

**Handbook
for Electronic Return Originators
of Individual Income Tax Returns**

Publication 1345 (Rev. 10-98)

Advance Copy

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Chapter 1 - Must Read Information

ATTENTION ALL ELECTRONIC RETURN ORIGINATORS (EROs)!

This is the first major revision to this publication in many years. The most noteworthy change is that this publication will no longer be issued every year, so **DON'T THROW THIS BOOK AWAY AT THE END OF THE FILING SEASON!** The IRS will update this publication when needed, probably in about three years. If you are still an ERO in good standing, the IRS will automatically send you a new publication.

The second important change is streamlining the information specifically for EROs who have been accepted into the IRS *e-file* program. (If you have not applied to become an ERO, you should contact the IRS Electronic Tax Administration (ETA) Coordinator for your state and ask for Publication 3112, *The IRS e-file Application Package*. See "Who is my ETA Coordinator?" below.) Past Publications 1345 often duplicated information contained in other IRS publications that did not apply to EROs. Because we eliminated the duplicated material, EROs will no longer have to wade through pages and pages of information to find the answers they seek. In addition, the content is rearranged to mirror the IRS *e-file* process. This should simplify research considerably.

The revenue procedure that governs the IRS *e-file* program has changed as well. It, too, will no longer be issued annually. Future revenue procedures will be issued only when there are significant changes to the IRS *e-file* program. For your convenience, Appendix II contains the full text of Revenue Procedure 98-50, *Requirements of Participants in the IRS e-file Program for Form 1040, U.S. Individual Income Tax Return*. For more information about the revenue procedure, see "The Revenue Procedure and Other Important Documents" on page 3.

Finally, if you are not participating in the **Federal/State e-file** Program, you are missing a golden business opportunity to offer your clients and customers the benefits and convenience of filing both federal and state income tax returns electronically. You cannot offer this option unless you have applied and been accepted. Don't miss out! Apply now. See the "Federal/State *e-file*" section on page 3.

WHERE TO GET ADDITIONAL INFORMATION

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

Who is my ETA coordinator?

- By phone: call 1-800-691-1894 (toll-free)
- Via the Internet, contact the IRS "Digital Daily" web page: <http://www.irs.ustreas.gov>

Name: _____ Phone: _____
E-mail: _____ Fax: _____

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

- Via the Internet, contact the IRS “Digital Daily” web page: <http://www.irs.ustreas.gov>

Also ask your ETA coordinator about newsletters and other publications that are available by mail.

I’m an ERO who would like to transmit my own returns. What do I need to do?

See Appendix I on page 26.

How does the IRS keep EROs informed of operational issues?

All important operations information is posted to the Electronic Filing Bulletin Board at 606-292-0137 (not toll free).

If I get correspondence from the IRS, whom can I call for more information?

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

Where can I find telephone numbers and addresses for other IRS services?

- Via the Internet, contact the IRS “Digital Daily” web page: <http://www.irs.ustreas.gov>
- Each tax package from the IRS contains numbers for tax help, forms and publications. Because some addresses and telephone numbers change each year, refer to the current year’s package for the most up-to-date information.

What is the TeleTax number I must give taxpayers so they can inquire about the status of their tax refunds?

1-800-829-4477 (toll-free).

Where can I report fraud or suspicious activity I observe?

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

Where can I get information about submitting additional applications or obtaining fingerprint cards?

By phone: call 1-800-691-1894 (toll-free).

My software doesn’t work, what should I do?

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

THE REVENUE PROCEDURE AND OTHER IMPORTANT DOCUMENTS

The current **revenue procedure** is found in Appendix II. The revenue procedure specifies the requirements for being an Authorized IRS *e-file* Provider, of which there are four types: Electronic Return Originators, Transmitters, Service Bureaus and Software Developers. The revenue procedure is the official set of rules that governs the IRS *e-file* program. The IRS monitors Authorized IRS *e-file* Providers' performance against the standards, responsibilities and procedures specified in the revenue procedure.

Prior to 1998, the revenue procedure was updated and issued annually. Beginning in 1998, the revenue procedure will be updated only on an as-needed basis. We will publicize to Authorized IRS *e-file* Providers when the revenue procedure changes, probably in two to three years.

Publication 1345 contains information useful to EROs who have been accepted into the IRS *e-file* program. Publication 1345 supplements the revenue procedure but does not supersede it, so please read the revenue procedure and become familiar with its contents.

Over the next several years, the IRS will conduct a number of **pilot programs** looking for ways to improve and simplify the IRS *e-file* program. Each pilot program is usually conducted within a limited geographic area or within a limited taxpayer or practitioner community. The rules for pilot programs are contained in **implementing documents** typically referred to as "Memoranda of Understanding" (MOU) or "Memoranda of Agreement" (MOA). If you are part of a pilot program, the implementing document has the same force as the revenue procedure. See the revenue procedure in Appendix II for more information.

FEDERAL/STATE *e-file*

Federal/State *e-file* is a cooperative tax filing program between the IRS and participating states. The program allows EROs to file both federal and state returns electronically for clients and customers. Because more and more taxpayers are choosing electronic filing, EROs who offer the most attractive array of services will be the most competitive. Taxpayers appreciate the benefits of one stop filing of all their income tax returns. Add to that quicker refunds, confirmed proof of filing and in many cases, "file now, pay later" options, Federal/State *e-file* positions your firm as a leader in comprehensive, front-line tax service.

Becoming a Federal/State ERO is very similar to the process you went through to become an IRS *e-file* ERO. There are five steps:

- Step 1 Contact your ETA coordinator for information about the Federal/State *e-file* program;
- Step 2 Contact each state coordinator for the state programs in which you will be participating; they will explain the state rules and requirements;
- Step 3 Choose the software and transmission options that work best for you;
- Step 4 Send a letter (see "Revisions by Letter" on page 23) requesting the Federal/State *e-file* option (you may also need to designate additional

service centers to which you will be sending Federal/State *e-file* returns);
and,

Step 5 Complete the application requirements for each state program.

If you plan to transmit electronic return data yourself, you will have to pass PATS testing each year. (See Appendix I on page 26 for information on PATS testing.)

Chapter 2 - The IRS *e-file* Process from Start to Finish

DEFINING THE ERO

As the title suggests, the electronic return originator or ERO is the person or firm that the taxpayer entrusts with tax information for the purpose of filing income tax returns electronically in the IRS *e-file* program. This includes both federal and, where applicable, state returns. This doesn't mean that the ERO has to actually enter the data into a computer (although most do) or transmit the data to the IRS. What it does mean is that if you or your firm represent your business as taking return information from taxpayers and the final result will be that it is IRS *e-filed*, you are an ERO. You must have submitted a Form 8633, been accepted into the program, received an Electronic Filing Identification Number (EFIN) and received credentials (see page 21) for the filing season.

The rules governing EROs in the IRS *e-file* program are contained in the revenue procedure (see Appendix II).

OBTAINING, HANDLING AND PROCESSING TAX INFORMATION FROM TAXPAYERS

EROs obtain tax information from taxpayers in a number of ways. The circumstances surrounding these interactions--the different ways EROs handle and process tax information--may subject EROs to different responsibilities and restrictions, depending on the way they do business. The following describe business situations common to EROs.

Electronic Return Preparers are EROs who prepare tax returns from data obtained from taxpayers. Electronic return preparers may compute the tax themselves, use tax preparation software, or contract with third parties who will compute the tax. If the ERO uses a third party, the third party must be accepted by the IRS as a service bureau (see page 6). Service bureaus have credentials and their Service Bureau Identification Number (SBIN) must be entered in the electronic return data that is transmitted to the IRS.

Electronic Return Collectors are EROs who obtain already completed tax returns directly from taxpayers who wish to have their returns IRS *e-filed*. The key is that the returns must come directly from taxpayers. If the returns are obtained from another electronic return collector, the ERO is functioning as a service bureau (see page 6) and needs an SBIN. (See "Revisions by Letter" on page 23 for information about obtaining an SBIN.) If taxpayers have returns prepared by paid or unpaid preparers but take the finished returns to electronic return collectors, the electronic return collectors are not considered service bureaus, because the returns were collected directly from taxpayers.

Drop-off Collection Points are physical locations associated with EROs for the sole purpose of collecting already completed tax returns or return information directly from taxpayers who wish to have their returns IRS *e-filed*. EROs must clearly display their names at each Drop-off Collection Point so that taxpayers know exactly whom to contact about their returns. No data gathering, return preparation, return modification or IRS *e-file* origination is permitted at these locations. Each Drop-off Collection Point must have its own Collection Point Identification Number (CPIN) that is associated with the ERO's EFIN. An ERO may have multiple CPINs associated with its EFIN. EROs are responsible for all activity at their Drop-off Collection Points.

Service Bureaus receive tax return information on any media from EROs, format the return information and either forward the return information to transmitters or send the return information back to the EROs. EROs that want to offer these services to other EROs must apply to be a Service Bureau and obtain a Service Bureau Identification Number (SBIN). (See "Revisions by Letter" on page 23.)

WHAT'S THE DIFFERENCE BETWEEN AN ELECTRONIC RETURN PREPARER AND AN ELECTRONIC RETURN COLLECTOR?

Both are considered to be EROs because both are responsible for the entry of return data into the IRS *e-file* system. The difference is that electronic return preparers prepare taxpayers' returns from information supplied by taxpayers while electronic return collectors simply enter the return data from already completed returns. However, electronic return collectors become electronic return preparers when, as a result of entering the data, they discover errors that require substantive changes and make the changes. Substantive changes are defined in the revenue procedure as changes of more than \$25 to "Total income" or changes of more than \$7 to "Total tax," "Federal income tax withheld," "Refund" or "Amount you owe."

WHAT'S THE DIFFERENCE BETWEEN BEING AN ELECTRONIC RETURN COLLECTOR AND HAVING DROP-OFF COLLECTION POINTS?

The key is whether IRS *e-file* origination occurs at the place where the return is collected. At Drop-off Collection Points no data gathering, return preparation, return modification or IRS *e-file* origination may occur. The returns or information must be transported (faxing is okay) to the office of the ERO to complete the IRS *e-file* process. Drop-off Collection Points may be staffed or unstaffed, for example, a secure drop box. If staffed, the person may collect the fee and ensure that everything is properly signed. All other actions change the business character of the location to that of an electronic return preparer or electronic return collector. This means that the ERO must apply for and receive an EFIN for that location (see "Adding New Business Locations" on page 24).

SAFEGUARDING THE IRS *e-file* PROGRAM FROM ABUSE AND FRAUD

All Authorized IRS *e-file* Providers must be diligent in recognizing and preventing fraud and abuse in the IRS *e-file* program. Neither EROs nor the IRS benefit when the integrity and reputation of the IRS *e-file* program is tarnished by fraud or allegations of abuse. EROs with problems involving fraud and abuse may be suspended from the IRS *e-file* program, be assessed civil and preparer penalties or be subject to legal action.

Confirming the identities and Taxpayer Identification Numbers (TIN)--Social Security Numbers (SSN), Employer Identification Numbers (EIN), Adopted Taxpayer Identification Numbers (ATIN), and Individual Taxpayer Identification Numbers (ITIN)--of the taxpayers, spouses and the dependents listed on returns should be the cornerstone of any prevention program. Ask taxpayers to provide two forms of identification (picture IDs are preferable) that include the taxpayer's name and current address. Keep copies of these IDs with the other information that the revenue procedure requires that you maintain. Also ask taxpayers for Social Security cards and other documents to avoid the inclusion of incorrect TINs for taxpayers, spouses and dependents on tax returns. Care should be taken to ensure that all TINs are transcribed correctly. Incorrect TINs, using the same TIN on more than one return or having the wrong name associated with a TIN cause, by far, the largest number of returns to reject (see "Acknowledgments of Transmitted Return Data" on page 15) in the IRS *e-file* program.

EROs should be on the lookout for false Forms W-2 and forged and fabricated documents. Always enter the "non-standard form" code when you discover Forms W-2 that are altered, handwritten or typewritten (as opposed to computer prepared or generated). Cumulative earning statements presented in the place of Forms W-2 or substitute Forms W-2 are also considered "non-standard forms".

The Earned Income Tax Credit (EITC) is a popular target for fraud and abuse schemes. Section 6695(g) of the Internal Revenue Code requires paid preparers (see "Who is the Paid Preparer?" on page 11) to exercise due diligence in the preparation of returns involving EITC. Be sure to complete all required worksheets and meet all record keeping requirements.

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

WHAT IS A "RETURN" FILED IN THE IRS *e-file* PROGRAM?

A "return" filed in the IRS *e-file* program consists of electronically transmitted data and certain paper documents. The paper portion of the return consists of Form 8453, *U.S. Individual Income Tax Declaration for an IRS e-file Return*, and other paper documents that cannot be electronically transmitted. Form 8453 must be received by the IRS before the return is considered filed. IRS *e-file* returns have the exact same reporting requirements as paper returns. This means that all the information, forms, schedules, supporting documentation and signatures that would be included with a return filed on paper must be contained in either the electronic return data or on the Form 8453 and the accompanying attachments.

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

RETURNS NOT ELIGIBLE FOR THE IRS *e-file* PROGRAM

The following describe returns and return conditions that are not processable by the IRS *e-file* program:

- Other than current year tax returns
- Tax returns with fiscal year tax periods
- Tax returns with foreign addresses (APO and FPO are not considered foreign addresses)
- Amended tax returns
- Tax returns for decedents
- Married Filing Separate returns in community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, Wisconsin)
Exception: Married Filing Separate returns with Military Indicators for stateside addresses may be filed from community property states
- Returns containing forms or schedules not processable by IRS *e-file* (Publication 1345A, *Filing Season Supplement for Electronic Return Originators*, published in December of each year contains a list of accepted forms and schedules for the current tax year)
- Tax returns with Taxpayer Identification Numbers within the range of 900-00-0000 through 999-99-9999 except ATINs and ITINs which have the following characteristics:
 - The fourth and fifth digits of valid ATINs are 93
 - The fourth and fifth digits of valid ITINs are 70 through 80

Tax returns with rare or unusual processing conditions or that exceed the specifications for returns allowable in the IRS *e-file* program cannot be processed electronically. These conditions change from year to year. The software should alert you to these conditions when they occur. If electronic return data with one of these conditions is transmitted to the IRS, it will reject and the tax return must then be filed on paper. For specific information, refer to the annual documentation for the software package or contact the software's support operation.

