-correct tools. For example, individual taxpayers will be able to file all types of returns electronically in the same transmission, check the status of their refund or account in multiple languages on-line, electronically verify tax lien information, receive balance due information electronically, and submit applications for installment agreements and Taxpayer Identification Numbers on-line. Corporate taxpayers will also be able to file returns, provide follow-up information and access self-service applications. All taxpayers will have additional electronic payment options including integrated options where an electronic payment method is included in new e-file products and options that improve services for taxpayers needing to make subsequent, one-time or recurring payments.

This section outlines the specific products and services that the IRS plans to develop over the next few years to achieve key strategic goals for electronic tax administration. A chart providing the products and services by implementation phases can be found on at the end of this section. As indicated below, the initiatives are grouped into the following five customer segments:

- Servicewide Initiatives that will provide service to all IRS customer segments
- Wage and Investment Initiatives
- Small Business and Self-Employed Initiatives
- Large and Mid-Size Business Initiatives
- Tax Exempt and Government Entities Initiatives

Servicewide and Cross Business Operating Division Project Descriptions

#	Title	Description
1	Expand e-services to all Authorized IRS *e-file* Providers or tax professionals who become e-file providers LMSB SB/SE TE/TG W&I	Provide e-services [Transcript Delivery System (TDS), Disclosure Authorization (DA), Electronic Account Resolution (EAR)] to any current Authorized IRS *e-file* Providers or tax professionals who meet required criteria established by form type.
2	Provide Taxpayers with Access to Their Account Information LMSB SB/SE TE/GE W&I	Provide a secure electronic means for each BOD's customer base to access tax return information, wage and income documents and tax account information. Provide the capability for taxpayers to identify and format selected tax account information for the purpose of printing it or sending it electronically to third parties, e.g., schools or mortgage companies. The IRS Restructuring and Reform Act of 1998 (RRA98), Section 2005 requires the IRS to provide taxpayers that electronically file with electronic access to account information if it is able to be done securely. LMSB: Corporate Taxpayers who electronically file their corporate and employment tax returns SB/SE: Taxpayers who electronically file their small business, employment and/or individual tax returns electronically TE/GE: Taxpayers who electronically file their information and employment tax returns W&I: Taxpayers who electronically file their individual tax returns.
3	Form 8822—*Change of Address* LMSB SB/SE TE/TG W&I	Electronic filing and processing of Form 8822 Taxpayers' current procedures to notify the IRS of any address changes are through the submission of Form 8822 or some type of correspondence. In addition, address changes can be submitted with each year's tax return. With the significant use of electronic formats i.e. filed returns, other electronic forms, this would add to the reduction of paper handled by the taxpayers and the Service. Information submitted would be less cumbersome, less cost and lower error rate of issuing any correspondence back to the taxpayer if we have accurate address information.

Taxpayers will have access to expanded automated self-service applications with easy to use self-assist/self-correct tools.

Wage and Investment (W&I) Division

The Wage & Investment Division serves approximately 120 million customers, accounting for about 91.2 million returns. These taxpayers file a Form 1040 tax return with no accompanying Schedules C [*Profit or Loss from Business (Sole Proprietorship)*], E *(Supplemental Income or Loss)*, or F*(Profit or Loss from Farming)*, no Form 2106 *(Employee Business Expenses),* and no international activity. Third parties report almost all income for this group, and the vast majority of taxes are collected through third-party withholdings. Most of these taxpayers deal with the IRS only when they file their own returns, and about 87.1% of W&I returns are either refund returns or even returns (i.e., total payments are equal to total tax liabilities).

The Wage & Investment Division will "make taxes easier" by providing taxpayers and their representatives increased options for electronic transactions and communications with the IRS to file returns, make payments, and receive tax assistance.

W&I customers' contact with the IRS and their need for information are shaped by two primary factors—who prepares their return and whether their return includes any schedules. Using these factors as a basis, the W&I customers can be divided into four segments: self-prepared or use a free service to prepare their return with no schedules, self-prepared or use a free service to prepare their return with schedule(s), paid preparer with no schedules, and paid preparer with schedule(s).

The Wage & Investment Division will "make taxes easier" by providing taxpayers and their representatives increased options for electronic transactions and communications with the IRS to file returns, make payments, and receive tax assistance. This will be accomplished by providing expanded, seamless service delivery channels through the Internet, secure email, telephone, and other options. Taxpayers will have access to expanded automated self-service applications with easy to use self-assist/self-correct tools. For example, taxpayers will be able to file all types of individual returns electronically in the same transmission, check the status of their refund or account in multiple languages on-line, electronically verify tax lien information, receive balance due information electronically, and submit applications for installment agreements and Individual Taxpayer Identification Numbers (ITIN) on-line.

The Wage and Investment Division's planned electronic initiative projects are listed, right.

Wage and Investment (W&I) Products and Services Project Descriptions

#	Title	Description
1	Internet Refund/Fact of Filing (IRFOR) Expansion	IRFOF expansion to provide capabilities to initiate refund trace options for lost/stolen refunds, make address changes, and provide telephone numbers to update IDRS and receive explanations of the 40 most common math error situations.
2	Continue to evaluate and enhance services provided by kiosks	Enhance kiosks by analyzing usage and customer survey data to increase operational efficiencies. This will include expanding the availability of multilingual products and services for Limited English Proficient (LEP) taxpayers.
3	Continue to enhance and expand multilingual services on irs.gov Spanish web page	Post additional translated products and services ■ Spanish TeleTax ■ Spanish EITC Assistant ■ Spanish 1040 Central ■ Spanish IRFOF ■ Tax Tips, New Releases ■ Other Translated Documents (TBD) (Narratives providing information on e-file, Free File, EITC, Where's My Refund, Where Do I File?, etc.) ■ IRS.gov español Redesign and Improvement Initiatives (TBD) ■ Spanish Speeches to Go ■ Launch Spanish e-services Adbridge (a promotion for the e-services in Spanish)
4	EITC Enhancements	Implement recommendations from the Earned Income Tax Credit Task Force.
5	Form W-7—ITIN (Individual Taxpayer Identification Number)	Provide a real time/e-service product that will allow authorized IRS users and Acceptance Agents to complete applications on-line via an e-service product. Authorized IRS employees (ITIN Unit, Field Assistance and Accounts Management) will be the first customers identified for the service in 2005 and Acceptance Agents following in 2006.
6	Electronic verification of Notice of Federal Tax Lien filing or release	Enable taxpayers to verify the filing of, or the release of, a notice of Federal Tax Lien. Information available for verification: where filed, periods covered and filing date. It would reduce the time spent by taxpayers attempting to contact IRS for information/verification regarding lien filings. As a self-service option, this would save IRS resources researching and providing statuses to taxpayers.
7	Provide electronic bill presentment to taxpayers	Enable taxpayers the option to receive their assessment and billing notice via secure e-mail rather than by USPS mail.
8	Enhance electronic Power of Attorney functionality	Enhance the Disclosure Authorization (DA) e-service to enable taxpayers to: 1) electronically sign authorizations remotely via the Internet without being present in the third party's office; 2) change authorizations via the internet without being present in the third party's office or sending paper documents to the Service; or 3) revoke authorizations via the internet without being present in the third party's office or sending paper documents to the Service.
9	Form 1040 Modernized e-File	Electronic filing and processing of Individual Income Tax Return on the Modernized e-File system.
10	Form 1040X—Amended individual income tax returns	Electronic filing and processing of Form 1040X to taxpayers who electronically file the 1040 to be amended.

W&I customers' contact with the IRS and their need for information are shaped by two primary factors—who prepares their return and whether their return includes any schedules.

