



ELECTRONIC TAX  
ADMINISTRATION

# A Strategy for Growth





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# Introduction

## SUMMARY OF CHANGES

### GOAL

By the year 2007:  
80 percent of all  
tax returns filed  
electronically

### INTERIM GOAL

By the year 2003,  
all returns prepared  
electronically –  
filed electronically

**In December 1998, the Internal Revenue Service (IRS) issued for public comment its first-ever version of “A Strategy for Growth” to articulate Electronic Tax Administration’s (ETA) mission, goals and strategies for revolutionizing how taxpayers transact and communicate with the IRS. As required by the IRS Restructuring and Reform Act of 1998, the Strategic Plan was designed to eliminate barriers, provide incentives and use competitive market forces to make significant progress toward:**

- 1) the overriding goal of 80 percent of all tax and information returns being filed electronically by 2007, and**
- 2) the interim goal that, to the extent practicable, all returns prepared electronically should be filed electronically by 2003.**

This second annual update to the Strategic Plan for ETA reflects the recommendations that have been made by the Electronic Tax Administration Advisory Committee (ETAAC) and other key stakeholders, as well as the significant developments that have occurred during the past year. Specifically, increased emphasis is placed in this year’s Strategic Plan on the following:

- ensuring that ETA’s Strategic Plan is integrated with IRS’ new strategic planning and budgeting process;
- adding a new strategy to encourage private sector innovation and competition;
- establishing an ETA Policy Council to provide an effective governance structure for the ETA Program;
- transferring management responsibility for the IRS Internet to ETA;
- refining ETA’s vision statement;
- continuing to clarify ETA’s strategic goals including adding specific goals for electronic payment and communication;
- finalizing plans for addressing key issues such as expanding the use of electronic signatures and accepting all forms and schedules;
- refining ETA’s schedule for products and services;
- providing updated information on taxpayer attitudes and demographics; and
- revising IRS’ projections of individual *e-file* returns and also including business tax return and information return projections.

## PROGRESS

2000 vs 1999:  
20.7 percent increase  
in Form 1040  
IRS *e-file* receipts,  
totaling 35.4 million

### The Best Filing Season in Years

***e-file* Record Set:** IRS Commissioner Rossotti proclaimed the 2000 filing season the best in years, highlighted by the IRS surpassing its own projections for electronically filed returns. During the record-setting 2000 filing season:

- 35.4 million taxpayers filed electronically, a 20.7 percent increase over the prior year;
- over 25 million taxpayers *e-filed* through an Authorized IRS *e-file* Provider, an 18.8 percent increase over last year;
- on-line filing more than doubled with 5.0 million returns filed on-line via a home computer through a third party transmitter; and
- 12 million taxpayers in 35 states and the District of Columbia filed both their federal and state returns in a single electronic transmission, up 36 percent from last year.

**Nearly Seven Million Paperless Returns Filed:** For the second year in a row, the IRS conducted two tests involving the use of a Personal Identification Number (PIN) as the taxpayer's signature, eliminating the need to file the paper jurat. The tests were resounding successes and, as described further on page five, paved the way for a new program that will be launched in the 2001 filing season.

- 5.4 million taxpayers participated in the Practitioner PIN pilot compared to 499,606 taxpayers for all of 1999. Taxpayers were able to select a PIN when filing through 18,000 participating preparers.
- The use of *e-file* Customer Numbers (ECNs) by at-home filers also increased significantly from 660,209 to 1.4 million in 2000. Under this pilot, the IRS distributed these ECNs to taxpayers who prepared their own returns using tax preparation software to file from their home computers.

Adding in the 5.2 million TeleFilers who also filed paperless returns means that 12 million taxpayers, one-third of all electronic filers, did not submit any paper to the IRS when filing their 1999 tax returns.

**Nearly Half a Million Individuals Pay Electronically:** This year more balance due filers chose IRS *e-file* than ever before and more payments were made electronically too.

- Over 2.3 million balance due returns were filed electronically, a 51.5 percent increase over last year.
- Through September 2, 2000, 446,705 payments were made electronically compared to 129,434 for all of last year; 209,424 payments, averaging \$2,931, were made via credit card while another 237,281 balance due returns, averaging \$1,614, were paid when taxpayers authorized either their checking or savings account to be debited.

**IRS Web Site Usage Up:** An increasing number of taxpayers are discovering that the IRS Internet web site ([www.irs.gov](http://www.irs.gov)) is an excellent and convenient source for tax forms and tax information.

- The Digital Daily recorded 968 million hits during this year's filing season, up from 767 million hits last year.
- The web site has become an important tool in IRS' efforts to educate and inform taxpayers about their rights under the innocent spouse provisions and to help them make correct and accurate claims.
- The web site also provides a new aid for taxpayers interested in paying their taxes on an installment plan.
- The Small Business Corner on the IRS Web site, inaugurated in 1999, benefits over 23 million small business taxpayers and the 800,000 start-up businesses begun each year with easy-to-access and understand information.