In addition, the IRS *e-file* program does not accept returns after October 15 unless October 15 falls on a Saturday, Sunday or legal holiday. In that case, electronic return data may be transmitted until the next succeeding day that is not a Saturday, Sunday or legal holiday.

CREATING THE ELECTRONIC DATA PORTION OF THE RETURN

EROs have a wide range of options for creating and transmitting the electronic data portion of the taxpayer's return. These options range from preparing returns,

converting the information to meet IRS *e-file* data specifications using approved software, and transmitting the data directly to the IRS, to using other Authorized IRS *e-file* Providers for some, most or all of these steps. No matter which business configuration you use, EROs must ensure that the electronic return data that is transmitted to the IRS is accurate and complete based on the information provided by taxpayers. This applies regardless of how information is obtained from taxpayers.

BE CAREFUL WITH ADDRESSES

Many software packages automatically insert the taxpayer's current home address throughout the return when forms or schedules require an address. This feature is intended to be a time saver, but in some instances, that address is not correct for a particular form or schedule. In the case of Forms W-2, W-2G and 1099-R, EROs must ensure that the addresses in the electronic return data match the addresses on the paper Forms W-2, W-2G and 1099-R supplied by taxpayers, even if the addresses are old or the taxpayers have moved. The address on Schedules C or C-EZ may also be different from the taxpayer's current home address.

If taxpayers choose to use addresses other than their home address on returns, EROs must inform taxpayers that the address in the electronic return data, once processed by the IRS, will be used to update the taxpayer's address-of-record. The IRS uses a taxpayer's address-of-record for various notices that are required to be sent to a taxpayer's "last known address" under the Internal Revenue Code, and for refunds of overpayments of tax (unless otherwise specifically directed by taxpayers, such as by Direct Deposit).

Finally, EROs must never put their addresses in fields reserved for taxpayers' addresses in the electronic data record or the Form 8453.

ASSEMBLING THE PAPER PORTION OF THE RETURN

Note: Form 8453 changes every year. A copy of the current form and instructions can be found in the current Publication 1345A

Form 8453, *U.S. Individual Income Tax Declaration for an IRS e-file Return*, is the form used by taxpayers to sign IRS *e-file* returns. Tax return preparers and EROs must also sign Forms 8453. Paper forms--including all Forms W-2, W-2G, and 1099-R--and supporting documents--for example, Forms 2120, *Multiple Support Agreement*--that are not included in the electronic return data must be attached to Forms 8453 to complete IRS *e-file* returns. Remember that the revenue procedure requires that IRS *e-file* returns contain all the same information as returns filed completely on paper. EROs are responsible for ensuring that all paper documents required to complete the filing of returns are attached to Forms 8453. See the instructions on the back of Form 8453 when completing the form.

State income tax returns in the Federal/State *e-file* program often require that paper documents be prepared and forwarded to state tax administration agency. Be sure to follow each state's rules when state income tax returns are prepared.

RECONCILING THE ELECTRONIC DATA WITH FORM 8453

Before electronic return data is transmitted to the IRS, both EROs and taxpayers must review the electronic return data and reconcile it with Form 8453. Check to see if the name(s), address and social security number(s) are correct and identical. In addition, Form 8453 must match five data fields from taxpayers' electronic return data (some of these amounts may be zero): 1) "Total income;" 2) "Total tax;" 3) "Federal income tax withheld;" 4) "Refund;" and, 5) "Amount you owe." EROs should compare these items to ensure that they are identical (excluding cents). EROs are also responsible for securing all the needed signatures for Forms 8453 (but see exception for certain paid preparers under "Who Must Sign Form 8453?" below).

Once EROs reconcile, taxpayers must do the same. Taxpayers must compare the name(s), address, social security number(s) and the electronic return data to the Form 8453. Taxpayers may review the electronic return data on the ERO's computer monitor or on a paper printout. Once taxpayers are satisfied that everything is correct, they must sign the appropriate declaration section of Form 8453.

If taxpayers also file state income tax returns in the Federal/State *e-file* program, EROs must also follow the rules that apply to signing or authenticating returns and obtaining and sending the required paper documents to state income tax administration agencies.

WHO MUST SIGN FORM 8453?

Before electronic return data is transmitted, the Form 8453 must be completed and signed by the following:

Taxpayer(s) - The taxpayer, and spouse in the case of a joint return, must sign and date the "Declaration of Taxpayer" section and check the correct box after thoroughly reading the declaration.

ERO - The ERO of the return must sign and complete all the requested information in the "Declaration of Electronic Return Originator (ERO) and Paid Preparer" section after thoroughly reading the declaration. EROs may authorize members of their firms or designated employees to sign for them, but EROs are still responsible for all IRS *e-file* returns submitted by their firm. EROs do not have to disclose their social security numbers or employer identification numbers on the copies they supply to taxpayers.

Paid Preparer - Every return prepared for a fee has a paid preparer (see "Who Is the Paid Preparer?" below) who must sign and complete the "Paid Preparer" section. If the paid preparer signs as or for the ERO, the paid preparer may mark the "Check if also paid preparer" box instead of completing the "Paid Preparer" section. Paid preparers do not have to disclose their social security numbers or employer identification numbers on the copies they supply to taxpayers. If the ERO obtains from a taxpayer a return already prepared by a paid preparer, but the paid

preparer did not sign Form 8453, the ERO must attach to the Form 8453, a photocopy of pages 1 and 2 of Form 1040, 1040A or 1040EZ that contains the paid preparer's signature. Write, "**COPY--DO NOT PROCESS**" on both pages.

Volunteer Program Sponsor - Unpaid preparers in IRS-Sponsored IRS *e-file* programs including Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), Self-Help and Outreach Programs, and "walk-in" assistance programs in district offices, local offices and service centers must identify themselves or the volunteer program on Forms 8453. Sponsors are not required to sign Forms 8453 as EROs but may do so. Sponsors that choose not to sign as EROs must include in the ERO declaration the volunteer program's name or acronym, and if operating at multiple sites, the site designation number.

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

WHO IS THE PAID PREPARER?

Paid preparers are the persons or firms that, for a fee, take taxpayers' information and figure taxpayers' tax liabilities. The individual who must sign the tax return or Form 8453 as the paid preparer is the person who had primary responsibility for the overall substantive accuracy of the preparation of the return.

Electronic return preparers (see page 5 for definition) are also paid preparers if they charge a fee for the preparation of tax returns. The individual who must sign the Form 8453 as the paid preparer is the person who had primary responsibility for the overall substantive accuracy of the preparation of the return.

Electronic return collectors (see page 5 for definition) become electronic return preparers when, as a result of entering the electronic return data, they discover errors that require substantive changes and make the changes. Substantive changes are defined in the revenue procedure as changes of more than \$25 to "Total income" or changes of more than \$7 to "Total tax," "Federal income tax withheld," "Refund" or "Amount you owe." These electronic return preparers are also paid preparers if they charge a fee. The individual who must sign the Form 8453 as the paid preparer is the person who had primary responsibility for the overall substantive accuracy of the preparation of the return.

REFUND RETURNS

When taxpayers are entitled to refunds, EROs must inform them that they have several options. Taxpayers may apply their refunds to next year's estimated tax, receive their refunds as Direct Deposits or paper checks, or split their refunds so that some is applied to next year's estimated tax, the rest received as a Direct Deposit or paper check. (See also "Refund Delays" on page 16 and "Avoiding Refund Delays" on page 17.)

DIRECT DEPOSIT OF REFUNDS

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

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

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

EROs with repeat customers or clients should check to see if taxpayers have new accounts. Some software stores last year's information and reuses it unless it is changed by EROs. If taxpayers have changed their accounts and this is not noted in the electronic return data, their refunds will not be Direct Deposited.

Refunds that are not Direct Deposited because of institutional refusal, erroneous account or routing numbers, closed accounts or any other reason will be issued as paper checks, resulting in refund delays of up to ten weeks. (See also "Refund Delays" on page 16 and "Avoiding Refund Delays" on page 17.)

BALANCE DUE RETURNS

Taxpayers who owe additional tax must pay their balances due by April 15 or be subject to interest and penalties. Forms 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*, may be filed electronically (if supported

by the ERO's software) or on paper by the original return due date, but they are extensions of time to file tax returns, not extensions of time to pay balances due. EROs must inform taxpayers of their obligations and options for paying balances due.

PAYMENT OPTIONS

Direct Debit - Payments may be made automatically and electronically by direct debit. Taxpayers who choose this option must provide EROs with account numbers and routing numbers for the qualified savings, checking or share draft accounts. The annual tax packages show EROs how to find and identify these numbers. This information is best obtained from official financial institution records, account cards, checks or share drafts that contain the taxpayer's name and address. EROs should caution taxpayers to determine, before they file, that their financial institution supports direct debit requests.

Taxpayers must specify the bank account from which they wish to have the balance paid and the date on which the debit will be made. This allows taxpayers to pay the balance as soon as the return is processed or delay it to a future date, not later than the return due date without extension. For example, the ERO may transmit the return in March and the taxpayer can specify that the debit be made on any day on or before April 15. The taxpayer does not have to remember to do anything at a later date. For returns transmitted after April 15, the debit will be made on the day the electronic return data is processed.

EROs that collect already completed returns--including returns from Drop-off Collection Points--from taxpayers who elect to pay their balances due by direct debit should be careful to ensure that all the information needed for the direct debit request is included with the return. Taxpayers must provide all of the following: 1) routing number; 2) account number; 3) type of account (checking or savings); 4) date of debit; and 5) amount to be debited. In addition, EROs must provide those taxpayers with printouts of the electronic return data.

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

Credit Cards - A second electronic payment option for taxpayers is to pay the balance by credit card. Taxpayers can authorize payments using most major credit cards by calling a toll-free number. The taxpayer must agree to pay a convenience fee based on the amount of the payment. EROs should provide credit card payment information to taxpayers who prefer this option.

Pay by Check - Payments may also be made by mailing a check accompanied by Form 1040-V, *Payment Voucher*. These forms are found in many tax packages. Taxpayers can also pay by check if electronic payment options fail for any reason. EROs must supply taxpayers with Forms 1040-V, if needed, and help them choose the

correct mailing address from the chart on the back of the form. Vouchers do not have to be mailed at the same time the electronic return data is transmitted. For example, the ERO may transmit the return in January and the taxpayer can mail the payment and voucher at any time on or before April 15.

Installment Agreement Request - Taxpayers who cannot pay the amount they owe may submit to the IRS Form 9465, *Installment Agreement Request*. Form 9465 may be transmitted electronically (if supported by the ERO's software) with the taxpayer's electronic return data, or it may be submitted separately, either electronically or on paper, at a later time. If accepted, there is a processing fee for taxpayers to set up the installments.

Other payment options will likely become available in the future. The IRS will publicize them as they become operational.

COMPLETING THE IRS *e-file* PROCESS WITH TAXPAYERS

Once the return data is entered into the ERO's IRS *e-file* system, Form 8453 is completed and signed, the option is chosen for receiving a refund or paying a balance due, the process is nearly complete. Before return data is transmitted, EROs have some additional responsibilities.

Providing and Retaining Copies - EROs that are electronic return preparers must give taxpayers paper copies of the electronic return data that will be transmitted to the IRS. These copies must tell taxpayers exactly what is on each line of corresponding paper returns. EROs that are electronic return preparers must also give taxpayers copies of Form 8453 that correspond to the electronic return data, complete with signed declarations and attachments. On both the copy of the electronic return data and the Form 8453, EROs and paid preparers (see "Who is the Paid Preparer?" on page 11) need not disclose their Taxpayer Identification Numbers to taxpayers. However, the Taxpayer Identification Numbers must be present with the transmitted electronic return data and included on Forms 8453 that are mailed to the IRS.

EROs that collect already completed tax returns and Forms 8453--including returns and Forms 8453 from Drop-off Collection Points--do not have to give taxpayers paper copies of the electronic return data or Forms 8453 if, after entry into the ERO's IRS *e-file* system, everything is identical to the to the returns and Forms 8453 submitted by the taxpayer or there are only non-substantive changes. However, there is one exception. All taxpayers who elect to pay their balances due using the direct debit option must be given a paper copy of the electronic return data that includes the direct debit information. (See also "Direct Debit" on page 13).

In addition, if substantive changes are made and the ERO becomes an electronic return preparer (see page 5 and following), paper copies of the electronic return data and new Forms 8453 must be given to taxpayers, after

new signatures are obtained, but before the electronic return data is transmitted to the IRS.

EROs must advise taxpayers to retain complete copies of their returns and supporting material.

Advising Taxpayers about TeleTax -EROs must tell taxpayers how to follow up on returns and refunds by pointing out the TeleTax section contained in current IRS tax packages. If taxpayers do not have tax packages, the ERO must provide taxpayers with the TeleTax number which will have information about taxpayers' refunds, when they become available. The TeleTax number is 1-800-829-4477 (toll-free).

To call TeleTax, taxpayers will need to enter the first social security number shown on their tax return, the filing status and the exact amount of the refund in whole dollars. Before checking on refunds, taxpayers should wait at least three weeks from the time the return data is acknowledged as accepted (See "Acknowledgments of Transmitted Return Data" below). Because TeleTax is updated weekly, taxpayers should be advised not call more than once a week. This will save taxpayers from making phone calls to TeleTax with no possibility of success.

Transmitting Return Data - The electronic return data is now ready to be transmitted to the IRS. Return data must be transmitted as soon as possible after completion, but within three calendar days. EROs may arrange with another Authorized IRS *e-file* Provider to transmit the electronic return data to the IRS or do it themselves. (See also Appendix I, "Information for EROs That Transmit Their Own Returns" on page 26.)