Small Business/Self Employed (SB/SE) Division

The Small Business/Self-Employed (SB/SE) Operating Division serves approximately 45 million taxpayers that pay $915 billion in taxes. SB/SE customers include fully or partially self-employed individuals, corporations and partnerships with assets of $10 million or less. SB/SE customers file a variety of tax returns including individual and business income tax returns, employment, excise, estate and gift, and trust returns. In addition to their own customers, SB/SE has responsibility for activities and programs serving customers in the Tax Exempt and Government Entities (TE/GE), Large and Mid-Size Business (LMSB), and Wage and Investment (W&I) Divisions.

SB/SE's 40,000 plus employees are dedicated to delivering top-quality service and ensuring optimal tax compliance among their customers. SB/SE strategies and operational priorities champion the overall IRS mission to *"Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all."*

SB/SE is dedicated to improving the level of service by increasing e-file system capabilities and expanding e-submission initiatives to reduce burden on taxpayers and tax practitioners.

One of SB/SE's seven strategies is to "Ensure interacting with the IRS electronically becomes the preferred option for SB/SE customers". SB/SE is continuing to strengthen their commitment to increase electronic interactions between the IRS and all taxpayers, specifically making business e-file easily accessible and widely used as individual e-file. SB/SE is dedicated to improving the level of service by increasing e-file system capabilities and expanding e-submission initiatives to reduce burden on taxpayers and tax practitioners. SB/SE will strive for consistency in such service, whether the account is in a pre-filing, filing or post-filing status.

SB/SE's 40,000 plus employees are dedicated to delivering top-quality service and ensuring optimal tax compliance among their customers.

The Small Business/Self-Employed Division's long-term vision would ensure every time, for whatever reason, a customer connects with the IRS that connection would be through electronic means. The division will encourage electronic filing and electronic paying from taxpayers and will provide electronic services to practitioners, payroll providers, and other businesses providing assistance to taxpayers through the preparation or use of tax information. This will mean electronic interaction with the IRS must become part of the practitioner and small business taxpayer's business process and the IRS must effectively communicate the advantages for electronic interactions to customers. Working with other internal partners, it is SB/SE's responsibility to develop and market electronic programs, while considering the small business and practitioner's business models.

The Small Business/Self Employed Division's planned electronic initiative projects are listed, right.

Small Business/Self Employed (SB/SE) Project Descriptions

#	Title	Description
1	Internet Employer Identification Number (EIN)— Phase 2	This phase of Internet EIN development would fully automate the current internal EIN processing. Phase II functionality will include full validation against information housed in IRS databases and will result in a same session, valid EIN. The entity will be immediately established on IRS systems and will be accomplished without IRS employee intervention.
2	e-services For Reporting Agents	Provide access to current e-services [Transcript Delivery System (TDS), Disclosure Authorization (DA), Electronic Account Resolution (EAR)] to Reporting Agents who meet required established criteria for the incentive program.
3	Electronic Installment Agreements (e-IA) and E-Payment Option	Electronic filing, paying and processing of Installment Agreements (IA).
4	Form 1041 Modernized e-File— Fiduciary Returns	Electronic filing and processing of Form 1041 on the Modernized e-File system
5	Forms 1065/1065B Modernized e-File— Partnership Returns	Electronic filing and processing of Form 1065 on the Modernized e-File system
6	Expand Transcript Delivery System Users To Include Mortgage Industry	This initiative would expand the Transcript Delivery System user group to add the mortgage industry (i.e., lending institutions) for compliance purposes. An earlier study found discrepancies in what was reported to mortgage brokers versus what was being reported on returns.
7	Form 2290—*Heavy Highway Vehicle Use Tax*	Develop and deliver an electronic filing and paying system for Form 2290, *Heavy Highway Vehicle Use Tax* to be received, captured, and stored in a database. The states will be able to retrieve the Schedule 1 Vehicle Identification Numbers (VINS) and download this information to their database.
8	Automated Offer In Compromise (OIC)	Electronic filing and processing of Form 656 and application package including Form 433-A and 433-B (Collection Information Statements)
9	Forms 94X Modernized e-File (940, 941, 943, 945)—Employment Tax Returns	Electronic filing and processing of Employment Tax Returns on the Modernized e-File system
10	Form 8736—*Extension of Time to File 1065 and 1041 Trust;* Form 2758— *Extension of Time to File 1041 Estate and 706*	Electronic filing and processing of Form 8736
11	Information Returns— Forms 1099s	Convert remaining Magnetic Tape filing of information returns to electronic. Retire magnetic tape processing system.
12	Form 8655— *Reporting Agent Authorization for Magnetic Tape/Electronic Filers*	Electronic filing and processing of Form 8655. Modernize the RAF process and record-keeping.
13	Form 8300— *Report of Cash Payments over $10,000 Received in a Trade or Business;* Form 4789— *Currency Transaction Report;* Form 8362— *Currency Transaction Report by Casinos*	Electronic filing and processing of Forms 8300, 4789, and 8362
14	Form 1040 NR	Electronic filing and processing of Forms 1040NR
15	Form 1040 PR	Electronic filing and processing of Forms 1040PR
16	Forms 706, 706A, and 709	Electronic filing, paying and processing of Form 706, 706A and 709
17	Forms 730 and 720—Excise Tax (Fuel transaction reports)	Electronic filing, paying and processing of Forms 730 and 720

Large and Mid-Size Business (LMSB) Division

The Large and Midsize Business Division (LMSB) customer base consists of the largest corporate entities doing business in the United States, those with assets greater than $10 Million. The returns filed by this customer base are increasingly complex. The number of returns filed by LMSB customers has increased every year and projections of filings indicate continued increases in all return categories with the most significant increase in Form 1065, *Partnerships.*

The number of returns filed by LMSB customers has increased every year and projections of filings indicate continued increases in all return categories.

In 2004, LMSB rolled out its first electronic filing option for their customers with the Form 1120 Modernized e-File (MeF) project. The Modernized e-File project is critical for realization of many of LMSB's strategies. The Modernized e-File system is the future of electronic filing with the IRS. The project initially covers Forms 1120, 1120S, 990, 990-EZ, 8868 and 1120-POL. Through MeF, LMSB will improve customer service to large and mid-sized businesses by allowing electronic filing of Forms 1120 and 1120S, which reduces filing errors and customer burden. MeF allows IRS to achieve operational efficiency through the receipt of electronic filings where tax returns no longer have to be transcribed and are easily tracked from receipt to final processing. IRS employees use a web-based user interface to view 100 percent of a requested tax return.

The Large and Mid-Sized Business planned electronic initiative projects are listed below.

Large and Mid-Sized Businesses (LMSB) Project Descriptions

#	Title	Description
1	Enhancements to Corporate Returns	Expand Corporate Returns, Forms 1120-A, 1120F, 1120-FSC, 1120-H, 1120-POL, 1120-RIC
2	Form 7004—*Extension to File 1120*	Electronic filing, paying and processing of Form 7004
3	e-Audit	The e-Audit project is developing a secure method for examiners and specialists to access taxpayer data from their workstations using a secure Web browser. Examiners and Specialists would run queries in real time, accessing taxpayer records and invoices stored in the Tax Data Warehouse.
4	Form 8832—*Entity Classification Election*	Electronic filing and processing of Form 8832

Tax Exempt and Government Entities (TE/GE) Division

TE/GE's three major business units—Employee Plans, Exempt Organizations and Government Entities—oversee a diverse range of customers, from small volunteer community organizations to sovereign Indian tribes to large pension funds. While these entities are not subject to Federal income tax, they nonetheless represent a significant aspect of tax administration, with approximately three million entities controlling about $8 trillion in assets and paying over $300 billion in employment tax and income tax withholding.

