

**Federation of Tax Administrators  
Survey on Electronic Filing Mandates**

**IRS Electronic Tax Administration Advisory Committee  
May 10, 2004**

**Income Tax Mandates**

1. We identified five states that impose a mandate for the electronic filing of individual income tax returns on certain tax practitioners – California, Michigan, Minnesota, Oklahoma and Wisconsin. We received information from all but Michigan.
2. The mandate is imposed on practitioners filing 100 or more individual income tax returns in the prior year (50 in Oklahoma). It was imposed by statutory enactment in California, Minnesota and Oklahoma and under a grant of general authority in Michigan and Wisconsin.
3. Complete data are not available, but it appears that the mandate applies to about 25 percent to 35 percent of the practitioners in the state.
4. States are 50-50 in terms of the breadth of the mandate. California and Minnesota apply it to all types of returns filed. Oklahoma and Wisconsin apply it to full-year resident returns.
5. All states allow the individual taxpayer to “opt-out” of the e-filing without penalty to the taxpayer or practitioner (except for a \$5 processing fee in Minnesota.) Most also allow the preparer to cite other reasons for a “reasonable cause” waiver of the mandate.
6. California and Michigan have authority to impose penalty for filing by other than electronic means. Others do not appear to have such authority.
7. Issues raised during the implementation of the mandate include: (a) the 4-5 months lead time was insufficient for those that did not previously electronically file; (b) lack of Internet access – either “always on” or dial-up for some practitioners; (c) change in business operations required only to meet mandate.
8. There has been little reported negative reaction from taxpayers. Issue of whether the state should provide a free filing option was raised in one state.
9. State tax agencies indicate that only through extensive outreach and communication efforts to work with practitioners, explain what is being done and why and to exhibit flexibility in working with the practitioner community can the mandate be effectively and smoothly implemented.

**Sales Tax Mandates**

1. We received information from nine states regarding a mandated sales tax electronic filing program – Alabama, Florida, Massachusetts, Minnesota, Missouri, Oklahoma, Tennessee, Texas and Wisconsin.

2. Generally, the mandates are established for sales taxpayers whose monthly remittance exceeds some specified level. In most cases, the level is set rather high – so as to cover 5 percent to 15 percent of the filing population. In others – Minnesota, Alabama and Oklahoma – the mandate is universal or applies to most taxpayers.
3. Six states imposed the mandate by specific legislation, and three did so under a general grant of authority.
4. Several states had “voluntary” electronic filing programs in which fewer than 5 percent of the taxpayers participated.
5. States generally offer taxpayers a variety of options for accomplishing the electronic filing – Web-based programs operated by the state, Telefile applications, state-provided software, and approved private vendor software. Availability of options is critical depending on nature of the sales tax return and filing population.
6. Distribution among types of filing options depends on nature of the return, age and genesis of the program and availability of options. Simple returns with new programs tend to be heavily Web-based; older programs with more complex returns tend to have higher level of vendor-approved software transmissions.
7. Issues raised with the states include: (a) lack of access to Internet and computing resources; (2) E-filing is not easier for some taxpayers and really results in a shift of workload from state to taxpayer; and (3) State should be certain to include a site that allows the taxpayer to file without paying an intermediary for software. States have the ability to issue reasonable cause exceptions.
8. States indicate that extensive outreach and customer support are necessary to ease implementation of the mandate.