ACKNOWLEDGMENTS OF TRANSMITTED RETURN DATA

The IRS electronically acknowledges the receipt of all transmissions. Individual returns in each transmission are either accepted or rejected for specific reasons. Accepted returns meet the processing criteria and are considered "filed" as soon as Form 8453 is received by the IRS. Rejected returns fail to meet processing criteria and are considered "not filed." The acknowledgment identifies the source of the problem using a system of error reject codes and form field numbers (sequence numbers). The error reject codes tell why the return rejected and the form field numbers tell which fields of the electronic return data are involved. Publication 1345A, *Filing Season Supplement for Electronic Return Originators*, issued each year, contains information to help identify the cause of the reject. If you are an ERO in good standing and your address information on our records is up-to-date, you will automatically receive Publication 1345A in December of each year.

Rejected electronic return data generally can be corrected and retransmitted. If correcting the reject condition results in substantive changes to the return, the EROs and taxpayers must reconcile and sign new Forms 8453. Substantive changes are defined in the revenue procedure as changes of more than \$25 to "Total income" or

changes of more than \$7 to “Total tax,” “Federal income tax withheld,” Refund” or “Amount you owe.” Taxpayers must be given paper copies of the new electronic return data as well as the new Forms 8453. The revenue procedure also explains what to do if electronic return data rejects on or shortly before the due date for the return.

The ERO must, at the request of the taxpayer, provide the Declaration Control Number (DCN) and the date the electronic return data was accepted by the IRS. Form 9325, *Acknowledgment and General Information for Taxpayers Who File Returns Electronically*, may be used for this purpose.

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

SENDING FORMS 8453 TO THE IRS

After electronic return data is acknowledged as accepted, EROs must mail, within one work day, the corresponding Forms 8453 to the IRS service center that acknowledged receipt of the electronic return data. See Publication 1345A for the current mailing address of each service center. Because taxpayers’ returns are not considered filed until the Forms 8453 are received by the IRS, EROs who are lax, negligent or untimely in mailing Forms 8453 to the IRS may be suspended from the IRS *e-file* program.

MISSING OR INCOMPLETE FORMS 8453

The IRS corresponds with EROs when Forms 8453 are not received or otherwise determined to be missing or incomplete. EROs are responsible for supplying replacements, complete with attachments. If the replacements are photocopies or do not have original signatures, EROs must certify in writing, under penalties of perjury, that the replacements are true copies of the documents that contained the original signatures.

If EROs do not send replacement Forms 8453, complete with attachments, when requested, the IRS will contact the taxpayers to obtain them.

REFUND DELAYS

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

- Errors in Direct Deposit information (refunds will then be sent by check);
- Financial institution refusals of Direct Deposits (refunds will then be sent by check);

- Estimated tax payments differ from amount reported on tax return (for example, fourth quarter payments not yet on file when return data is transmitted);
- Inappropriate claims for the Earned Income Tax Credit; or
- Recertifications to claim the Earned Income Tax Credit.

If there are any problems, the IRS sends taxpayers letters or notices explaining the issues and how they can be resolved. The notices or letters contain contact telephone numbers that taxpayers may use if more information is needed.

If taxpayers' refunds are lost or misapplied, taxpayers do not receive notices or letters, or there is no information on TeleTax (see "Advising Taxpayers about TeleTax" on page 15), advise taxpayers to call the IRS Tax Help number listed in tax packages.

REFUND OFFSETS

The IRS offsets as much of the refund as is needed to pay off prior year taxes owed by taxpayers and notifies them when this occurs. Treasury's Financial Management Service (FMS), the agency that issues Federal income tax refunds, also offsets taxpayers' refunds to pay off past-due child support or Federal agency debts such as student loans. Offsets to non-tax debts occur after the IRS has certified the refunds to the FMS for payment but before the FMS makes the Direct Deposits or issues the paper checks. Refund offsets reduce the amount of the expected Direct Deposit or paper check but they do not delay the issuance of the remaining refund (if any) after offset. If taxpayers owe non-tax debts they may contact the agency they owe, prior to filing their returns, to determine if their debts were submitted for refund offset. The IRS cannot determine beforehand whether refunds will be offset for non-tax debts.

The FMS sends taxpayers offset notices if any part of their refunds is applied to non-tax debts. Taxpayers should contact the agencies identified in the FMS offset notice when offsets occur if they dispute the non-tax debts or have questions about the offsets. If a refund is in a joint name but only one spouse owed the debt, the "injured spouse" should obtain Form 8379, *Injured Spouse Claim and Allocation*, from the IRS and follow the instructions on the form for filing the claim. Form 8379 may be downloaded from the IRS "Digital Daily" web page (<http://www.irs.ustreas.gov>) or ordered by calling 1-800-829-3676 (toll-free).

AVOIDING REFUND DELAYS

EROs should advise taxpayers that the easiest ways to avoid refund delays are to have all taxes and obligations paid up, provide current and correct information to the ERO, make sure that all bank account information is up-to-date with the ERO and carefully check tax return information before signing the Form 8453. Taxpayers who have had refund problems in the past should inform EROs so that similar or recurring problems may be avoided.

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

- Insist on identification and documentation of social security and other identification numbers for all taxpayers and dependents;
- Exercise care in the entry of tax return data into tax return preparation software and carefully check the tax return information before signing Forms 8453;
- Avoid taxpayers that insist on claiming dubious items on tax returns or present altered or suspicious documents;
- Ask taxpayers if there were problems with last year's refund; if so, see if the conditions that caused the problems have been corrected or can be avoided this year; and,
- Keep track of client issues that result in refund delays and analyze for common problems; counsel taxpayers on ways to address these problems.

AND FINALLY ...

Refer to the revenue procedure (see Appendix II) for record keeping and documentation requirements.

Chapter 3 - Business Considerations

ADVERTISING AND PROMOTION

We have established “IRS *e-file*” as a brand name and designated program participants--EROs, Transmitters, Service Bureaus, and Software Developers--as official “Authorized IRS *e-file* Providers.” In addition, the IRS supports individual ERO promotional efforts by annually creating and distributing an IRS *e-file* Marketing Tool Kit. New EROs receive a kit when they are accepted into the IRS *e-file* program.

The kit contains professionally developed material that EROs can customize for use in advertising campaigns and promotional efforts. It includes window stickers for on-premise advertising, postcard templates for large quantity print productions, posters for local distribution and live-read scripts for radio promotion. From year to year, if you are an ERO in good standing and your address information on our records is up-to-date, you will automatically receive a kit as they are distributed.

The IRS supports the kit material by placing Public Service Announcements (via television, radio and print media) to create full multi-media program exposure for IRS *e-file* during the filing season and prior to the filing season (as IRS tax packages are sent to taxpayers). Pre-filing season promotion is critical because it is the time of year when Americans begin to think about their annual filing obligations and are attuned to new key messages, particularly those relating to tax law changes and available filing options.

EROs may develop their own advertising that includes the IRS *e-file* brand name; however, EROs must abide by the advertising standards for all Authorized IRS *e-file* Providers found in the revenue procedure (see Appendix II).

REFUND ANTICIPATION LOANS (RAL)

A Refund Anticipation Loan (RAL) is money borrowed by the taxpayer from a lender based on the taxpayer’s anticipated refund amount. The IRS is in no way involved in or responsible for RALs. All parties to RAL agreements, including EROs, must ensure that taxpayers understand that RALs are interest bearing loans and not substitutes for or a faster way of receiving refunds. EROs are responsible for ensuring that RAL Indicators are included in the electronic return data that is transmitted to the IRS.

Because RALs are often repaid by the Direct Deposit of refunds into special RAL accounts, all parties to RALs must be aware that there are no guarantees that refunds will be deposited within a specified time (for example, they may be delayed due to processing problems), or that they will be deposited in their entirety (for example, some or all of the refund may be offset (see “Refund Offsets” on page 17)). The Treasury Department is not liable for any loss suffered by taxpayers, EROs or financial institutions resulting from reduced refunds or Direct Deposits not being honored causing refunds to be issued by check.

The revenue procedure (see Appendix II) contains the rules governing Refund Anticipation Loans.

FEE RESTRICTIONS

EROs may not base their fees on a percentage of the refund amount or compute their fees using any figure from tax returns. Separate fees may not be charged for Direct Deposits.

EROs may charge clients a flat fee for assisting taxpayers who wish to apply for Refund Anticipation Loans (RAL). Fees must be identical for all RAL clients and customers. EROs may not share any fees imposed by lenders based on refund amounts or loan amounts. EROs may share only the flat fees that lenders charge clients and customers for providing RALs.

Volunteer program (for example, VITA or TCE) sponsors may collect fees only if they directly defray the actual cost of transmitting electronic return data to the IRS. Sponsors may also collect fees on behalf of third parties who transmit electronic return data to the IRS.

Employers offering IRS *e-file* as an employee benefit may collect fees only if they directly defray the actual cost of transmitting electronic return data to the IRS by third party transmitters.

Chapter 4 - Program Integrity

CREDENTIALS

All Authorized IRS *e-file* Providers are issued credentials that consist of identification numbers and acceptance letters. Authorized IRS *e-file* Providers must include their identification numbers with the electronic return data of all returns that are transmitted to the IRS. If more than one Authorized IRS *e-file* Provider is involved in the collection, preparation and transmission of the return data, all of their identification numbers must be included in the electronic record.

Acceptance letters are issued annually and confirm the status of Authorized IRS *e-file* Providers to participate in the current filing season. Authorized IRS *e-file* Providers do not need to submit new application Forms 8633 each year to participate in the IRS *e-file* program. They will automatically receive acceptance letters if

- their addresses are up-to-date on IRS records;
- they transmitted at least one return that was acknowledged as accepted in the IRS *e-file* program the previous year;
- they are not suspended from the IRS *e-file* program;
- they have not been dropped from the IRS *e-file* program for any reason; and
- they have passed the annual suitability check (see page 22).

EROs are required to have Electronic Filing Identification Numbers (EFIN) and the annual acceptance letter to participate in the IRS *e-file* program. The IRS issues acceptance letters to EROs by December of each year.

EROs that transmit their own electronic return data are also required to have Electronic Transmitter Identification Numbers (ETIN) and must pass PATS testing each year before the IRS will issue acceptance letters. (See Appendix I on page 26 for information on PATS testing.)

EROs that meet all of the above conditions but have not received acceptance letters by mid-December should call 1-800-691-1894 (toll-free) to check on the status of the letter.

SCREENING OTHER AUTHORIZED IRS *e-file* PROVIDERS

EROs may only use other Authorized IRS *e-file* Providers to perform some or all of the processes required in the IRS *e-file* program. EROs should check the credentials of Authorized IRS *e-file* Providers to ensure that they are accepted for the current filing season.

The revenue procedure spells out conditions when Authorized IRS *e-file* Providers may be suspended and the privileges of the IRS *e-file* program withdrawn. Suspensions run for the remainder of the calendar year in which the suspension occurs plus the following two calendar years. Authorized IRS *e-file* Providers who have been suspended may not participate in the IRS *e-file* program in any way during the suspension period. Authorized IRS *e-file* Providers that employ, associate with or

perform IRS *e-file* services for suspended Authorized IRS *e-file* Providers may be suspended from the IRS *e-file* program as well.

The revenue procedure also spells out conditions when applicants to become Authorized IRS *e-file* Providers may be denied entry into the IRS *e-file* program. Rejected applicants may not participate in the IRS *e-file* program in any way for the next two calendar years. Authorized IRS *e-file* Providers that employ, associate with or perform IRS *e-file* services for rejected applicants during that period may be suspended from the IRS *e-file* program.

If there are any questions about doing business with a current or former Authorized IRS *e-file* Provider, contact your ETA Coordinator.

IRS MONITORING OF THE IRS *e-file* PROGRAM

The IRS monitors Authorized IRS *e-file* Providers for compliance with the revenue procedure (see Appendix II). Monitoring may include reviewing IRS *e-file* submissions, investigating complaints, scrutinizing advertising material, checking Form 8453 submissions, visiting offices and Drop-off Collection Points, examining files, observing office procedures and conducting annual suitability checks (see below). Violations of revenue procedure provisions may result in warnings or suspensions. Suspensions may be appealed. Unreversed suspensions make Authorized IRS *e-file* Providers ineligible to participate in the IRS *e-file* program for the remainder of the calendar year in which the suspension occurs plus the following two calendar years.

The IRS issues letters to Authorized IRS *e-file* Providers when suspensions are proposed. The letters specify the options available and all the actions needed to respond and appeal. Simply follow the directions in the letters. In most cases, once letters are issued, Authorized IRS *e-file* Providers may not participate in the IRS *e-file* until the matter is favorably resolved.

ANNUAL SUITABILITY CHECKS

All Authorized IRS *e-file* Providers, except those that function solely as software developers, passed a suitability check on all principals of the firm and responsible officials. To maintain IRS *e-file* program integrity, annual suitability checks are done on firms, all principals of firms and responsible officials to determine the following:

- that all personal income tax returns are filed and timely;
- that all business tax returns are filed and timely;
- that all tax liabilities are met or on schedule to be paid;
- that no penalties have been assessed; and,
- that there is no evidence of disreputable conduct or other facts that would reflect adversely on the IRS *e-file* program.

Failure to meet any of these checks may result in Authorized IRS *e-file* Providers being suspended from the IRS *e-file* program.

CHAPTER 5 - REPORTING CHANGES TO YOUR IRS *e-file* BUSINESS TO THE IRS

REVISIONS TO FORM 8633 INFORMATION

EROs must notify the IRS within 30 days of all changes to the information they originally submitted on Form 8633, *Application to Participate in the IRS e-file Program*. This is important for several reasons. If addresses are not up-to-date, EROs may not receive important letters, credentials, publications or promotional material. If any of those items are returned to the IRS indicating that the address is changed, we will temporarily drop those EROs from the IRS *e-file* program. That means that all returns submitted by those EROs will be rejected until the address information is updated. Likewise for telephone numbers. If the IRS tries to call EROs whose numbers have changed, we will temporarily drop them from the IRS *e-file* program until they contact us with new telephone numbers. This information is very important to us because we often need to contact EROs to resolve transmission problems, issues involving Forms 8453 or other questions relating to an ERO's IRS *e-file* business.