■ **Employee Plans.** Employee Plans serves the market of qualified pension benefit plans. Currently there are nearly one million plans that must file annual returns for group pension, profit-sharing, 401(k), employee stock ownership (ESOP), and stock bonus plans. Simplified Employee Pensions (SEPs), SIMPLE plans, 403(b) tax-sheltered annuities, and IRC 457 government deferred compensation plans are not required to file returns, but many request a determination from EP to ensure the plan is meeting all requirements. Based on 2000 return data, approximately one million plans controlled assets of more than $4.0 trillion.

EP not only provides an initial determination to establish compliance with tax law and regulations for each group plan, but also reviews plans to ensure continuing compliance with laws and regulations. This work is of a highly complex nature and is generally conducted in the financial world by accountants, attorneys and actuaries. However, its greatest impact is on the average citizen, the plan participant who needs the assurance that there will not be an unexpected tax event due to some error in the plan.

While these entities are not subject to Federal income tax, they nonetheless represent a significant aspect of tax administration, with approximately three million entities controlling about $8 trillion in assets and paying over $300 billion in employment tax and income tax withholding.

■ **Exempt Organizations.** Exempt Organizations ensures that religious, charitable, social, educational, political and other not-for-profit organizations meet and maintain compliance with the complex requirements for tax-exempt status. This customer base consists of nearly 1.6 million organizations with assets of over $2 trillion.

In FY2002, nearly 87,000 organizations requested a determination of their tax-exempt status. In contrast to professionally administered employee plans, most exempt organizations are created and run by volunteers who rely on the assistance of TE/GE's Customer Account Services to provide them with tax law guidance.

■ **Government Entities.** Government Entities encompasses three distinct types of customers: Federal, State and Local Governments; Indian Tribal Governments; and Tax Exempt Bonds. Although not subject to Federal income tax, Federal, state and local governments are responsible for income tax withholding and paying employment taxes. The almost 88,000 customers in this segment employ the largest block of

workers in the US-comprising 20% of the American workforce who earn about $740 billion annually-and pay employment taxes in excess of $200 billion.

Government Entities' customers include 564 Federally recognized Indian tribes that account for over 2,500 entities of government subdivisions and business activities. Government Entities is also responsible for oversight of the tax-exempt bond sector where between 1985 and 2002, IRS received more than 450,000 notifications of tax-exempt bond issuances. This paralleled a growth in tax-exempt bond value from $650 billion to $1.8 trillion.

Most exempt organizations are created and run by volunteers who rely on the assistance of TE/GE's Customer Account Services to provide them with tax law guidance.

Tax-exempt organizations, pension plans, and government entities present unique challenges to tax administration. Ensuring compliance and maintaining the integrity of the tax system will necessarily impose certain burdens on all taxpayers. However, TE/GE is committed to reducing customers' cost of interacting with the IRS while also minimizing their need to do so. Electronic tax administration will assist with promoting this objective. In the future TE/GE will provide customer service through multiple methods which will include not only written correspondence, but also the telephone, and internet. TE/GE will also meet customer needs by developing electronic filing and other electronic transaction alternatives.

■ **Outsourced Processing of Form 5500 Pension Plan Returns** The Form 5500 Series is used by four agencies to enable employers and plan administrators to satisfy their statutory annual reporting obligations under ERISA and the Internal Revenue Code by filing a single form. The multi-agency EFAST system, now entering its fourth year of production, provides returns processing, agency master file data, customer contact center operations, and disclosable digital image files for over 1.2 million annual 5500 series returns.

Currently, IRS is working to refine concepts and plans for a fundamental change to an Internet-based filing approach for the upcoming request for proposal for the next generation EFAST (i.e., EFAST 2). Benefits include improved transaction accuracy, reduced cycle times, improved cost efficiencies and enhanced information transparency.

■ **Electronic Filing of Form 990 Returns** For the first time in 2004 exempt organizations were able to file Form 990 series returns electronically through the Modernized e-File system. Modernized e-File reduces the burden on 990 filers, catches most errors that otherwise result in a return being rejected, and reduces labor-intensive manual processing.

■ **Provide Disclosable Information to the Public** TE/GE has a unique responsibility to protect the public interest by making certain information about the exempt community public. By facilitating public review and monitoring of exempt activities, this activity promotes voluntary compliance and helps to preserve the integrity of the tax system.

The Tax Exempt and Government Entities Division's planned electronic initiative projects are listed, right.

Tax Exempt and Government Entities (TE/GE) Project Descriptions

#	Title	Description
1	Form 8868—*Extension to file Form 990*	Electronic filing, paying and processing of Form 8868
2	Form 990 PF— *Exempt Organization Returns—Private Foundations*	Electronic filing, paying and processing of Form 990/990PF
3	Electronic Application for Exempt Status—Exempt Organizations	Enable electronic submission by exempt organizations of applications for determination of exempt status
4	Electronic Application for Exempt Status— Employee Plans	Extend electronic submission applications for determination of exempt status to sponsors of employee plans
5	Public Access to Applications for Determination, Forms 5300/5307/1023/1024	Enable Internet-based public access and research of applications for determination of exempt status by approved exempt organizations and sponsors of employee plans.
6	Public Disclosure of Exempt Organization Returns and Information	Improve Transparency of Publicly Disclosable Exempt Organization Returns and Information by extending IRS.Gov public portal research capability to view, search or download data to all disclosable exempt organization data.
7	Form 990T— *Unrelated Business Income Tax Return, Exempt Organizations*	Electronic filing, paying and processing of Form 990T
8	Electronic Payment of User Fees	Develop capability to accept electronic payment of user fees related to applications for determination
9	E-Gov Internet Filing of Form 5500/5500EZ—*Information Return of Pension Plans*	TE/GE is working with DOL's Employee Benefits Security Administration (EBSA) to refine concepts and plans for a fundamental change to the current outsourced EFAST submission processing system. The future EFAST2 is planned to deliver an Internet-based filing system for the Form 5500 series, used by four agencies—IRS and EBSA, Pension Benefit Guaranty Corporation (PBGC) and Social Security Administration (SSA).
10	E-Gov Disclosure of Employee Plan Return Information	Leverage inter-agency E-Gov EFAST2 filing system to provide public access and research capabilities for 5500 series filings under IRS jurisdiction.

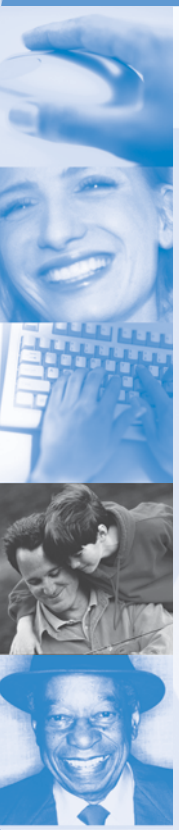
Products and Services by Implementation Phases

1 - 2 Years	3 - 5 Years	6 - 8 Years
Extension to File 990 (Form 8868)	MeF State Retrieval System	Individual Return, Form 1040 MeF
Expand Corporate Returns, Forms 1120-A, 1120F, 1120-FSC, 1120-H, 1120-POL, 1120-RIC	Fiduciary Return, Form 1041 MeF	Form 1040X, Amended Individual Returns
Extension to File 1120, Form 7004	Partnership Return, Form 1065 MeF	Non-Resident Alien Return, Form 1040NR
Exempt Organization Return, Form 990 PF	Exempt Organization Return, Form 990T	Self-Employment Return—Puerto Rico, Form 1040PR
Excise Return, Form 2290	Employer Returns, Forms 94X MeF	Excise Return, Forms 720 and 730
Internet Refund/Fact of Filing (IRFOF) Expansion	Extension to File Forms 1041, 1065, and 706	Excise Return, Forms 706, 706A, and 709
Expand e-Services to Additional e-file Providers	Employee Pension Plan Returns, Forms 5500/5500EZ	
Expand e-Services to Reporting Agents	Taxpayer Account Access	
Internet Employer Identification Number (EIN)— Phase 2	Change of Address	
Earned Income Tax Credit (EITC) Enhancements	Form W-7, Individual Taxpayer Identification Number (ITIN)	
Enhance Multilingual services on irs.gov	Electronic Installment Agreements (e-IA)	
Enhance IRS Kiosks	Transcript Delivery System (TDS) for Mortgage Industry	
	e-Audit	
	Electronic Application for Exempt Status—Exempt Organizations	
	Electronic Application for Exempt Status—Employee Plans	
	Public Access to Applications for Determination	
	Public Disclosure of Exempt Organization Returns	
	Federal Tax Lien Filing or release	
	Electronic Payment of User Fees for applications for Determinations	
	Disclosure of Employee Plan Returns	
	W-4 Compliance, Employee Withholding	
	Electronic Bill Presentment	
	Reporting Agent Authorization, Form 8655	
	Report of Cash Payments—Associated Forms	
	Entity Classification Election, Form 8832	
	Information Returns—Retire Mag Tape Filing System	