REVISIONS BY LETTER

All revisions may be made using Form 8633, but you may update the following information by letter, using your firm's official letterhead: 1) all addresses; 2) all phone or fax numbers; 3) contact representatives; 4) service centers receiving your electronic return data; 5) transmission protocols; 6) adding Federal/State *e-file* to your list of services; 7) adding Drop-off Collection Points associated with your EFIN; and 8) changes to the Foreign Filer information. Unless you are solely a software developer (see "Revisions Using Form 8633" below), you may also add provider options--ERO, transmitter, service bureau or software developer--by letter, using your firm's official letterhead.

Exceptions - Changes to "business names" or "doing business as names" may be made by letter unless the change resulted in the firm being issued a new Employer Identification Number (EIN). New EINs require that new Forms 8633 be submitted to the IRS. Firms that change their form of organization, for example from a sole proprietorship to a corporation, must also submit new Forms 8633.

Include in the letter enough information to correctly identify the application being revised. Be sure to include the appropriate EFIN, ETIN, SBIN, CPIN or combination that applies, as well as firm name, firm EIN or SSN, and doing business as name. The other identifying information that should be included applies only when the firm is controlled or owned by another Authorized IRS *e-file* Provider. When that is true, include the name, business address, and EFIN and ETIN (if applicable) of the controlling Authorized IRS *e-file* Provider. The letter must be signed by a principal of the firm or the responsible official.

Letters (or revised Forms 8633) must be mailed within 30 days of the change and may be sent at any time during the year. Send the letter (or Form 8633) to the address found in the instructions to the current Form 8633 (Rev. 5-98 or later).

REVISIONS USING FORM 8633

Other types of revisions require that you complete Form 8633 (Rev. 5-98 or later) and check the box for revised applications for the following situations:

- 1) the Authorized IRS *e-file* Provider is functioning solely as a software developer and intends to do business as an ERO, service bureau, or transmitter;
- 2) there is an additional principal of the firm, such as a partner or a corporate officer, that must be listed on Form 8633;
- 3) the responsible official on Form 8633 changes; or
- 4) there is a principal listed on Form 8633 that should be deleted.

These revised applications (except situation 4) must be submitted with fingerprint cards for principals of the firm and the responsible official. You do not have to submit fingerprint cards for any individual that is listed as a principal or responsible official on another application that has been accepted into the IRS *e-file* program. You may also choose to submit evidence of professional status instead of fingerprint cards if the principal or responsible official is an attorney, CPA, enrolled agent, banking official or officer of a publicly owned corporation as specified in the revenue procedure. The revised application must be signed by all principals of the firm and the responsible official.

Revised applications must be submitted within 30 days of the change and may be submitted at any time during the year.

ADDING NEW BUSINESS LOCATIONS

EROs must submit completely new Forms 8633 when expanding their IRS *e-file* businesses to new business locations. Applications must be submitted with fingerprint cards for all principals of the firm and responsible officials listed on the application unless fingerprint cards have been submitted before with an application that was accepted into the IRS *e-file* program. Evidence of professional status may be substituted for fingerprint cards if the principal or responsible official is an attorney, CPA, enrolled agent, banking official or officer of a publicly owned corporation as specified in the revenue procedure.

Adding new Drop-off Collection Points is considered a revision to a previous application (see "Revisions by Letter" on page 23).

SELLING, TRANSFERRING OR DISCONTINUING AN IRS *e-file* BUSINESS

EROs that sell, transfer or otherwise discontinue an IRS *e-file* business must notify the IRS within 30 days. Be sure to include enough information to identify the correct business location (see "Revisions by Letter" on page 23).

EROs may not sell or transfer identification numbers (EFIN, ETIN, SBIN, CPIN) or passwords when selling, transferring or otherwise discontinuing an IRS *e-file* business.

ACQUIRING BY PURCHASE, TRANSFER OR GIFT AN IRS *e-file* BUSINESS

EROs that acquire by purchase, transfer or gift an existing IRS *e-file* business with current credentials must submit a new application and receive new identification numbers and, where applicable, passwords. (See “Adding New Business Locations” on page 24.) Attach proof of sale to the application. Applications must be submitted during the period beginning 45 days before, and ending 30 days after, the acquisition date.

EROs that acquire by purchase, transfer or gift an existing IRS *e-file* business may not use the identification numbers or passwords of the previous Authorized IRS *e-file* Provider. EROs may not acquire by sale, merger, loan, gift or otherwise the identification numbers or passwords of another Authorized IRS *e-file* Provider. Contact your ETA Coordinator, prior to the acquisition, for assistance in making a smooth transition when transfers will occur during the filing season.

EROs interested in acquiring IRS *e-file* businesses currently under suspension or firms that were denied acceptance into the IRS *e-file* program should contact their ETA Coordinator to discuss transition issues. (See also “Screening Other IRS *e-file* Providers” on page 21.)

Appendix I

Information for EROs That Transmit Their Own Tax Returns to IRS

Requirements

In order to transmit electronic return data directly to the IRS, EROs must be equipped with both computer hardware and software that make this possible. EROs should consult with vendors and software developers that handle IRS *e-file* product lines to determine the best system configuration for their business needs.

The IRS *e-file* software that EROs purchase from vendors or software developers should meet IRS specifications. If you participate in Federal/State *e-file*, the software should meet both IRS and state specifications. However, before EROs can transmit electronic return data to the IRS (in Federal/State *e-file*, both federal and state electronic return data is transmitted to the IRS), they must have done all of the following:

- submitted application Form 8633 (or a letter using the firm's official letterhead) requesting the "transmitter" option and specifying the service centers to which they will be transmitting;
- received from IRS an Electronic Transmitter Identification Number (ETIN) and passwords for testing;
- completed the Participants Acceptance Tests (PATs) that ensure the compatibility of their transmission systems with IRS systems (these tests are also called the communications tests); and,
- received and acknowledged passwords that enable the transmission of electronic return data to the IRS.

PATs Testing

Most software packages have PATs communication tests built in so that completing this requirement is relatively easy. Follow the directions in the software or documentation package. If you have problems, you should call the vendor who sold you the software or contact the technical support operation that comes with the software package.

PATs communication tests consist of two transmissions of test electronic return data, three test returns in one transmission and two test returns in the other. Both transmissions must be made on the same day. To pass the test, both transmissions must be error free.

The communications test must be repeated with each service center to which you will be transmitting return data. If you plan to use both asynchronous (ASC) and bisynchronous (BSC) transmission protocols, communication tests must be completed with each service center to which you will be transmitting return data using both protocols.

If the software appears to be working correctly but you are unable to complete the tests, don't receive acknowledgment files or experience other problems, contact the service center with which the test is being conducted. Current telephone numbers can

be found in Publication 1345A, *Filing Season Supplement for Electronic Return Originators*.

If your software does not have IRS *e-file* PATS communication tests built in, you will need to obtain Publication 1436, *Test Package for Electronic Filers of Individual Income Tax Returns*. You may order this publication by calling 1-800-829-3676 (toll-free). Publication 1436 contains directions and all the information that you will need to complete PATS communications testing.

Passwords

Passwords are required to transmit returns directly to the IRS. Passwords are issued annually and mailed (usually by early December) to all Authorized IRS *e-file* Providers identified as transmitters with Electronic Transmitter Identification Numbers (ETIN). EROs will receive their passwords if all of the following are true:

- their mailing address is up to date on IRS records;
- they transmitted at least one return that was acknowledged as accepted in the previous year's IRS *e-file* program;
- they are not suspended from the IRS *e-file* program;
- they have not been dropped from the IRS *e-file* program; and,
- they have passed the annual suitability check (see page 22).

EROs must acknowledge receipt of their passwords within five days or the passwords will be rendered invalid. Simply follow the instructions in the letter. EROs that have not received their passwords by the beginning of January should call the IRS at 1-800-691-1894 (toll free).

New Transmitters

All applications to become new transmitters should be submitted as early as possible to avoid not meeting all requirements in time for the beginning of the filing season. EROs that submit applications before November 1, and the applications are processed normally, will receive their passwords in early December. After that time, passwords will not be issued until after PATS communications testing is completed. This means that passwords may not be received for up to 10 days. Passwords cannot be given over the phone.

EROs that apply to become transmitters are not precluded from using the services of other accepted transmitters.

Appendix II

Revenue Procedure 98-50 Requirements of Participants in the IRS *e-file* Program for Form 1040, U.S. Individual Income Tax Return

Complete text as published in *Internal Revenue Bulletin, 1998-38*,
September 21, 1998

26 CFR 601.602: Tax forms and instructions.
(Also Part I, Sections 6012, 6061; 1.6012-5,
1.6061-1.)

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Revenue Procedure 98-50

SECTION 1. PURPOSE

This revenue procedure informs those who participate in the Form 1040 IRS *e-file* Program (formerly known as the Form 1040 Electronic Filing (ELF) Program) of their obligations to the Internal Revenue Service, taxpayers, and other participants. The following returns can be filed under the Form 1040 IRS *e-file* Program: (1) Form 1040 and Form 1040A, U.S. Individual Income Tax Return; and (2) Form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents. This revenue procedure updates and supersedes Rev. Proc. 97-60, 1997-52 I.R.B. 38.

SECTION 2. BACKGROUND AND CHANGES

.01 Section 1.6012-5 of the Income Tax Regulations provides that the Commissioner may authorize the use, at the option of a person required to make a return, of a composite return in lieu of any form specified in 26 CFR Part 1 (Income Tax), subject to the conditions, limitations, and special rules governing the preparation, execution, filing, and correction thereof as the Commissioner may deem appropriate.

.02 For purposes of this revenue procedure, an electronically filed Form 1040, Form 1040A, or Form 1040EZ is a composite return consisting of electronically transmitted data and certain paper documents. The paper portion of the return consists of Form 8453, U.S. Individual Income Tax Declaration for an IRS *e-file* Return, and other paper documents that cannot be electronically transmitted. Form 8453 must be received by the Service before the composite return is considered filed (see section 5.08 of this revenue procedure). The composite return must contain the same information that a return filed completely on paper contains. See section 7 of this revenue procedure for procedures for completing Form 8453.

.03 Each year prior to the start of the filing season, the Service will issue Publication 1345A, Filing Season Supplement for Electronic Return Originators, and Publication 1346, Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns. These publications list the forms and schedules associated with the Form 1040 series that can be electronically transmitted during the upcoming filing season.

.04 For purposes of the Form 1040 IRS *e-file* Program, a Form 1040, Form 1040A, or Form 1040EZ for any taxable year cannot be electronically filed after the 15th day of October following the close of that taxable year, notwithstanding the fact that the taxpayer has been granted an extension to file a return beyond that date. If the 15th day of October falls on a Saturday, Sunday, or legal holiday, then the electronically filed return may be filed on the next succeeding day which is not a Saturday, Sunday, or legal holiday.

.05 An amended tax return cannot be electronically filed under the Form 1040 IRS *e-file* Program. A taxpayer must file an amended tax return on paper in accordance with the instructions for Form 1040X, Amended U.S. Individual Income Tax Return.

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.06 A tax return that has a foreign address for the taxpayer cannot be electronically filed under the Form 1040 IRS *e-file* Program. Army/Air Force (APO) and Fleet (FPO) post offices are not considered foreign addresses for this purpose.

.07 A tax return for a decedent cannot be electronically filed under the Form 1040 IRS *e-file* Program. The decedent's spouse or personal representative must file a paper tax return for the decedent.

.08 Some of the updates and changes to Rev. Proc. 97-60 are as follows:

(1) the name of the program has changed to the "Form 1040 IRS *e-file* Program" and participants in the program are known as "Authorized IRS *e-file* Providers";

(2) references to specific dates and specific tax years have been replaced with more general references in order to eliminate the need for annual updates to this revenue procedure;

(3) the application period for new applicants who intend to participate in the Form 1040 IRS *e-file* Program for any filing season is extended beyond the beginning of the filing season (section 4.05); and

(4) the provisions of this revenue procedure apply to participants in various pilot programs conducted with respect to the Form 1040 IRS *e-file* Program (section 18).

SECTION 3. FORM 1040 IRS *e-file* PROGRAM PARTICIPANTS--DEFINITIONS

.01 After acceptance into the Form 1040 IRS *e-file* Program, as described in section 4 of this revenue procedure, a participant is referred to as an "Authorized IRS *e-file* Provider."

.02 The Authorized IRS *e-file* Provider categories are:

(1) ELECTRONIC RETURN ORIGINATOR. An "Electronic Return Originator" (ERO) is: (a) an "Electronic Return Preparer" who prepares tax returns, including Forms 8453, for taxpayers who intend to have their returns electronically filed; and/or (b) an "Electronic Return Collector" who accepts completed tax returns, including Forms 8453, from taxpayers who intend to have their returns electronically filed.

(2) SERVICE BUREAU. A "Service Bureau" receives tax return information on any media from an ERO, formats the return information, and either forwards the return information to a Transmitter or sends back the return information to the ERO. A Service Bureau may send Forms 8453 to the appropriate service center.

(3) SOFTWARE DEVELOPER. A "Software Developer" develops software for the purposes of (a) formatting the electronic portion of returns according to Publication 1346; and/or (b) transmitting the electronic portion of returns directly to the Service. A Software Developer may also sell its software.

(4) TRANSMITTER. A "Transmitter" transmits the electronic portion of a return directly to the Service. An entity that provides a "bump-up" service is a Transmitter. A bump-up service provider increases the transmission rate or line speed of formatted or reformatted information that is being sent to the Service via a public switched telephone network. The Service accepts transmissions using a variety of telecommunications protocols.

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.03 The Authorized IRS *e-file* Provider categories are not mutually exclusive. For example, an ERO can, at the same time, be considered a Transmitter, Software Developer, or Service Bureau depending on the function(s) performed.

.04 An ERO may have a "Drop-Off Collection Point(s)." The activity at a Drop-Off Collection Point is limited solely to receiving a return or return information that a taxpayer wants to have electronically filed and collecting a fee for electronically filing that return. Return preparation activity may not be conducted at a Drop-Off Collection Point. Return preparation activity includes, but is not limited to, comparing amounts listed on Form 8453 with those on the paper return or return information provided by a taxpayer and verifying routing numbers and account numbers used for direct deposit of refunds. Return preparation activity does not include collecting a fee for electronic filing or ensuring that the taxpayer has signed Form 8453. An ERO need not have an ownership interest in the Drop-Off Collection Point.

SECTION 4. ACCEPTANCE IN THE FORM 1040 IRS *e-file* PROGRAM

.01 Except as provided in sections 4.02 through 4.04 of this revenue procedure, an Electronic Filer or Authorized IRS *e-file* Provider that participated in the most recent Form 1040 ELF or Form 1040 IRS *e-file* filing season does not have to reapply to participate in the next Form 1040 IRS *e-file* filing season. However, an Authorized IRS *e-file* Provider that intends to participate as a Transmitter or a Software Developer must first successfully complete, for each filing season, the testing referred to in section 4.08 of this revenue procedure. In addition, section 4.15 of this revenue procedure provides for the Service's issuance of credentials necessary for participation in the Form 1040 IRS *e-file* Program.

.02 Applicants and Authorized IRS *e-file* Providers must file a new Form 8633, Application to Participate in the IRS *e-file* Program, with completed fingerprint cards for the appropriate individuals, if:

- (1) the applicant has never participated in the Form 1040 ELF Program or the Form 1040 IRS *e-file* Program;
- (2) the applicant has previously been denied participation in the Form 1040 ELF Program or the Form 1040 IRS *e-file* Program;
- (3) the applicant has been suspended from the Form 1040 ELF Program or the Form 1040 IRS *e-file* Program; or
- (4) the Authorized IRS *e-file* Provider is participating in the Form 1040 IRS *e-file* Program and wants to operate an IRS *e-file* business at an additional location (except that an individual listed on the Authorized IRS *e-file* Provider's application who has submitted a fingerprint card with a previously accepted application need not submit an additional fingerprint card).

.03 An Authorized IRS *e-file* Provider must submit a revised Form 8633, signed by all "Principals" and the "Responsible Official" (as described in sections 4.09 through 4.12 of this revenue procedure), with completed fingerprint cards for those appropriate

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individuals who have not submitted a fingerprint card with a previously accepted application, if:

- (1) the Authorized IRS *e-file* Provider participated solely as a Software Developer in the most recent Form 1040 ELF or Form 1040 IRS *e-file* filing season, and intends to participate as an ERO, Service Bureau, or Transmitter;
- (2) there is an additional Principal, such as a partner or a corporate officer, that must be listed on Form 8633;
- (3) there is a Principal listed on Form 8633 that should be deleted; or
- (4) the Responsible Official on Form 8633 changes.

.04 Except as provided in section 4.03 of this revenue procedure, an Authorized IRS *e-file* Provider must submit either a revised Form 8633, or a letter containing the same information contained in a revised Form 8633, if any information on the Authorized IRS *e-file* Provider's Form 8633 has changed. A revised Form 8633 or letter submitted under this section should include only the changed information and the following identifying information:

- (1) the Authorized IRS *e-file* Provider's legal name;
- (2) the Authorized IRS *e-file* Provider's employer identification number and/or social security number (EIN/SSN);
- (3) the Authorized IRS *e-file* Provider's "Doing Business As" (DBA) name;
- (4) whether the Authorized IRS *e-file* Provider is controlled or owned by another Authorized IRS *e-file* Provider;
- (5) the Authorized IRS *e-file* Provider's controlling office name;
- (6) the Electronic Transmitter Identification Number (ETIN) of the Authorized IRS *e-file* Provider's controlling office;
- (7) the Electronic Filing Identification Number (EFIN) of the Authorized IRS *e-file* Provider's controlling office; and
- (8) the business address of the Authorized IRS *e-file* Provider's controlling office.

A Principal or the Responsible Official must sign the revised Form 8633 or the letter.

.05 Applicants and Authorized IRS *e-file* Providers described in section 4.02 of this revenue procedure must submit new applications within the following time periods:

- (1) except as provided in section 4.05(2) of this revenue procedure, the application period for new applicants who intend to participate in the Form 1040 IRS *e-file* Program for any filing season begins on the 1st day of August preceding the filing season and continues into the filing season (see the Form 8633 instructions for the last date to file a new application); however, applications submitted after the 1st day of December preceding the filing season may not be processed in time for the applicant to participate in the Form 1040 IRS *e-file* Program by the start of the filing season; and
- (2) if an applicant purchases an existing Authorized IRS *e-file* Provider's business, a new application and proof of sale must be submitted during the period beginning 45 days before, and ending 30 days after, the date of the purchase.

.06 Revised applications described in sections 4.03 and 4.04 of this revenue procedure must be submitted within 30 days of the change(s) reflected on the revised

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Form 8633 or in the letter. Authorized IRS *e-file* Providers that fail to submit revised applications may be temporarily dropped from the Form 1040 IRS *e-file* Program.

.07 Applicants and Authorized IRS *e-file* Providers described in sections 4.02 through 4.04 of this revenue procedure must file Form 8633 (or a letter as provided in section 4.04 of this revenue procedure) with the Application Processing Center at the address listed in the instructions for Form 8633.

.08 Applicants and Authorized IRS *e-file* Providers described in sections 4.01 through 4.04 of this revenue procedure that intend to participate as a Transmitter or a Software Developer in the Form 1040 IRS *e-file* Program must first successfully complete the necessary testing at the appropriate service center(s). Such testing must be completed for each filing season during which the applicant or Authorized IRS *e-file* Provider intends to participate as a Transmitter or Software Developer.

.09 Each individual listed as a Principal or a Responsible Official on a Form 8633 must:

- (1) be a United States citizen or an alien lawfully admitted for permanent residence as described in 8 U.S.C. § 1101(a)(20) (1994);
- (2) have attained the age of 21 as of the date of application;
- (3) submit with Form 8633 one standard fingerprint card with a full set of fingerprints taken by a law enforcement agency, except as provided in section 4.13 of this revenue procedure;
- (4) except as provided in section 4.17 of this revenue procedure, pass a suitability check that includes a credit check, a tax compliance check, and a fingerprint check; and
- (5) meet any applicable state and local licensing and/or bonding requirements in connection with the preparation of tax returns and the collection of prepared returns that taxpayers intend to have electronically filed. However, if the state and local licensing and/or bonding requirements apply to a business entity, the individual(s) must demonstrate that the business entity meets the requirements.

.10 A Principal for a firm or organization includes the following:

- (1) Sole Proprietorship. The sole proprietor is the Principal for a sole proprietorship.
- (2) Partnership. Each partner who has a 5 percent or more interest in the partnership is a Principal of the partnership. If no partner has at least a 5 percent or more interest in the partnership, the Principal is an individual authorized to act for the partnership in legal and/or tax matters (at least one such individual must be listed on Form 8633).
- (3) Corporation. The President, Vice-President, Secretary, and Treasurer of the corporation are each a Principal of the corporation.
- (4) Other. The Principal for a for-profit entity that is not a sole proprietorship, partnership, or corporation, is an individual authorized to act for the entity in legal and/or tax matters (at least one such individual must be listed on Form 8633).

.11 A Responsible Official is the individual who oversees the daily operations of an Authorized IRS *e-file* Provider's office. A Responsible Official may also be a Principal.

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As set forth in section 4.12 of this revenue procedure, a Responsible Official may be responsible for more than one office.

.12 The Responsible Official categories are:

(1) TIER I RESPONSIBLE OFFICIAL. A "Tier I Responsible Official" is a Responsible Official who does not meet the definition of a "Tier II Responsible Official." A Tier I Responsible Official should be able to visit on a daily basis each office for which he or she is listed as a Responsible Official. A Tier I Responsible Official may be listed on a maximum of ten applications (Forms 8633).

(2) TIER II RESPONSIBLE OFFICIAL. A "Tier II Responsible Official" is an individual who has participated in the Form 1040 ELF Program or Form 1040 IRS *e-file* Program as a Responsible Official during at least the two most recent filing seasons and who has never been suspended from participation in the Form 1040 ELF Program or Form 1040 IRS *e-file* Program. A Tier II Responsible Official should be able to visit on a daily basis any office for which he or she is listed as a Responsible Official. A Tier II Responsible Official may be listed on a maximum of twenty applications (Forms 8633).

.13 In lieu of a standard fingerprint card, an individual may choose to submit evidence that the individual is:

(1) an attorney in good standing of the bar of the highest court of any State, Commonwealth, possession, territory, or the District of Columbia, and is not currently under suspension or disbarment from practice before the Service or the bar of the highest court of any State, Commonwealth, possession, territory, or the District of Columbia;

(2) a certified public accountant who is duly qualified to practice as a certified public accountant in any State, Commonwealth, possession, territory, or the District of Columbia, and is not currently under suspension or disbarment from practice before the Service or whose license to practice is not currently suspended or revoked by any State, Commonwealth, possession, territory, or the District of Columbia;

(3) an enrolled agent pursuant to part 10 of 31 C.F.R. Subtitle A;

(4) an officer of a publicly held corporation; or

(5) a banking official who is bonded and has been fingerprinted within the last two years.

.14 If an Authorized IRS *e-file* Provider has a foreign location, the stateside contact representative will receive all Service correspondence for the foreign location relating to the Form 1040 IRS *e-file* Program.

.15 The Service will issue credentials each year to eligible applicants, Authorized IRS *e-file* Providers that do not have to reapply pursuant to section 4.01 of this revenue procedure, and Authorized IRS *e-file* Providers that comply with section 4.03 or 4.04 of this revenue procedure, provided they have first satisfactorily completed the testing described in section 4.08 of this revenue procedure if they intend to participate as a Transmitter or Software Developer. No one may participate in the Form 1040 IRS *e-file* Program without the following credentials:

(1) a letter of acceptance into the Form 1040 IRS *e-file* Program;

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- (2) an EFIN or a Service Bureau Identification Number (SBIN);
- (3) if appropriate, an ETIN; and
- (4) if appropriate, a Collection Point Identification Number (CPIN).

.16 The Service will not issue a letter of acceptance to an ERO to participate in any Form 1040 IRS *e-file* filing season if the Service did not receive and accept during the immediately preceding filing season any electronically filed returns containing the ERO's EFIN. In addition, an ERO who has been issued a letter of acceptance for any filing season may be dropped from the Form 1040 IRS *e-file* Program if the Service does not receive and accept, prior to the 15th day of April of that filing season, any electronically filed returns containing the ERO's EFIN. In either case, the Service will notify the ERO that it has been dropped from the Form 1040 IRS *e-file* Program and explain what steps the ERO needs to take for future participation in the program.

.17 If an Authorized IRS *e-file* Provider is a Software Developer that performs no other function in the Form 1040 IRS *e-file* Program but software development, no Principal or Responsible Official needs to pass a suitability check.

.18 If an ERO will have a Drop-Off Collection Point(s) (as defined in section 3.04 of this revenue procedure), the ERO must submit a Form 8633 that lists each Drop-Off Collection Point. By listing a Drop-Off Collection Point on Form 8633, an ERO becomes a "parent" in relation to a listed Drop-Off Collection Point.

.19 The Service may reject an application to participate in the Form 1040 IRS *e-file* Program for the following reasons (this list is not all-inclusive). These reasons apply to any firm, organization, Principal, or Responsible Official listed on Form 8633:

- (1) conviction of any criminal offense under the revenue laws of the United States, or of any offense involving dishonesty or breach of trust;
- (2) failure to file timely and accurate tax returns, including returns indicating that no tax is due (unless the applicant did not have a legal filing requirement);
- (3) failure to timely pay any tax liabilities;
- (4) assessment of any tax penalties;
- (5) suspension/disbarment from practice before the Service;
- (6) disreputable conduct or other facts that would reflect adversely on the Form 1040 IRS *e-file* Program;
- (7) misrepresentation on an application;
- (8) suspension or rejection from the program in a prior year;
- (9) unethical practices in return preparation;
- (10) assessment against the applicant of a penalty under § 6695(g) of the Internal Revenue Code;
- (11) stockpiling returns prior to official acceptance into the Form 1040 IRS *e-file* Program (see section 5.14 of this revenue procedure);
- (12) knowingly and directly or indirectly employing or accepting assistance from any firm, organization, or individual that is prohibited from applying to participate in the Form 1040 IRS *e-file* Program (see section 14.09 of this revenue procedure) or that is suspended from participating in the Form 1040 IRS *e-file* Program (see section 13.11 of this revenue procedure). This includes any individual whose actions resulted in the

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rejection or suspension of a corporation or a partnership from the Form 1040 ELF Program or the Form 1040 IRS *e-file* Program; or

(13) knowingly and directly or indirectly accepting employment as an associate, correspondent, or as a subagent from, or sharing fees with, any firm, organization, or individual that is prohibited from applying to participate in the Form 1040 IRS *e-file* Program (see section 14.09 of this revenue procedure) or that is suspended from participating in the Form 1040 IRS *e-file* Program (see section 13.11 of this revenue procedure). This includes any individual whose actions resulted in the rejection or suspension of a corporation or a partnership from the Form 1040 ELF Program or the Form 1040 IRS *e-file* Program.

SECTION 5. RESPONSIBILITIES OF AN AUTHORIZED IRS *e-file* PROVIDER

.01 To ensure that complete returns are accurately and efficiently filed, an Authorized IRS *e-file* Provider must comply with all publications and notices of the Service relating to the Form 1040 IRS *e-file* Program. The Service will from time to time update such publications and notices to reflect changes to the program. It is the responsibility of the Authorized IRS *e-file* Provider to ensure that it complies with the latest version of all publications and notices. The publications and notices governing the Form 1040 IRS *e-file* Program include:

- (1) Publication 1345, Handbook for Electronic Return Originators of Individual Income Tax Returns, and Publication 1345A;
- (2) Publication 1346;
- (3) Publication 1436, Test Package for Electronic Filing of Individual Income Tax Returns; and
- (4) Postings to the Electronic Filing System Bulletin Board (EFS Bulletin Board) and the IRS "Digital Daily" web site at:
<http://www.irs.ustreas.gov>

on the Internet;

.02 An Authorized IRS *e-file* Provider must maintain a high degree of integrity, compliance, and accuracy.