Modernized e-file initiative

e-services initiative

Other than modernization initiative



e-file Program History

The IRS e-filing program for individual income tax returns has come a long way since its debut in 1986. The IRS began its endeavor into the world of electronic services by partnering with industry and the tax professional community. That partnership has continued to today and has allowed the program to expand to provide new services and to increase return volumes, reaching more taxpayers than ever before.

Individual Income Tax Return Programs

In 2004, nearly 61 million individual income tax returns were e-filed through one of three electronic filing options. The three options for filing individual income tax returns electronically are:

- **Electronic Filing via Practitioner:** This method of electronic filing is the core e-filing product. Using this method, tax professionals send clients' returns electronically to the IRS. In 2004, 42.5 million returns —an increase of 16 percent—were filed through an authorized provider.

- **Electronic Filing via TeleFile:** TeleFile is the IRS file-by-phone system that is available to taxpayers who file simple returns that meet specific criteria. Potentially eligible TeleFile users get a special tax package from the IRS that invites them to file their taxes quickly and easily by phone. In 2004, 3.8 million people used TeleFile instead of filling out Form 1040EZ.

- **Electronic Filing via On-Line:** This method allows a taxpayer to complete their return using tax preparation software, either purchased "off-the-shelf" or accessed over the Internet, and e-file the return from home. In 2004, 14.5 million taxpayers—an increase of 22 percent—filed their returns from home.

- **Free File:** One major challenge to the expansion of the e-file program was the cost of the service to taxpayers. Many, if not most, of the private sector offerings for e-file services cost taxpayers more than the 37 cent stamp associated with filing a paper return. On October 30, 2002, the IRS and the Department of Treasury announced a public-private partnership agreement that was formed to address

this challenge. The partnership agreement permits tax software companies to provide secure and free online tax return preparation and e-filing services to at least 60 percent (or 78 million) individual taxpayers. These free services were available during the 2003 and 2004 Filing Seasons. Approximately, 3.5 million taxpayers filed for free through the Free File program in 2004.

Through the years the IRS has listened to customer feedback on ways to improve the program and enhance the service provided to taxpayers and their representatives. Some of the enhancements included:

Through the years the IRS has listened to customer feedback on ways to improve the program and enhance the service provided to taxpayers and their representatives.

- **Fed/State E-Filing:** Taxpayers in 37 states and the District of Columbia can e-file their federal and state tax returns in one transmission to IRS. Once the IRS receives the joint Fed/State return, we separate the state return data and forward it to appropriate state tax agency. In 2004, more than 26 million taxpayers filed federal-state electronic returns.

- **Accept All Forms and Schedules:** Practitioners provided feedback on the programs inability to accept all forms and schedules. They experienced burden with the e-file program because they were not able to file all of their client's returns electronically. The e-file program has now enabled 98% of Form 1040 series return forms and schedules. The Service continues to work toward enabling 100% of all forms and schedules.

- **Electronic Signatures:** Finding a solution for signing an electronically filed tax return has been one of the biggest challenges for the program. Two alternative signature methods are currently being used for signing individual income tax returns. During the 2004 filing season 69% of e-filed individual income tax returns used these alternative signature method to file.

  - Self-Select PIN (Personal Identification Number): The Self-Select PIN allows taxpayers to electronically sign their e-filed returns by entering a five digit PIN. In 2004, Self-Select PINs were used in e-filing over 11.9 million returns.
  - Practitioner PIN (Personal Identification Number): The Practitioner PIN is an additional electronic signature option for taxpayers who use an electronic return preparer. Those using a tax professional can sign a form authorizing their tax return preparer to electronically sign the return on their behalf. In 2004, Practitioner PINs were used in e-filing 30 million returns.

The e-file program has now enabled 98% of Form 1040 series return forms and schedules. The Service continues to work toward enabling 100% of all forms and schedules.

- **e-help Desk** is technologically enabled support for Registered IRS e-Product Users. The e-help desk supports: e-file, Electronic Federal Tax Payment System (EFTPS), TeleFile, Future e-Services, and Future e-Products.

- **Quick Alerts** is a web based mass messaging system created for Authorized IRS *e-file* Providers, Software Developers and Transmitters. It's a "push technology" program that can instantly disseminate messages to thousands of subscribers via their pre-selected choice(s) of devices (cell phone, email, fax, telephone). After subscribing, the recipient can receive communications 24 hours a day, 7 days a week, regarding processing delays, IRS *e-file* program updates, early notification of upcoming seminars/conferences, IRM e-file changes plus various other relative e-file information.

- **IRS Individual e-file Partnership Program:** The IRS Restructuring and Reform Act of 1998 (RRA 98) established that the IRS receive 80 percent of all returns electronically by 2007 and authorized the IRS to promote the benefits of and encourage the use of e-file services. As a result of RRA 98, the IRS enters into non-monetary partnerships with businesses to offer low cost income tax preparation and electronic filing for qualified taxpayers.

The Stakeholder Partnerships, Education and Communication (SPEC) function is continuing its efforts to establish e-file partnerships with various private sector companies. The IRS provides hyperlinks on IRS.gov (IRS *e-file* Partners Page) beginning in January through October 15 of each year for each company in the Partnership Program. In addition to offering low cost income tax preparation and electronic filing for qualified taxpayers, these companies also offer e-file services/products for tax professionals, financial institutions and employers, and electronic payment options for individual taxpayers.

The IRS enters into non-monetary partnerships with businesses to offer low cost income tax preparation and electronic filing for qualified taxpayers.

- **TeleFile Enhancements:**
  - Extension of Time to File: In 2001 the IRS introduced a new TeleFile feature that allowed taxpayers to request an automatic extension of time to file their individual tax return until August 15. In 2004, nearly 1.4 million taxpayers filed extensions over the telephone.
  - Federal/State Telefile: In 2004, eligible taxpayers in eight states can e-file both their federal and state returns with a single phone call to the IRS.
  - In 2004, 441,561 taxpayers filed their state and federal tax returns with a single phone call.

Business Returns

■ **1041 e-file:** Since Tax Year (TY) 1986, IRS has offered voluntary programs for various forms of Electronic/Magnetic Media Filing of Form 1041 to the business community as a means of filing business returns. For Tax Years 1986 through 1988, the Andover Submission Processing Center was responsible for receiving and processing estate/trust returns submitted on magnetic tape. The program grew from 2,165 returns to 73,224 returns. For Tax Years 1989 through 2002, the IRS Philadelphia Submission Processing Center had the responsibility of receiving and processing Forms 1041 on magnetic tape and diskette. In processing year 1995, the program was expanded to accept modem transmissions. For processing year 2002, Philadelphia Submission Processing Center processed 1.2 million returns and 1.3 million K-1s.

Effective January 2003, electronically filed 1041 returns were transmitted through the Electronic Management System (EMS) at the IRS Tennessee Computing Center in Memphis, Tennessee. Beginning July 1, 2003, Form 1041 returns could no longer be submitted to the Philadelphia Submission Processing Center electronically nor via magnetic tape or diskette. Beginning January 26, 2004, all electronically filed 1041 returns are being processed at the Ogden Submission Processing Center.

Since Tax Year (TY) 1986, IRS has offered voluntary programs for various forms of Electronic/Magnetic Media Filing of Form 1065, *U.S. Return of Partnership Income,* to the business community as a means of filing partnership returns.

■ **1065 e-file:** Since Tax Year 1986, IRS has offered voluntary programs for various forms of Electronic/Magnetic Media Filing of Form 1065, *U.S. Return of Partnership Income,* to the business community as a means of filing partnership returns. The IRS Andover Submission Processing Center (ASPC) was responsible for processing partnership returns submitted on magnetic tapes, diskettes or transmitted electronically via the Bulletin Board System or MITRON. Participants could choose to file their entire partnership return electronically or use the "Paper-Parent Option" method. This method allowed the Form 1065 and related forms and schedules to be mailed to ASPC, and the Schedules K-1 and/or Forms 8308 to be transmitted electronically or submitted on magnetic media. From TY 1986 through TY 1998 the Paper-Parent Option was the preferred method of filing. During this time, an average of 1.4 million Schedules K-1 were filed on electronic/magnetic media annually.

Beginning with TY 1999, the IRS implemented the Electronic Management System (EMS). This voluntary electronic filing method enabled partnership returns to be transmitted through a true electronic environment. All electronically filed partnership returns had to be transmitted through EMS at the IRS Tennessee Computing Center (TCC) in Memphis, Tennessee. With the development of EMS, the IRS no longer accepted partnership returns submitted on magnetic tape or diskette, or transmitted electronically via the Bulletin Board System or MITRON. In addition, the "Paper-Parent

Option" method of filing partnership returns was discontinued. The Memphis Submission Processing Center (MSPC) inherited the responsibility for processing partnership returns filed electronically. Beginning with Tax Year 2001 returns, the Ogden Submission Processing Center became responsible for processing partnership returns filed electronically.

The IRS electronic employment tax filing program offers business taxpayers a variety of paperless options for filing Form 940 and Form 941.

For Tax Year 2000 partnership returns, IRS implemented the Legislative Mandate, Section 1224 of the Taxpayer Relief Act of 1997. The legislation requires partnerships with more than 100 partners (Schedules K-1) to file their return on magnetic media (electronically as prescribed by the IRS Commissioner) for taxable years ending on or after December 31, 2000. The 1065 e-file Program also accepts non-mandated partnership returns electronically.

■ **Employment Taxes:** The IRS electronic employment tax filing program offers business taxpayers a variety of paperless options for filing Form 940 and Form 941. Using this program, business taxpayers, reporting agents, software developers, transmitters, and Electronic Return Originators (ERO) can file Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, and Form 941, *Employer's Quarterly Federal Tax Return,* electronically. Filers of Forms 940 and 941 have several products to choose from to meet their filing requirements. Current products include:

- Form 940 and 941 e-file Program: With this method of filing, returns are transmitted nationwide via modem to modem lines and menu driven software directly to the IRS where they are processed at the Tennessee Computing Center (TCC)/Memphis Submission Processing Center (MSPC). The program conducts security checks, sends electronic acknowledgments and builds records to be processed by IRS computer systems.
- Form 940 and 941 On-Line Filing Program: The on-line program is a Web-based Internet system over commercial sites. It allows business filers to prepare, sign and file Forms 940 and 941 using an Approved IRS *e-file* for Business Provider also known as a third-party transmitter.
- Form 941 TeleFile: The 941TeleFile program is an electronic IRS *e-file* option for eligible businesses that allows filers to use a Touch-Tone telephone. It is an interactive computer program that calculates the qualified caller's tax liability or any overpayment and begins the electronic filing process over the phone. This program is paperless (no forms are required to be mailed). This program began accepting returns in the first quarter of 1997. Form 941TeleFile users can elect to electronically and simultaneously pay any balance due on the return by using Electronic Funds Withdrawal. The IRS Tennessee Computing Center (TCC) is the only center processing 941TeleFile returns.

- Form 940 and 941 XML (Extensible Mark-up Language) Project: In January 2003 the IRS rolled out the latest enhancement to the Employment Tax e-file system. The Forms 940 and 941 are now able to be received by the IRS systems in XML. This change is the first step to making the program more flexible and better able to meet the needs of customers (particularly tax professionals). The employment tax forms will eventually be moved to the Modernized e-File system providing even more functionality.
- Magnetic Tape Filing Program: The IRS discontinued processing of magnetic tape for Forms 940 and 941 at all sites for the 2004 filing season, with a final date of February 2004.

Although electronic filing is not a requirement, it is an alternate method of filing information returns that in many cases, is most cost-effective and easier than filing on paper or magnetic media.

Information Returns: The Filing Information Returns Electronically (FIRE) System was developed to enable filers of certain information returns to submit them electronically. The information returns are transmitted to the FIRE system using a modem and telephone line. The system accepts:

- Forms 1042, *Foreign Person's U.S. Source Income Subject to Withholding,*
- 1098, *Mortgage Interest Statement,*
- 1099, *U.S. Information Return for Calendar Year,*
- 5498, *Individual Retirement Arrangement Contribution Information,*
- 8027, *Employer's Annual Information Return of Tip Income and Allocated Tips,* and
- W-2G, *Certain Gambling Winnings.*

Extension of Time requests can also be filed electronically for all of these forms except QWF and Form 8027. Although electronic filing is not a requirement, it is an alternate method of filing information returns that in many cases, is most cost-effective and easier than filing on paper or magnetic media.

Electronic Payments Options

During the first decade of the electronic filing program, taxpayers who filed balance due returns did not have an electronic payment option. They were required to make the payment by paper.

In 1996, the Electronic Federal Tax Payment System (EFTPS) was implemented, which allowed individual and business taxpayers to pay taxes (including depository taxes) via an electronic funds transfer through various input methods including by phone or through a third party (such as a

payroll processor). In 1999, the electronic payment program was expanded and an electronic funds withdrawal (direct debit) payment option was included in tax software, which allowed individual taxpayers to electronically e-file balance due returns and pay at the same time. During the same tax season, credit card payment options were implemented which allowed individual taxpayers to either e-file balance due returns and pay by credit card at the same time or pay separately by phone or Internet.

In 1996, the Electronic Federal Tax Payment System (EFTPS) was implemented, which allowed individual and business taxpayers to pay taxes via an electronic funds transfer through various input methods including by phone or through a third party.

Over the years, the electronic payment program has expanded to offer additional payment methods and features. Electronic payment options are convenient, safe and secure, and give taxpayers an alternative to paying taxes by check or money order. Payments can be made 24 hours a day, 7 days a week. On time payments can be made electronically via integrated e-file and pay options or credit card payment service providers through midnight of the return due date. Banking rules require taxpayers to initiate an EFTPS payment (i.e., separate from filing the return) at least one day prior to the due date to ensure timeliness. An electronic confirmation number is provided once the payment transaction is completed thus providing the proof of payment that cancelled checks used to provide. Making an electronic payment eliminates the need to mail the associated paper payment voucher. Currently, both individual and business taxpayers have a variety of options available to pay current, past due and estimated taxes.