.03 An Authorized IRS *e-file* Provider may accept returns for the Form 1040 IRS *e-file* Program only from the taxpayer filing the return, Drop-Off Collection Points as listed on the ERO's Form 8633 (see section 4.18 of this revenue procedure), or from another Authorized IRS *e-file* Provider.

.04 If the taxpayer's address on a Form W-2, Wage and Tax Statement, Form W-2G, Statement for Recipients of Certain Gambling Winnings, Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., Form 1040, Schedule C, Profit or Loss From Business (Sole Proprietorship), or Form 1040, Schedule C-EZ, Profit or Loss From Business - Short Version, or any other tax form is different than the taxpayer's address in the entity section of the electronic portion of the taxpayer's Form 1040, the ERO or the Service

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Bureau must input for transmission to the Service those addresses that differ from the taxpayer's address on the electronic portion of the taxpayer's Form 1040.

.05 If an Authorized IRS *e-file* Provider charges a fee for the transmission of the electronic portion of a tax return, the fee may not be based on a percentage of the refund amount or any other amount from the tax return. An Authorized IRS *e-file* Provider may not charge a separate fee for Direct Deposit. See section 9 of this revenue procedure.

.06 An Authorized IRS *e-file* Provider must submit a revised Form 8633 (or a letter as provided in section 4.04 of this revenue procedure) to the Application Processing Center within 30 days of when any of the conditions or changes described in section 4.03 or 4.04 of this revenue procedure occur. See section 4.06 of this revenue procedure.

.07 An Authorized IRS *e-file* Provider must notify the Application Processing Center (at the address listed in the instructions for Form 8633) within 30 days of discontinuing its participation in the Form 1040 IRS *e-file* Program. This does not preclude reapplication in the future.

.08 An Authorized IRS *e-file* Provider must ensure that it promptly processes returns submitted to it for electronic filing. See sections 5.14, 5.15, 5.16, and 7.01 of this revenue procedure. However, an Authorized IRS *e-file* Provider that receives a return for electronic filing on or before the due date of the return must ensure that the electronic portion of the return is transmitted on or before that due date (including extensions). An electronically filed return is not considered filed until the electronic portion of the tax return has been acknowledged by the Service as accepted for processing and a completed and signed Form 8453 has been received by the Service. However, if the electronic portion of a return is successfully transmitted on or shortly before the due date and the Authorized IRS *e-file* Provider complies with section 7.01 of this revenue procedure, the return will be deemed timely filed. If the electronic portion of a return is transmitted on or shortly before the due date and is ultimately rejected, but the Authorized IRS *e-file* Provider and the taxpayer comply with section 5.13 of this revenue procedure, the return will be deemed timely filed. For a balance due return, see section 11 of this revenue procedure for instructions on how to make a timely payment of tax.

.09 An Authorized IRS *e-file* Provider that functions as an ERO must:

(1) comply with the procedures for completing and securing Forms 8453 described in section 7 of this revenue procedure;

(2) comply with the procedures described in section 11 of this revenue procedure for handling a balance due return;

(3) while returns are being filed by the ERO, retain and make available to the Service upon request the following material at the business address from which a return was accepted for electronic filing:

(a) a copy of the signed Form 8453 and paper copies of Forms W-2, W-2G, and 1099-R;

(b) a complete copy of the electronic portion of the return (which may be retained on magnetic media) that can be readily and accurately converted into an electronic transmission that the Service can process; and

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(c) the acknowledgement file (stating that the Service accepts the electronic portion of the taxpayer's return for processing) received from the Service or from a third party Transmitter; and

(4) retain until the end of the calendar year in which a return was filed, and make available to the Service upon request the materials described in section 5.09(3) of this revenue procedure at either the business address from which a return was electronically filed or from the contact representative named on Form 8633.

.10 An ERO who is the paid preparer of an electronic tax return must also retain for the prescribed amount of time the materials described in § 1.6107-1(b) that are required to be kept by an income tax return preparer.

.11 An ERO must identify the paid preparer (if any) in the appropriate field of the electronic portion of the return and ensure that the paid preparer signed Form 8453. If Form 8453 is not signed by the paid preparer, the ERO must attach to Form 8453 a copy of pages 1 and 2 of the Form 1040EZ, Form 1040A, or Form 1040 signed by the paid preparer. These copies must be marked "COPY-DO NOT PROCESS" to prevent duplicate filings.

.12 An ERO must ensure against the unauthorized use of its EFIN and, if applicable, the CPIN(s) issued to its Drop-Off Collection Point(s). An ERO must not transfer its EFIN or the CPIN(s) of its Drop-Off Collection Point(s) by sale, merger, loan, gift, or otherwise to another entity.

.13 If the Service rejects the electronic portion of a taxpayer's return (the Service states that it rejects the electronic portion of a taxpayer's return for processing in the acknowledgment file), and the reason for the rejection cannot be rectified by the actions described in section 6.02(3) of this revenue procedure, the ERO, within 24 hours of receiving the rejection, must take reasonable steps to inform the taxpayer that the taxpayer's return has not been filed. When the ERO advises the taxpayer that the taxpayer's return has not been filed, the ERO must provide the taxpayer with the reject code(s), an explanation of the reject code(s), and the sequence number of each reject code(s) (see Publication 1345A). If the taxpayer chooses not to have the electronic portion of the return corrected and transmitted to the Service, or if the electronic portion of the return cannot be accepted for processing by the Service, the taxpayer must file a paper return by the later of:

(1) the due date of the return; or

(2) ten calendar days after the date the Service gives notification that the electronic portion of the return is rejected or that the electronic portion of the return cannot be accepted for processing.

The paper return should include an explanation of why the return is being filed after the due date.

.14 An ERO is responsible for ensuring that stockpiling does not occur at its office(s) or Drop-Off Collection Point(s). Stockpiling means collecting returns from taxpayers or from another Authorized IRS *e-file* Provider prior to official acceptance into the Form 1040 IRS *e-file* Program, or, after official acceptance into the Form 1040 IRS *e-file* Program, waiting more than three calendar days to send a return to the Service after receiving the information necessary for transmission of the electronic portion of a tax return.

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.15 An Authorized IRS *e-file* Provider that participates as a Service Bureau must:

- (1) deliver all electronic returns to a Transmitter or to the ERO who gave the electronic returns to the Service Bureau within three calendar days of receipt;
- (2) retrieve the acknowledgement file from the Transmitter within one calendar day of receipt by the Transmitter;
- (3) send the acknowledgement file to the ERO (whether related or not) within one work day of retrieving the acknowledgement file;
- (4) if the Service Bureau processes Forms 8453, send back to the ERO any return and Form 8453 that needs correction, unless the correction is described in section 6.02(3) of this revenue procedure;
- (5) accept tax return information only from Authorized IRS *e-file* Providers;
- (6) include its SBIN and the ERO's EFIN with all return information the Service Bureau forwards to a Transmitter or sends back to an ERO;
- (7) retain each acknowledgement file received from a Transmitter until the end of the calendar year in which the electronic return was filed;
- (8) if requested, serve as a contact point between its client EROs and the Service;
- (9) if requested, provide the Service with a list of each client ERO; and
- (10) ensure against the unauthorized use of its SBIN. A Service Bureau must not transfer its SBIN by sale, merger, loan, gift, or otherwise to another entity.

.16 An Authorized IRS *e-file* Provider that participates as a Transmitter must:

- (1) send to the Service all electronic portions of returns within three calendar days of receipt;
- (2) retrieve the acknowledgement file within two work days of transmission;
- (3) match the acknowledgement file to the original transmission file and send the acknowledgement file to the ERO or the Service Bureau (whether or not the ERO or the Service Bureau are related to the Transmitter) within two work days of retrieving the acknowledgement file;
- (4) retain an acknowledgement file received from the Service until the end of the calendar year in which the electronic return was filed;
- (5) immediately contact the appropriate service center for further instructions if an acknowledgment of acceptance for processing has not been received by the Transmitter within two work days of transmission or if a Transmitter receives an acknowledgment for a return that was not transmitted on the designated transmission;
- (6) promptly correct any transmission error that causes an electronic transmission to be rejected;
- (7) contact the service center that rejected the electronic portion of the return for assistance if that portion of the return has been rejected after three transmission attempts;
- (8) ensure the security of all transmitted data;
- (9) ensure against the unauthorized use of its EFIN or ETIN. A Transmitter must not transfer its EFIN or ETIN by sale, merger, loan, gift, or otherwise to another entity; and
- (10) not use software that has a Service assigned production password built into the software.

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.17 A Transmitter must accept electronic returns for transmission to the Service only from Authorized IRS *e-file* Providers. A Transmitter must include the ERO's EFIN and if applicable, the CPIN on each return that the Transmitter accepts from an ERO. In addition, a Transmitter must also include a Service Bureau's SBIN if a Service Bureau formats the return information.

.18 An Authorized IRS *e-file* Provider that participates as a Software Developer must:

- (1) promptly correct any software error which causes the electronic portion of a return to be rejected;
- (2) promptly distribute any software correction;
- (3) ensure that any software package that will be used to transmit electronic portions of returns from multiple Authorized IRS *e-file* Providers has the capability of combining returns from these Authorized IRS *e-file* Providers into one Service transmission file taking into account the sorting requirements of the Declaration Control Number (DCN);
- (4) ensure that no other entity uses the Software Developer's EFIN or ETIN. A Software Developer must not transfer by sale, merger, loan, gift, or otherwise its EFIN or ETIN to another entity; and
- (5) not incorporate into its software a Service assigned production password.

.19 An ERO with a Drop-Off Collection Point must clearly display its name at each Drop-Off Collection Point. The Service will hold the ERO responsible for any violation of the advertising standards described in section 12 or any other violation of this revenue procedure that occurs at a Drop-Off Collection Point listed on the ERO's Form 8633. The ERO must also serve as the contact point between the Service and the Drop-Off Collection Point for all correspondence including problem resolution and report evaluation.

.20 In addition to the specific responsibilities described in this section, an Authorized IRS *e-file* Provider must meet all the requirements in this revenue procedure to retain the privilege of participating in the Form 1040 IRS *e-file* Program.

SECTION 6. PENALTIES

.01 Penalties for Disclosure or Use of Information.

(1) An Authorized IRS *e-file* Provider, except a Software Developer, is a tax return preparer (Preparer) under the definition of § 301.7216-1(b) of the Regulations on Procedure and Administration. A Preparer is subject to a criminal penalty for unauthorized disclosure or use of tax return information. See § 7216 of the Internal Revenue Code and § 301.7216-1(a). In addition, § 6713 establishes civil penalties for unauthorized disclosure or use of tax return information.

(2) Under § 301.7216-2(h), disclosure of tax return information among Authorized IRS *e-file* Providers for the purpose of preparing a return is permissible. For example, an ERO may pass on tax return information to a Service Bureau and/or a Transmitter for the purpose of having an electronic return formatted and transmitted to the Service. However, if the tax return information is disclosed or used in any other

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way, a Service Bureau and/or a Transmitter may be subject to the penalties described in section 6.01(1) of this revenue procedure.

.02 Other Preparer Penalties.

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

(2) Under § 301.7701-15(d), Electronic Return Collectors, Service Bureaus, Transmitters, and Software Developers are not income tax return preparers for the purpose of assessing most preparer penalties as long as their services are limited to "typing, reproduction, or other mechanical assistance in the preparation of a return or claim for refund."

(3) If an Electronic Return Collector, Service Bureau, Transmitter, or the product of a Software Developer alters the return information in a nonsubstantive way, this alteration will be considered to come under the "mechanical assistance" exception described in § 301.7701-15(d)(1). A nonsubstantive change is a correction or change limited to a transposition error, misplaced entry, spelling error, or arithmetic correction that falls within the following tolerances:

(a) the amount of "Total tax", "Federal income tax withheld", "Refund", or "Amount you owe" on Form 8453 differs from the corresponding amount on the electronic portion of the tax return by no more than \$7;

(b) the amount of "Total income" on Form 8453 differs from the corresponding amount on the electronic portion of the tax return by no more than \$25; or

(c) dropping cents and rounding to whole dollars.

(4) If an Electronic Return Collector, Service Bureau, or Transmitter alters the return information in a substantive way, rather than having the taxpayer alter the return, the Electronic Return Collector, Service Bureau, or Transmitter will be considered to be an income tax return preparer for purposes of § 7701(a)(36).

(5) If an Electronic Return Collector, Service Bureau, or Transmitter, or the product of a Software Developer, goes beyond mechanical assistance, any of these parties may be held liable for income tax return preparer penalties. See Rev. Rul. 85-189, 1985-2 C.B. 341 (which describes a situation where a Software Developer was determined to be an income tax return preparer and subject to certain preparer penalties).

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

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SECTION 7. FORM 8453, U.S. INDIVIDUAL INCOME TAX DECLARATION FOR AN IRS *e-file* RETURN

.01 Procedures for Completing Form 8453.

(1) Form 8453 must be completed in accordance with the instructions for that form.

(2) The taxpayer(s)'s name, address, social security number(s), and tax return information in the electronic transmission must be identical to the information on the Form 8453 that the taxpayer(s) signed and provided for submission to the Service.

(3) An Authorized IRS *e-file* Provider, a financial institution, or any other entity associated with the electronic filing of a taxpayer's return must not put its address in the section reserved for the taxpayer's address on Form 8453 or anywhere in the electronic portion of a return.

(4) Before the electronic portion of the return is transmitted, the taxpayer must verify the information on the electronic portion of the return and on Form 8453, and must sign Form 8453. Both spouses' signatures are required on the Form 8453 prior to the electronic transmission of a joint tax return. The taxpayer may verify the information on the electronic portion of the return by viewing this information on a computer display terminal. A taxpayer need not verify the electronic portion of the return prior to its transmission if the taxpayer provided a completed paper return for filing and the information on the electronic portion is identical to the information provided by the taxpayer.

(5) An Authorized IRS *e-file* Provider must submit the taxpayer's Form 8453 to the service center that acknowledged acceptance of the electronic portion of the return within one work day after the Authorized IRS *e-file* Provider receives the acknowledgment file.

(6) An Authorized IRS *e-file* Provider functioning as an ERO must sign the "Declaration of ERO" on Form 8453.