■ **Electronic Federal Tax Payment System (EFTPS):** Individual and business taxpayers can pay any current, past due and estimated tax through EFTPS. Payments can be made on the Internet, by phone or through an authorized third party service provider. Taxpayers can make one-time or recurring payments. They can even schedule payments in advance of the due date, up to 120 days for businesses or 365 days for individuals. Taxpayers wishing to make payments directly (without a service provider) must first enroll. Once the taxpayer's entity and bank account information has been verified, a Treasury Financial Agent will issue a welcome letter and Personal Identification Number (PIN). A self-selected Internet Password must be used to make payments on the Internet. Taxpayers are not charged any fees for tax payment transactions. In FY2004 over $1.6 trillion of taxes were paid through EFTPS. During this time, more than 73 million tax payments were made using this method including over 7 million Internet transactions. The Internet option was implemented in calendar year 2002. In FY 2004 all new Employer Identification Number (EIN) recipients were enrolled in EFTPS. The EFTPS transaction volume increased by 6% in FY 2004.

In FY2004 over $1.6 trillion of taxes were paid through EFTPS. During this time, more than 73 million tax payments were made using this method including over 7 million Internet transactions.

Individual taxpayers can e-file their balance due returns by computer, and at the same time, initiate a credit card payment to pay the balance due.

■ **Electronic Funds Withdrawal (Direct Debit):** Individual and business taxpayers can e-file their balance due returns, either by computer or phone, and, at the same time, authorize an electronic funds withdrawal (EFW) payment from a checking or savings account. Generally, payments can be scheduled for future withdrawal up to the return due date. Taxpayers are not charged any additional fees for tax payment transactions. In FY2004 over $1.5 billion of taxes were paid through the electronic funds withdrawal option. Participation has grown steadily and over 800,000 tax payments were made using this method, an increase of 24% compared to the prior year. With the exception of estimated taxes, electronic funds withdrawal payments apply to current tax year returns. Estimated taxes can be paid for the upcoming tax year. Taxpayers (including TeleFile users) can authorize an EFW payment while e-filing the following forms:

- Form 1040 (series), *Individual Income Tax Returns;*
- 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 U.S. Individual Income Tax Return;*
- Form 1040ES, *Estimated Tax for Individuals* (one estimated payment can be authorized at the time the return is e-filed);
- Form 941, *Employer's Quarter Federal Tax Return* (including Form 941PR, SS and C);
- Form 940, *Employer's Annual Federal Unemployment Tax* (FUTA) Return (includes Form 940PR);
- Form 1120/S/POL, *U.S. Corporation Income Tax Return;* and
- Form 1041, *U.S. Income Tax Return for Estates & Trusts.*

■ **Credit Card Payments:** Individual taxpayers can e-file their balance due returns by computer, and at the same time, initiate a credit card payment to pay the balance due. Individual taxpayers can also file on paper or electronically, and separately make a credit card payment by phone or Internet through an authorized credit card service provider. The service providers charge taxpayers a nominal convenience fee. In FY2004 nearly $900 million of taxes were paid by credit card. Participation continues to grow and over 950,000 tax payments were made using this method, an increase of over 70% compared to the prior year. Credit card payments can be applied to current year, the previous year, and, if the taxpayer has an Installment Agreement, other past due taxes. Estimated taxes can be paid for the upcoming year. Taxpayers can initiate a credit card payment

while e-filing Form 1040 (series), *Individual Income Tax Returns,* through tax software. Additionally, the following tax types can be paid with a credit card by phone or Internet through a credit card service provider:

- Form 1040 (series), Individual Income Tax Returns;
- Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return;
- Form 1040ES, Estimated Tax for Individuals; and,
- Installment Agreements.

IRS.GOV

To keep up with the expected proliferation of web services the IRS will need to continue to provide new and additional functionality for users of the IRS web site beyond what was initially provided.

The IRS has transitioned to a broader set of web services to satisfy growing customer expectations to be able to conduct all business with Government quickly and easily. In the future, the IRS will continue to rely heavily on the Internet to meet the needs and expectations of taxpayers and practitioners. To keep up with the expected proliferation of web services the IRS will need to continue to provide new and additional functionality for users of the IRS web site beyond what was initially provided. The IRS will further evolve the site by enhancing features and functions to assist customers. Additional features and functions will be identified, developed and refined as IRS continues to work to better understand business requirements and customer needs. As new technology evolves, new features will be added such as: enhanced search capabilities and presentation of results, tax applications and/or calculators of various type, enhanced globalization to present web content in various languages, enhanced accessibility features, streaming audio and video capability to provide workshops or instructions, enhanced design and layout of the site, and enhanced content management capabilities to keep content current. The IRS will continue to evolve the site based on understanding user needs through continued use of focus groups and expanded use of usability studies, and by working with stakeholders to identify and understand their business requirements.

- **Internet Refund/Fact of Filing (IRFOF):** In May 2002, a new application became available for taxpayer use to check their refund status on-line via the Internet. Known as the "Where's My Refund?" feature, the application allowed taxpayers to use the Internet to secure refund information rather than use the toll-free telephone system.

■ **Content Management Application for IRS Users:** In 2003, IRS.gov rolled out the Content Management Application for IRS users. The Content Management Application (CMA) tool allows all users from the business operating divisions and functional divisions to manage most of their own content on IRS.gov.

■ **Internet Refund Advanced Child Tax Credit (IRACTC):** This application was launched in July 2003 and provides taxpayers with information on the expected date and amount of the advance credit refund. In 2004, the application provided taxpayers the amount of the credit received in 2003.

■ **Internet Employer Identification Number (EIN):** In April, 2003, businesses were able to apply for an EIN using the new online EIN Application at IRS.gov. When a business applies, during the same online session, the new EIN will be returned and display on the Form SS-4, *Application for Employer I.D. Number.* The applicant will be able to print a copy for record keeping.

Modernization Initiatives

■ **Electronic Services,** also known as e-services, are web-based products that provide an electronic means for IRS customers to interact with the Service. The original electronic products developed were a means for customers to provide information to the IRS, either filing return data or payment data. e-services provide a means for two-way exchange of data. The first group of e-services to be rolled out were developed for third parties. Third parties may be electronic return originators, software developers, transmitters, service providers, tax practitioners, payers, and states, etc. As the IRS moves to its future state, more e-services products will be developed to meet the needs of the many customer segments. Eventually, the IRS envisions that all taxpayers will have the option of conducting their transactions electronically whether they are responding to a notice, have an account problem or want to get information from a past year return.

the IRS envisions that all taxpayers will have the option of conducting their transactions electronically whether they are responding to a notice, have an account problem or want to get information from a past year return.

The current development of e-Services products for third parties was rolled out in two releases.

- Release 1 included Registration, Preparer Tax Identification Number (PTIN) Application and Interactive Taxpayer Identification Number (TIN) Matching.
- Release 2 included e-file Application, Disclosure Authorization, Electronic Account Resolution, Transcript Delivery System and Bulk TIN Matching. Disclosure Authorization, Electronic Account Resolution and Transcript Delivery System are incentives available for authorized e-file providers who e-filed 100 or more individual returns.

Transacting business over the Internet allows practitioners to complete applications 24 hours a day and seven days a week.

Registration— the first online process a tax professional completes to begin conducting business with the IRS electronically. All tax professionals must register as individuals. Transacting business over the Internet allows practitioners to complete applications 24 hours a day and seven days a week. Registration enables subsequent access to e-services products in release 2 with approved application.

PTIN Application— is the online alternative to the paper Form W-7P, *Application for Preparer Tax Identification Number.* This automated system enables a preparer to request a new or replacement PTIN card and is quick, convenient, and easy to use.

Interactive TIN Matching— is a pre-filing service offered to payers of income subject to backup withholding. This e-service will only be available to payers who are entitled to the information by law. Payers can match the payee's Taxpayer Identification Number (TIN) and name combinations against the IRS records prior to submitting an information return. TINs include social security number, employer identification number, adoption taxpayer identification number, and individual taxpayer identification number.

On-Line e-file Application— the new online, integrated application to complete for participation in both individual and business IRS *e-file* programs. This on-line process permits users to update their records and supplements the paper Form 8633, *Application to Participate in IRS e-file Program* and Form 9041, *Application/Registration for Electronic/Magnetic Media Filing of Business Returns.*

Disclosure Authorization— allows for the electronic establishment of a disclosure (Power of Attorney or Tax Information Authorization) via secure Internet. Disclosure Authorization will also have the capability to update existing disclosures on the IRS' Centralized Authorization File (CAF).

Electronic Account Resolution— is a new method for improving the process of receiving and responding to account related inquiries (e.g., account problem, complex refunds, installment agreement, notice and payment tracers) from practitioners over the Internet. Practitioners are provided with immediate confirmation of receipt of inquiry and have the capability to make follow-up requests.

Transcript Delivery System— will provide secure, online transmission of return and return information (e.g., account transcripts, return transcripts, records of account, wage and income documents and verification of non-filing letters) in professional, standardized formats to authorized users (e.g., tax practitioners).

Bulk Taxpayer Identification Number (TIN) Matching— is a new service to payers that allows for the matching of up to 100,000 TIN and name combinations. This e-service will only be available to payers that are entitled to the information by law. TINs include social security number, employer identification number, adoption taxpayer identification number, and individual taxpayer identification number.

■ **Modernized e-File System:** The Modernized e-File (MeF) system is the future of electronic filing. The MeF developed the modernized web-based platform for filing approximately 330 IRS forms electronically, beginning with the Forms 1120, *U.S. Corporation Income Tax Return,* 1120S, *U.S. Income Tax Return for an S Corporation*, 990, *Return of Organization Exempt From Income Tax,* 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, 1120-POL, *U.S. Income Tax Return for Certain Political Organizations*, and 8868, *Application for Extension of Time To File an Exempt Organization Return.* The project serves to streamline filing processes and reduce the costs associated with the paper-based IRS. The MeF project provides for the filing of tax and information returns electronically through the Electronic Management System (EMS) and the Internet via registered transmitters and electronic return originators and makes important improvements in filing and processing efficiency through system-wide integration and standardization.

The ultimate goal is to replace the current e-file system's outdated technology with a Modernized e-File system and provide a Modernized e-Filing platform on which any IRS form can be deployed.

The first release on the MeF system was rolled out in February 2004 and included Forms 1120, 1120S, 990, 990-EZ, 1120-POL, and 8868. Working with industry leaders to develop and implement an 1120 and 990 e-file program using Extensible Mark Up Language (XML), the IRS has partnered with software developers and preparer organizations to ensure we consider their input when we designed the system. We had teams looking at impediments to e-file forms, schedules, and other attachments to minimize impact now and in the future. The ultimate goal is to replace the current e-file system's outdated technology with a Modernized e-File system and provide a Modernized e-Filing platform on which any IRS form can be deployed. This will allow for the retirement of current production environment (CPE) systems and non-modernized projects. The MeF infrastructure is the first IRS project to use an XML based system to receive returns over the Internet. The XML-based system will provide a standard for filing electronic tax and information returns with the IRS that will also support state tax forms as part of a robust Fed/State e-File program. Multiple tax return types can be submitted in the same transmission, which cannot be performed currently.

Relationship to Other E-Government Initiatives

The President's E-Government Agenda

The President's Management Council announced, through the Office of Management and Budget (OMB), the establishment of 24 initiatives that will expand e-services within the federal government. These initiatives are designed to improve services from Government-to-Government (G2G), Government to Citizens (G2C) and Government to Businesses (G2B). Each initiative, developed by OMB's QuickSilver Task Force, was assigned to an agency to serve as the managing partner. Two of the QuickSilver initiatives were assigned to the Department of the Treasury and IRS: EZ Tax Filing (now known as Free File) and Expanding Electronic Tax Products for Businesses.

The objective of the Free File Initiative (G2C) is to decrease the tax preparation and filing burden of wage earners by providing greater access to free online tax preparation and filing options for a significant number of taxpayers. This was accomplished through the formation of a partnership between the IRS and the tax software industry (i.e., Free File Alliance, LLC) wherein participating companies offered free online tax preparation and e-filing services to certain segments of the taxpayer population. The Free File project was successfully launched during the 2003 filing season and was again made available to taxpayers in 2004.

The objective of the Expanding Electronic Tax Products for Businesses initiative (G2B) is to reduce the tax-reporting burden on businesses while improving the efficiency and effectiveness of government operations. The initiative, comprised of seven projects (some already successfully deployed in 2003 such as the Forms 94x, Internet EIN project(s)), will deliver benefits by reducing the number of tax-related forms that businesses must file, providing timely and accurate tax information to businesses, increasing the availability of electronic tax filing, and modeling simplified federal and state tax employment laws.

The Government Paperwork Elimination Act (GPEA)

GPEA requires Federal agencies to allow individuals or entities that deal with them to conduct their business electronically, when practicable.

The Government Paperwork Elimination Act (GPEA) was signed into law on October 21, 1998. GPEA requires Federal agencies to allow individuals or entities that deal with them to conduct their business electronically, when practicable. Agencies are required to provide a means for citizens and businesses to submit information electronically and to communicate with the agency electronically. The Act also requires agencies to maintain records electronically, when practicable. In addition to encouraging electronic products and services, GPEA also aims to ensure that electronic documents are treated equally to those on paper. Electronic records and their related electronic signatures are not to be denied legal effect, validity, or enforceability merely because they are in electronic form. The Act encourages Federal government to use a range of electronic signature alternatives. The IRS goals and key strategies are very much in line with the goals of GPEA.

In addition to encouraging electronic products and services, GPEA also aims to ensure that electronic documents are treated equally to those on paper.

MEASURES

Measures have been developed for electronic tax administration programs by the Business Operating Divisions as part of the current IRS Strategic Planning and Budget process. Those measures are being provided in this appendix. The IRS Servicewide E-Strategy provides the Services key strategies and goals for electronic tax administration and outlines the specific initiatives that are planned to accomplish the goals. The measures listed will be used to gauge the results achieved from the actions outlined. These measures support the IRS Balanced Measure approach of assessing performance in achieving IRS's mission, goals and objectives. The IRS has put in place a Balanced Measures system to support accomplishing its three strategic goals of achieving:

- Top-quality service to each taxpayer in every interaction,
- Top-quality service to all taxpayers through fair and uniform application of the law, and
- Productivity through a quality work environment.

	FY 2003 Full Year Actual	FY 2004 Full Year Target	FY 2005 Full Year Target	FY 2006 Full Year target
Percent of Individual Returns Filed Electronically	40.3%	44.8%	51%	55.2%
Number of Individual 1040 Returns Filed Electronically (m)	52.9	59.0	68.1	74.8
Number of Business Returns Filed Electronically (000s)	6,745	7,009	7,574	8,093
Number of 1041 Returns Filed Electronically (000s)	1,297	1,411	1,485	1,560
Number of 1065 Returns Filed Electronically (000s)	48	84	130	186
Number of 940 Returns Filed Electronically (000s)	815	852	912	973
Number of 941 Returns Filed Electronically (000s)	4,408	4,662	5,047	5,374
Number of 1120 Returns Filed Electronically (000s)	N/A	120,400	186,600	331,900
Number of 990 Returns Filed Electronically (000s)	N/A	500	13,600	19,100
Percentage of Information Returns Filed Electronically (000s)	35.9%	38.8%	42.2%	45.6%
Number of Information Returns Filed Electronically (000s)	409,652	475,330	541,687	611.286
Percentage of Payments Received Electronically	33.3%	35%	39%	43%
Number of Electronic Funds Withdrawal/ Credit Card Transactions (000s)	1,233	1,784	1,830	2,101
Number of Electronic Federal Tax Payment System Transactions (000s)	67,289	72,572	72,995	75,253
Number of Hits to IRS.gov Website (b)	4.3	5.7	7.4	9.6
Number of Downloads from IRS.gov (m)	560	739	961	1,249

IRS *e-file* Projections for Calendar Years 2004-2010

The following charts represent the official IRS projections for electronically filed individual and business returns as developed by the professional forecasters under the Director, Office of Research, Analysis, and Statistics. The projections reflect impacts of administrative and legislative changes, but only to the extent that they have been approved. For the Individual Electronic Filing Program projections, two major initiatives that are expected to increase e-file volumes were taken into account when completing the projections. The two initiatives were the Free File project, a private industry consortium that offers free e-filing to qualified taxpayers, and the suite of e-services developed for the third party community and implemented as an incentive program for tax practitioners to file returns electronically.