(7) If the ERO is also the paid preparer, the ERO must check the "Paid Preparer" box and sign the "Declaration of ERO" on Form 8453.

.02 Corrections to Form 8453.

(1) A new Form 8453 is not required for a nonsubstantive change. A nonsubstantive change is limited to a correction that does not exceed the tolerances described in section 7.02(2) of this revenue procedure for arithmetic errors, a transposition error, a misplaced entry, or a spelling error. The incorrect nonsubstantive information must be neatly lined through on the Form 8453 and the correct data entered next to the lined-through entry. Also, the individual making the correction must initial the correction.

(2) The tolerances for section 7.02(1) of this revenue procedure are:

(a) the amount of "Total income" does not differ from the amount on the electronic portion of the tax return by more than \$25; or

(b) the amount of "Total tax", "Federal income tax withheld", "Refund", or "Amount you owe" does not differ from the amount on the electronic portion of the tax return by more than \$7.

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(3) If the ERO makes a substantive change to the electronic portion of the return after Form 8453 has been signed by the taxpayer, but before it is transmitted, the ERO must have all the necessary parties described above sign a new Form 8453 that reflects the corrections before the electronic portion of the return is transmitted.

(4) Dropping cents or rounding to whole dollars does not constitute a substantive change or alteration to the return unless the amount differs by more than the above tolerances. All rounding should be accomplished in accordance with the instructions in the Form 1040 tax package.

.03 Missing Form 8453. If the Service determines that a Form 8453 is missing, the ERO must provide the Service with a replacement. The ERO must also provide a copy of the Form(s) W-2, W-2G, 1099R, and all other attachments to Form 8453.

.04 Substitute Form 8453. If a substitute Form 8453 is used, it must be approved by the Service prior to use.

SECTION 8. INFORMATION AN AUTHORIZED IRS *e-file* PROVIDER MUST FURNISH TO THE TAXPAYER

.01 The ERO must furnish the taxpayer with a complete paper copy of the taxpayer's return. However, the copy need not contain the social security number of the paid preparer. See Rev. Rul. 78-317, 1978-2 C.B. 335. A complete copy of a taxpayer's return includes:

(1) Form 8453 and other paper documents that cannot be electronically transmitted; and

(2) a printout of the electronic portion of the return.

See section 2.02 of this revenue procedure. The electronic portion of the return can be contained on a replica of an official form or on an unofficial form. However, on an unofficial form, data entries must be referenced to the line numbers on an official form. Also, a printout of the electronic portion of the return does not have to be provided to the taxpayer if the taxpayer provided a completed paper return for electronic filing and the information on the electronic portion of the return is identical to the information provided by the taxpayer.

.02 The ERO must advise the taxpayer to retain a complete copy of the return and any supporting material.

.03 The ERO must advise the taxpayer that an amended return, if needed, must be filed as a paper return and mailed to the service center that would handle the taxpayer's paper return.

.04 The ERO must, upon request, provide the taxpayer with the DCN and the date the Service acknowledged that the electronic portion of the taxpayer's return was accepted for processing.

.05 The ERO must advise taxpayers of the appropriate IRS TeleTax number to inquire about the status of their tax refund. The ERO should also advise taxpayers to wait at least three weeks from the date the Service acknowledged that the electronic portion of the taxpayer's return was accepted for processing before calling the TeleTax number.

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.06 If a taxpayer chooses to use an address other than his or her home address on the return, the ERO must inform the taxpayer that the address on the electronic portion of the return, once processed by the Service, will be used to update the taxpayer's address of record. The Service uses the taxpayer's address of record for various notices that are required to be sent to a taxpayer's "last known address" under the Internal Revenue Code, and for refunds of overpayments of tax (unless otherwise specifically directed by the taxpayer, such as by Direct Deposit).

SECTION 9. DIRECT DEPOSIT OF REFUNDS

.01 The Service will ordinarily process a request for Direct Deposit but reserves the right to issue a paper refund check.

.02 The Service does not guarantee a specific date by which a refund will be directly deposited into the taxpayer's financial institution account.

.03 Neither the Service nor Financial Management Service (FMS) is responsible for the misapplication of a Direct Deposit that is caused by error, negligence, or malfeasance on the part of the taxpayer, Authorized IRS *e-file* Provider, financial institution, or any of their agents.

.04 An ERO must:

(1) advise taxpayers of the option to receive their refund by paper check or direct deposit;

(2) not charge a separate fee for a Direct Deposit;

(3) accept any Direct Deposit election to any eligible financial institution designated by the taxpayer;

(4) ensure that the taxpayer is eligible to choose Direct Deposit;

(5) caution the taxpayer that once the electronic portion of the return has been accepted for processing by the Service:

(a) the Direct Deposit election cannot be rescinded;

(b) the routing number of the financial institution cannot be changed; and

(c) the taxpayer's account number cannot be changed; and

(6) advise the taxpayer that refund information is available by calling the appropriate IRS TeleTax number. See section 8.05 of this revenue procedure.

SECTION 10. REFUND ANTICIPATION LOANS

.01 A Refund Anticipation Loan (RAL) is money borrowed by a taxpayer that is based on a taxpayer's anticipated income tax refund. The Service has no involvement in RALs. A RAL is a contract between the taxpayer and the lender.

.02 Any entity that is involved in the Form 1040 IRS *e-file* Program, including a financial institution that accepts direct deposits of income tax refunds, has an obligation to every taxpayer who applies for a RAL to clearly explain to the taxpayer that a RAL is in fact a loan, and not a substitute for, or a quicker way of, receiving an income tax refund. An Authorized IRS *e-file* Provider must advise the taxpayer that if a Direct Deposit is not timely, the taxpayer may be liable to the lender for additional interest on the RAL.

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.03 An Authorized IRS *e-file* Provider may assist a taxpayer in applying for a RAL.

.04 An Authorized IRS *e-file* Provider may charge a flat fee to assist a taxpayer in applying for a RAL. The fee must be identical for all of the Authorized IRS *e-file* Provider's customers and must not be related to the amount of the refund or a RAL. The Authorized IRS *e-file* Provider must not accept a fee from a financial institution for any service connected with a RAL that is contingent upon the amount of the refund or a RAL.

.05 The Service has no responsibility for the payment of any fees associated with the preparation of a return, the transmission of the electronic portion of a return, or a RAL.

.06 An Authorized IRS *e-file* Provider may disclose tax information to the lending financial institution in connection with an application for a RAL only with the taxpayer's written consent as specified in § 301.7216-3(b).

.07 An Authorized IRS *e-file* Provider that is also the return preparer, and the financial institution or other lender that makes an RAL, may not be related taxpayers within the meaning of § 267 or § 707.

.08 Section 6695(f) imposes a \$500 penalty on a return preparer who endorses or negotiates a refund check issued to any taxpayer other than the return preparer. However, a bank, as defined in § 581, may accept the full amount of a refund check as a deposit in the taxpayer's account for the benefit of the taxpayer. Section 1.6695-1(f) clarifies § 6695(f) by explaining that the prohibition on a return preparer negotiating a refund check is limited to a refund check for a return that the return preparer prepared. A preparer that is also a financial institution, but has not made a loan to the taxpayer on the basis of the taxpayer's anticipated refund, may (1) cash a refund check and remit all of the cash to the taxpayer or accept a refund check for deposit in full to a taxpayer's account, provided the bank does not initially endorse or negotiate the check; or (2) endorse a refund check for deposit in full to a taxpayer's account pursuant to a written authorization of the taxpayer. A preparer bank may also subsequently endorse or negotiate a refund check as part of the check-clearing process through the financial system after initial endorsement. Any income tax return preparer that violates this provision may be suspended from the Form 1040 IRS *e-file* Program.

SECTION 11. BALANCE DUE RETURNS

.01 All service centers that accept electronically filed returns will accept electronically filed balance due returns.

.02 Taxpayers who file balance due returns under the Form 1040 IRS *e-file* Program for any taxable year are responsible for making full and timely payment of any tax that is due. Failure to make full payment on or before the due date of the return (determined without regard to extensions) will result in the imposition of interest and may result in the imposition of penalties.

.03 Taxpayers have several options for paying balances due, including the following:

(1) DIRECT DEBIT. Taxpayers may authorize the Service to debit their checking or savings account for the amount of the balance due;

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(2) **PAY BY CHECK.** Taxpayers may pay any balance due by sending a check, along with Form 1040-V, Payment Voucher, to the Service. The Authorized IRS *e-file* Provider must furnish Form 1040-V to any taxpayer paying a balance due by check; and

(3) **INSTALLMENT AGREEMENT.** Taxpayers who cannot pay the balance due with the return may request an installment payment arrangement by filing Form 9465, Installment Agreement Request, with their return.

SECTION 12. ADVERTISING STANDARDS FOR AUTHORIZED IRS *e-file* PROVIDERS AND FINANCIAL INSTITUTIONS

.01 An Authorized IRS *e-file* Provider must comply with the advertising and solicitation provisions of 31 C.F.R. Part 10 (Treasury Department Circular No. 230). This circular prohibits the use or participation in the use of any form of public communication containing a false, fraudulent, misleading, deceptive, unduly influencing, coercive, or unfair statement or claim. Any claims concerning faster refunds by virtue of electronic filing must be consistent with the language in official Service publications.

.02 An Authorized IRS *e-file* Provider must adhere to all relevant federal, state, and local consumer protection laws that relate to advertising and soliciting.

.03 An Authorized IRS *e-file* Provider must not use the Service's name, "Internal Revenue Service" or "IRS", within a firm's name. However, once accepted into the Form 1040 IRS *e-file* Program, a participant may represent itself as an "Authorized IRS *e-file* Provider."

.04 An Authorized IRS *e-file* Provider must not use improper or misleading advertising in relation to the Form 1040 IRS *e-file* Program (including the time frames for refunds and RALs).

.05 An Authorized IRS *e-file* Provider using promotional materials or logos provided by the Service must comply with all Service instructions pertaining to the promotional materials or logos.

.06 An Authorized IRS *e-file* Provider using the Direct Deposit name and logo must comply with the following:

(1) The name "Direct Deposit" will be used with initial capital letters or all capital letters;

(2) The logo/graphic for Direct Deposit will be used whenever feasible in advertising copy; and

(3) The color or size of the Direct Deposit logo/graphic may be changed when used in advertising pieces.

.07 Advertising materials must not carry the FMS, IRS, or other Treasury Seals.

.08 Advertising for a cooperative electronic return filing project (public/private sector) must clearly state the names of all cooperating parties.

.09 In advertising the availability of a RAL, an Authorized IRS *e-file* Provider and a financial institution must clearly (and, if applicable, in easily readable print) refer to or describe the funds being advanced as a loan, not a refund; that is, it must be made clear in the advertising that the taxpayer is borrowing against the anticipated refund and not obtaining the refund itself from the financial institution.

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.10 If an Authorized IRS *e-file* Provider uses radio or television broadcasting to advertise, the broadcast must be pre-recorded. The Authorized IRS *e-file* Provider must keep a copy of the pre-recorded advertisement for a period of at least 36 months from the date of the last transmission or use.

.11 If an Authorized IRS *e-file* Provider uses direct mail or fax communications to advertise, the Authorized IRS *e-file* Provider must retain a copy of the actual mailing or fax, along with a list or other description of the firms, organizations, or individuals to whom the communication was mailed, faxed, or otherwise distributed for a period of at least 36 months from the date of the last mailing, fax, or distribution.

.12 Acceptance to participate in the Form 1040 IRS *e-file* Program does not imply endorsement by the Service, FMS, or the Treasury Department of the software or quality of services provided.

SECTION 13. MONITORING AND SUSPENSION OF AN AUTHORIZED IRS *e-file* PROVIDER

.01 The Service will monitor an Authorized IRS *e-file* Provider for conformity with this revenue procedure. Before suspending an Authorized IRS *e-file* Provider, the Service may issue a warning letter that describes specific corrective action for deviations from this revenue procedure. However, the Service can immediately suspend, without notice, an Authorized IRS *e-file* Provider from the Form 1040 IRS *e-file* Program. In most circumstances, a suspension from participation in the Form 1040 IRS *e-file* Program is effective as of the date of the letter informing the Authorized IRS *e-file* Provider of the suspension.

.02 If a Principal or Responsible Official is suspended from the Form 1040 IRS *e-file* Program, every entity that listed the suspended Principal or Responsible Official on its Form 8633 may also be suspended.

.03 The Service will monitor the Authorized *e-file* Provider's compliance with the provisions of section 6695(g) (relating to the due diligence requirements for returns claiming the earned income credit).

.04 The Service will monitor the timely receipt of Forms 8453, as well as their overall legibility.

.05 The Service will monitor the quality of an Authorized IRS *e-file* Provider's transmissions throughout the filing season. The Service will also monitor the electronic portion of returns and tabulate rejections, errors, and other defects. If quality deteriorates, the Authorized IRS *e-file* Provider will receive a warning from the Service.

.06 The Service will monitor Drop-Off Collection Points and advise a parent of any Form 1040 IRS *e-file* Program violations the Service has encountered with a parent's Drop-Off Collection Point. If a parent fails to correct a Drop-Off Collection Point problem, the parent will be required to eliminate that Drop-Off Collection Point. Failure to take corrective action or eliminate a Drop-Off Collection Point may cause the Service to suspend the parent from participating in the Form 1040 IRS *e-file* Program.

.07 The Service will monitor complaints about an Authorized IRS *e-file* Provider and issue a warning or suspension letter as appropriate.