The projections in this appendix do not reflect the full impact of all of the initiatives contained in the E-Strategy. At this time the IRS does not have sufficient information to make reasonable projections for many of the future initiatives. The following forecast information is also available on the IRS's web site along with more detailed projection information. The site can be reached at www.irs.gov. Select the "Tax Stats" option, and then the "Projections" option (under the Statistical Publications heading).

The following tables are included:

Table 1: Calendar Year Projections of the Percentage of Individual Returns to be Filed Electronically 2004-2010 for the United States (in millions), illustrates the anticipated annual growth in IRS e-file returns as a percentage of total returns.

Table 2: Calendar Year Projections of Electronically Filed Individual Returns to be Filed 2004-2010 for the United States (in millions), provides a projected range of electronic filing volumes for each year for each e-file program.

Table 3: Calendar Year Projections of Electronically Filed Payroll Tax Returns to be Filed 2004-2010 for the United States, includes volumes of Forms 940 and 941 filed via magnetic tape and electronically.

Table 4: Calendar Year Projections of Electronically Filed Other Business Tax Returns to be Filed 2004-2010 for the United States, includes volumes of Forms 1065 and 1041 and Schedules K-1 for Forms 1065 and 1041.

Table 5: Calendar Year Projections of Electronically Filed Information Returns to be Filed 2004-2010 for the United States (in millions) via magnetic tape and electronically.

Table 1

Calendar Year Projections of the Percentage of Individual Returns to be Filed Electronically 2004-2010 for the United States

(In millions)

Calendar Year	Total Individual Returns	Total e-file Returns	e-file % of Total
2003 Actual	130.1	52.9	40.7%
2004	130.9	59.8	45.7%
2005	133.3	66.7	50.0%
2006	135.5	73.3	54.1%
2007	137.3	79.2	57.7%
2008	139.0	84.2	60.6%
2009	140.5	88.6	63.1%
2010	141.9	92.4	65.1%

Table 2

Calendar Year Projections of Electronically Filed Individual Returns to be Filed 2004-2010 for the United States

(in millions)

Calendar Year	TeleFile	On-Line Filing	Practitioner e-file	Total Individual e-file
2003 Actual	4.0	12.0	36.9	52.9
2004	4.0	14.5	41.3	59.8
2005	3.9	17.2	45.6	66.7
2006	3.9	19.6	49.8	73.3
2007	3.8	21.6	53.8	79.2
2008	3.8	22.9	57.5	84.2
2009	3.8	23.8	61.0	88.6
2010	3.8	24.5	64.1	92.4

Note: Detail may not add to total due to rounding.

Table 3

Calendar Year Projections of Electronically Filed Payroll Tax Returns to be Filed 2004-2010 for the United States

Calendar Year	Total*	Electronic**	Magnetic Media	Magnetic Electronic % of Total	Media % of Total
Forms 941					
2003 Actual	23,530,197	3,548,083	570,267	15.1%	2.4%
2004	23,914,100	4,673,900	241,500	19.5%	1.0%
2005	24,042,200	5,174,900	n.a.	21.5%	n.a.
2006	24,140,500	5,442,400	n.a.	22.5%	n.a.
2007	24,269,500	5,719,100	n.a.	23.6%	n.a.
2008	24,411,500	6,001,700	n.a.	24.6%	n.a.
2009	24,553,900	6,287,300	n.a.	25.6%	n.a.
2010	24,709,500	6,579,400	n.a.	26.6%	n.a.
Forms 940					
2003 Actual	5,705,572	357,857	462,016	6.3%	8.1%
2004	5,671,100	368,600	482,800	6.5%	8.5%
2005	5,695,900	912,300	n.a.	16.0%	n.a.
2006	5,719,900	973,300	n.a.	17.0%	n.a.
2007	5,744,500	1,034,700	n.a.	18.0%	n.a.
2008	5,770,200	1,096,300	n.a.	19.0%	n.a.
2009	5,795,600	1,158,200	n.a.	20.0%	n.a.
2010	5,820,700	1,220,400	n.a.	21.0%	n.a.

*Total includes both paper and electronic returns

**Electronic includes e-file, TeleFile and On-Line and XML for Forms 941; e-file, On-Line and XML for Forms 940.

Table 4

Calendar Year Projections of Electronically Filed Other Business Tax Returns to be Filed 2004-2010 for the United States

Form	Calendar Year	Total	Electronic	Electronic % of Total
1065	2003 Actual	2,376,800	48,948	2.1%
	2004	2,480,300	87,900	3.5%
	2005	2,582,100	135,000	5.2%
	2006	2,682,300	192,600	7.2%
	2007	2,781,000	260,700	9.4%
	2008	2,878,200	339,300	11.8%
	2009	2,973,800	428,300	14.4%
	2010	3,067,900	527,700	17.2%
1041*	2003 Actual	3,794,000	1,299,359	34.2%
	2004	3,846,900	1,410,500	36.7%
	2005	3,924,700	1,485,300	37.8%
	2006	4,002,400	1,560,400	39.0%
	2007	4,080,100	1,635,800	40.1%
	2008	4,157,900	1,711,700	41.2%
	2009	4,235,600	1,788,200	42.2%
	2010	4,313,400	1,865,300	43.2%
Schedule K-1** (1065)	2003 Actual	14,378,100	4,193,269	29.2%
	2004	14,450,300	5,553,100	38.4%
	2005	14,522,900	6,231,900	42.9%
	2006	14,595,900	6,869,700	47.1%
	2007	14,669,200	7,469,500	50.9%
	2008	14,742,800	8,033,700	54.5%
	2009	14,816,900	8,564,900	57.8%
	2010	14,891,300	9,065,300	60.9%
Schedule K-1** (1041)	2003 Actual	4,144,200	1,973,495	47.6%
	2004	4,167,400	1,879,200	45.1%
	2005	4,190,700	1,978,900	47.2%
	2006	4,213,900	2,078,800	49.3%
	2007	4,237,100	2,179,300	51.4%
	2008	4,260,400	2,280,500	53.5%
	2009	4,283,600	2,382,300	55.6%
	2010	4,306,800	2,485,000	57.7%

*Includes Magnetic Tape.

**Includes Magnetic Tape and Diskette Filing.

Table 5

Calendar Year Projections of Electronically Filed Information Returns to be Filed 2004-2010 for the United States

(in millions)

Calendar Year	Total*	Total Electronic	Total Media	Magnetic Electronic % of Total	Media % of Total
2003 Actual	1,473	410	964	27.8%	65.4%
2004	1,528	475	992	31.1%	64.9%
2005	1,596	542	995	34.0%	62.3%
2006	1,658	611	989	36.9%	59.7%
2007	1,715	684	976	39.9%	56.9%
2008	1,775	763	959	43.0%	54.0%
2009	1,842	849	941	46.1%	51.1%
2010	1,912	943	919	49.3%	48.1%

*Includes all media

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