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.08 The Service reserves the right to suspend an Authorized IRS *e-file* Provider from participation in the Form 1040 IRS *e-file* Program for violating any provision of this revenue procedure. Generally, the Service will advise a suspended Authorized IRS *e-file* Provider concerning the requirements for reacceptance into the Form 1040 IRS *e-file* Program. The following reasons may lead to a warning letter and/or suspension of an Authorized IRS *e-file* Provider from the Form 1040 IRS *e-file* Program (this list is not all-inclusive):

- (1) the reasons listed in section 4.19 of this revenue procedure;
- (2) deterioration in the format of individual transmissions;
- (3) unacceptable cumulative error or rejection rate;
- (4) untimely received, illegible, incomplete, missing, or unapproved substitute Forms 8453;
- (5) stockpiling returns at any time while participating in the Form 1040 IRS *e-file* Program;
- (6) failure on the part of a Transmitter to retrieve acknowledgement files within two work days of transmission by the Service;
- (7) failure on the part of a Transmitter to provide an ERO or Service Bureau with acknowledgement files within two work days after receipt from the Service;
- (8) significant complaints about an Authorized IRS *e-file* Provider's performance in the Form 1040 IRS *e-file* Program;
- (9) failure on the part of an Authorized IRS *e-file* Provider to ensure against the unauthorized use of its EFIN and/or ETIN;
- (10) having more than one EFIN for the same business entity at the same location (the business entity is generally the entity that reports on its return the income derived from electronic filing), unless the Service has issued more than one EFIN to a business entity at the same location. For example, the Service may issue more than one EFIN to accommodate high volumes of returns;
- (11) failure on the part of a Transmitter to include a Service Bureau's SBIN in the transmission of a return submitted by a Service Bureau;
- (12) failure on the part of an ERO to include a Drop-Off Collection Point's CPIN as part of a return collected from a Drop-Off Collection Point;
- (13) failure on the part of an Authorized IRS *e-file* Provider to cooperate with the Service's efforts to monitor Authorized IRS *e-file* Providers and investigate electronic filing abuse;
- (14) failure on the part of an Authorized IRS *e-file* Provider to properly use the standard/non-standard W-2 indicator;
- (15) failure on the part of an Authorized IRS *e-file* Provider to properly use the refund anticipation loan (RAL) indicator;
- (16) failure on the part of a Service Bureau or a Transmitter to include the ERO's EFIN as part of a return that the ERO submits to the Service Bureau or the Transmitter;
- (17) violation of the advertising standards described in section 12 of this revenue procedure;
- (18) failure to maintain and make available records as described in section 5.09(4) of this revenue procedure;

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(19) accepting a tax return for filing through the Form 1040 IRS *e-file* Program either directly or indirectly from a firm, organization, or individual (other than the taxpayer who is submitting his or her return) that is not an Authorized IRS *e-file* Provider;

(20) submitting the electronic portion of a return with information that is not identical to the information on Form 8453;

(21) failure to timely submit a revised Form 8633 (or a letter containing the same information contained in a revised Form 8633) notifying the Service of changes described in section 4.03 or 4.04 of this revenue procedure; or

(22) failure to comply with a provision of an implementing document for any pilot program in which the Authorized IRS *e-file* Provider is a participant (see section 18 of this revenue procedure).

.09 The Service may list in the Internal Revenue Bulletin, district office listings, district office newsletters, and the EFS Bulletin Board the name and owner(s) of any entity suspended from the Form 1040 IRS *e-file* Program and the effective date of the suspension.

.10 A district director may warn Authorized IRS *e-file* Providers that are using the services of a rejected or a suspended Authorized IRS *e-file* Provider that sections 4.19(12) and (13) of this revenue procedure prohibit a business relationship with a rejected or a suspended Authorized IRS *e-file* Provider. However, in appropriate circumstances, the Service may immediately suspend the Authorized IRS *e-file* Provider without such warning.

.11 If an Authorized IRS *e-file* Provider is suspended from participating in the Form 1040 IRS *e-file* Program, the period of suspension includes the remainder of the calendar year in which the suspension occurs plus the next two calendar years. A suspended participant may submit a new application for the application period immediately preceding the end of the suspension.

SECTION 14. ADMINISTRATIVE REVIEW PROCESS FOR DENIAL OF PARTICIPATION IN THE FORM 1040 IRS *e-file* PROGRAM

.01 An applicant that has been denied participation in the Form 1040 IRS *e-file* Program has the right to an administrative review. During the administrative review process, the denial of participation remains in effect.

.02 In response to the submission of a Form 8633, the Application Processing Center will either (1) accept an applicant into the Form 1040 IRS *e-file* Program, or (2) issue a proposed letter of denial that explains to the applicant why the Application Processing Center proposes to reject the application to participate in the Form 1040 IRS *e-file* Program.

.03 An applicant that receives a proposed letter of denial may mail or deliver, within 30 calendar days of the date of the proposed letter of denial, a written response to the Application Processing Center. The applicant's response must address the Application Processing Center's reason(s) for proposing the denial to participate.

.04 Upon receipt of an applicant's written response, the Application Processing Center will reconsider its proposed letter of denial. The Application Processing Center

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may either (1) withdraw its proposed letter of denial and accept the applicant into the Form 1040 IRS *e-file* Program, or (2) finalize the proposed denial letter.

.05 If an applicant receives a final denial letter from the Application Processing Center, the applicant is entitled to an appeal, in writing, to the Director of Practice.

.06 The appeal must be mailed or delivered to the Application Processing Center within 30 calendar days of the date of the final denial letter. An applicant's written appeal must contain a detailed explanation, with supporting documentation, of why the denial should be reversed.

.07 The Application Processing Center will, upon receipt of a written appeal to the Director of Practice, forward to the Director of Practice its file on the applicant and the material described in section 14.06 of this revenue procedure. The Application Processing Center will forward these materials to the Director of Practice within 15 calendar days of receipt of the applicant's written appeal.

.08 Failure to respond within either of the 30-day periods described in sections 14.03 and 14.06 of this revenue procedure irrevocably terminates an applicant's right to an administrative review or appeal.

.09 If an application for participation in the Form 1040 IRS *e-file* Program is denied, the applicant is ineligible to submit a new application for two years from the application date of the denied application.

SECTION 15. ADMINISTRATIVE REVIEW PROCESS FOR SUSPENSION FROM THE FORM 1040 IRS *e-file* PROGRAM

.01 An Authorized IRS *e-file* Provider that has been suspended from participation in the Form 1040 IRS *e-file* Program has the right to an administrative review. During the administrative review process, the suspension remains in effect.

.02 If an Authorized IRS *e-file* Provider receives a suspension letter, the Authorized IRS *e-file* Provider may mail or deliver, within 30 calendar days of the date of the suspension letter, a detailed written explanation, with supporting documentation, of why the suspension letter should be withdrawn. This written response should be sent to the district office or service center that issued the suspension letter.

.03 Upon receipt of the Authorized IRS *e-file* Provider's written response, the district office or service center will reconsider its suspension of the Authorized IRS *e-file* Provider. The district office or service center may either (1) withdraw its suspension letter, or (2) affirm the suspension.

.04 If an Authorized IRS *e-file* Provider receives a letter affirming the suspension, the Authorized IRS *e-file* Provider is entitled to an appeal, in writing, to the Director of Practice.

.05 The appeal must be mailed or delivered to the district office or service center that issued the suspension letter within 30 calendar days of the date of the letter affirming the suspension. The Authorized IRS *e-file* Provider's written appeal must contain detailed reasons, with supporting documentation, for reversal of the suspension.

.06 The district office or service center whose decision to suspend is being appealed will, upon receipt of a written appeal to the Director of Practice, forward its file

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on the Authorized IRS *e-file* Provider to the Director of Practice. The district office or service center will also forward to the Director of Practice the material described in section 15.05 of this revenue procedure. The district office or the service center will forward these materials within 15 calendar days of the receipt of the Authorized IRS *e-file* Provider's written request for appeal.

.07 Failure to appeal within either of the 30-day periods described in sections 15.02 and 15.05 of this revenue procedure irrevocably terminates an Authorized IRS *e-file* Provider's right to an appeal.

SECTION 16. VITA AND TCE SPONSORED PARTICIPATION IN THE FORM 1040 IRS *e-file* PROGRAM

.01 This revenue procedure applies to VITA (Volunteer Income Tax Assistance) and TCE (Tax Counseling for the Elderly) sponsors, subject to the exceptions and restrictions described in this section.

.02 For purposes of this section, the District Director may be represented by an individual designated by the District Director such as a District Office Electronic Tax Administration (ETA) Coordinator or a Taxpayer Education Coordinator.

.03 To be accepted in, or to continue participation in, the Form 1040 IRS *e-file* Program, a VITA or TCE sponsor must:

(1) have obtained the District Director's permission (and, in the case of a TCE sponsor, the permission of the Service office that is funding the TCE program) to provide electronic filing; and

(2) have a manual or electronic quality review system for each return to be electronically filed.

.04 The District Director will advise the VITA and TCE sponsor how to submit or transmit returns. Some of the options available to the District Director are:

(1) having the VITA or TCE sponsor submit returns on paper, magnetic disk, or in an electronic transmission to the District Office ETA Coordinator or other locally designated office;

(2) having the VITA or TCE sponsor directly transmit returns to the appropriate service center; or

(3) having the VITA or TCE sponsor use a third party Transmitter.

.05 A VITA or TCE sponsor is not required to sign Form 8453 as ERO. However, if the VITA or TCE sponsor chooses not to sign Form 8453, the VITA or TCE sponsor must otherwise furnish on Form 8453 its VITA or TCE acronym and, if operating from multiple sites, a site designation number.

.06 A VITA or TCE sponsor can only accept a return for electronic filing that is (1) prepared at the VITA or TCE site by a VITA or TCE volunteer, (2) prepared by a taxpayer that meets the criteria for VITA or TCE assistance, or (3) prepared by a paid preparer that meets the criteria for VITA or TCE assistance.

.07 Only returns and accompanying forms and schedules included in a district, VITA, or TCE training course may be accepted for electronic filing by a VITA or TCE sponsor.

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.08 A VITA or TCE sponsor and a District Director may enter into an agreement that provides for the retention of copies of tax returns and Forms 8453 by a District Director. This information must be retained by either the VITA or TCE sponsor or a District Director. This information must not be given to a third party, including a third party Transmitter.

.09 A District Director is responsible for ensuring that Form 8453 is sent to the appropriate district office or service center. However, a District Director may delegate to the VITA or TCE sponsor the responsibility for mailing Form 8453 to the appropriate district office or service center.

.10 A VITA or TCE sponsor may collect a fee only if it is directly related to defraying the actual cost of electronically transmitting a tax return. A VITA or TCE sponsor may also collect this fee on behalf of a third party Transmitter who electronically transmitted a VITA or TCE return.

.11 Before a VITA or TCE sponsor may collect a fee for electronically filing a tax return, the VITA or TCE sponsor must ensure that the taxpayer understands that:

- (1) the fee is not for the preparation of the return; and
- (2) the VITA or TCE service is offered without regard to either the electronic filing of a return or the collection of a fee.

SECTION 17. EMPLOYER SPONSORED PARTICIPATION IN THE FORM 1040 IRS e-file PROGRAM

.01 This revenue procedure applies to an employer who chooses to offer electronic filing as an employee benefit to (1) business owners and spouses, (2) employees and spouses, and/or (3) dependents of business owners and employees, subject to the exceptions and restrictions described in this section.

.02 For purposes of this section, the District Director may be represented by an individual designated by the District Director.

.03 An employer may choose to transmit the electronic portion of returns or may arrange to have them transmitted through a third party. If an employer chooses to transmit from more than one location, the employer must submit a properly completed Form 8633 for each location.

.04 An employer may offer electronic filing as an employee benefit whether the employer chooses to transmit tax returns or contracts with a third party to transmit the tax returns.

.05 If an employer contracts with a third party to transmit tax returns, the employer may collect from participating employees a fee that is directly related to defraying the actual cost of transmitting the electronic portion of a tax return.

.06 An employer is not required to sign Form 8453 as ERO. However, if the employer chooses not to sign Form 8453, the employer must otherwise furnish on Form 8453 its name, address, and the designation "Employee Benefit," and if operating from multiple sites, a site designation number.

.07 An employer and a District Director may enter into an agreement that provides for the retention of copies of tax returns including Forms 8453. In the absence of such

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an agreement, this information must be retained by the employer. This information is not to be given to a third party, including a third party Transmitter.

SECTION 18. PILOT PROGRAMS

.01 The Service regularly conducts pilot programs to introduce new technology into the Form 1040 IRS *e-file* Program. These pilot programs are usually conducted within a limited geographic area or within a limited taxpayer or practitioner community. The Service establishes rules for participating in these pilot programs and embodies these rules in an implementing document typically referred to as a "Memorandum of Understanding" (MOU) or "Memorandum of Agreement" (MOA). Pilot participants must agree to the provisions of the implementing document in order to participate in the pilot program.

.02 An implementing document supplements this revenue procedure, but does not supersede it. Participants in a pilot program remain subject to the provisions of this revenue procedure unless the implementing document specifically provides otherwise.

.03 A violation of a provision of an implementing document is considered a violation of this revenue procedure and may subject the participant to penalties and/or suspension as provided in this revenue procedure. See section 13.08(22) of this revenue procedure.

SECTION 19. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 97-60, 1997-52 I.R.B. 38, is superseded.

SECTION 20. EFFECTIVE DATE

This revenue procedure is effective September 21, 1998.

SECTION 21. INTERNAL REVENUE SERVICE OFFICE CONTACT

All questions regarding this revenue procedure should be directed to the Internal Revenue Service. The telephone number for this purpose is (202) 283-0531 (not a toll-free number).

SECTION 22. PAPERWORK REDUCTION ACT

The collections of information contained in this revenue procedure have been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1512.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number.

The collections of information in this revenue procedure are in sections 5, 8, 9, and 12. This information is required to implement the Form 1040 IRS *e-file* Program and to

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enable taxpayers to file their individual income tax returns electronically. The information will be used to ensure that taxpayers receive accurate and essential information regarding the filing of their electronic returns and to identify the persons involved in the filing of electronic returns. The collections of information are required to retain the benefit of participating in the Form 1040 IRS *e-file* Program. The likely respondents are business or other for-profit institutions.

The estimated total annual reporting and recordkeeping burden is 1,146,272 hours.

The estimated annual burden per respondent/recordkeeper varies from six (6) minutes to 15.5 hours, depending on individual circumstances, with an estimated average of 15.28 hours (or approximately six (6) minutes per electronically filed return). The estimated number of respondents and recordkeepers is 75,000.

The estimated annual frequency of responses is on occasion.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. § 6103.

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