**Business Options Expand:** The IRS continues to expand the electronic filing options that are available to businesses. For example:

- Taxpayers have made over \$4 trillion in tax deposits electronically since the government established the Electronic Federal Tax Payment System (EFTPS) in November 1996. Over three million businesses including over two million volunteers are now enrolled in the Hammer Award winning system. During Fiscal Year (FY) 2000, EFTPS accounted for over 94 percent of employment tax deposit dollars collected.
- For Calendar Year 1999, a total of 900,576 quarterly employment tax returns were filed via a touch-tone phone by small businesses, in addition to 1,299,910 Forms 941 that were filed electronically by payroll service providers (See Appendix D, Table 3, for calendar year 2000 estimates). In April 2000, employers had the added option of filing their quarterly Forms 941 from their office computer.
- Under the Simplified Tax and Wage Reporting System (STAWRS), the IRS continues to work with other federal agencies, state governments, private sector employers, and professional associations to reduce employer burden through single point filing, and the harmonized wage code and employer identification number initiatives.
- As authorized by the IRS Restructuring and Reform Act of 1998, payors who electronically transmit their information returns to the IRS had an extra month — from February 28 to March 31 — to file using IRS' new filing system, Filing Information Returns Electronically (FIRE). In addition, partnerships were able to file Forms 1065 and related Schedules K-1 electronically.



## OUTLOOK

Individuals, businesses and practitioners will see many improvements in 2001.

### Significant Changes In 2001 Will Push IRS *e-file* Over 40 Million!

Several exciting changes to IRS *e-file* make the outlook for 2001 even more promising. These initiatives should propel IRS *e-file* over the 40 million mark next year.

Almost everyone who uses IRS *e-file* will be able to file electronically without any paper by self-selecting their own five-digit PIN code and providing the IRS with two pieces of information from their prior year tax return.

- Over the next two years, the IRS will accept the remaining forms and schedules electronically, increase the occurrences of forms and schedules, and enable preparer notes and regulatory/election statements on electronically filed returns. Twenty-three additional forms and schedules will be accepted electronically in 2001 and the remaining 40 will be accepted in 2002.
- Returns with foreign and U.S. possessions addresses, as well as Injured Spouse returns, will be added to the *e-file* program.
- Two more states, Vermont and Hawaii, will be added to the FedState program. This means that all states with an income tax will allow either some or all of their forms to be filed electronically.
- Oklahoma and Georgia will join Kentucky and Indiana in participating in the FedState TeleFile program.
- Paper returns in the Form 1040PC format will not be accepted in 2001, with the expectation that computer users who tried the 1040PC will take the step to file electronically in the future.
- Electronic payment options will be enhanced to allow taxpayers to use direct debit to pay a balance due for current taxes as well as make an estimated payment for next year's taxes, and also to file for an extension. An additional credit card processor will be added for handling credit card payments for balance due returns, estimated taxes and extensions of time to file.
- A direct debit payment will be available through Form 941 TeleFile beginning in the first quarter of 2001.
- EFTPS will be piloting an Internet Web site which allows paperless enrollment, on-line payments, on-line research and customer service.

## STRATEGY

The IRS must formulate a broader strategy for electronic service delivery that builds products and services through alliances with private industry.

### More Work Lies Ahead

Since Congress passed the IRS Restructuring and Reform Act in 1998, IRS *e-file* receipts have increased by approximately 20 percent each year, from 24.6 million in 1998 to 29.3 million in 1999 and to 35.4 million this year. Despite these short-term successes, a great deal of work lies ahead. In order to achieve the goals established by Congress, the IRS must remain committed to the priorities that it established in 1998 to:

- build the foundation — the technical infrastructure, marketing and channel management, management improvements, and Internet services — necessary to support significant growth in electronic transactions and communications in the future; and
- offer innovative products and services that are simple, inexpensive and trusted in such key areas as individual income tax, other business returns, payroll tax and electronic payments. In the future, the IRS will be realigning these products and services with the four business operating divisions established under IRS' Modernization Redesign.

The IRS recognizes that it cannot make this plan a reality on its own. In order to revolutionize electronic tax administration, the IRS has embarked on a new stage in its relationship with external stakeholders to formulate a broader strategy for electronic service delivery that builds products and services through alliances with private industry. An important step in this process is to clearly articulate ETA's mission and strategies for the future.



# Mission, Vision Statement, Goals and Key Strategies

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## MISSION

**The purpose of Electronic Tax Administration is to revolutionize how taxpayers transact and communicate with the IRS.**

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

- Service to each taxpayer
- Service to all taxpayers
- Productivity through a quality work environment

The IRS' continuing reliance on resource-intensive processes for interacting with taxpayers is costly for both the taxpaying public and the federal government. Within an increasingly constrained budget, these paper-bound and error-prone processes divert critical resources from other areas of tax administration, especially customer service and compliance. The unfortunate result is that the IRS simply does not provide the same level of service that the public has come to expect from the private sector. Incremental approaches are no longer acceptable solutions for solving these problems. Bold and innovative steps must be taken to revolutionize how taxpayers transact and communicate with the IRS, including how they file their tax returns, pay what is owed, and receive the assistance and information that they need to comply with the tax laws.

## Vision Statement

In the future state of electronic tax administration, taxpayers and their authorized representatives will receive the same level of service from the IRS that they have come to expect from the private sector. There will be several options for tax preparation, filing and paying, and communicating with the IRS. Taxpayers will have the ability to easily, securely and inexpensively conduct all of their interactions with the IRS electronically. They will be able to obtain tax information and assistance, file both their federal and state returns in a single transmission, and pay the balance due on-line via personal computer or over the phone. To assist taxpayers in

## GOALS

The IRS' Electronic Tax Administration strategic goals for 2007 are ambitious.

fulfilling their tax obligations, the private sector will also provide electronic tax preparation and filing products and services with a wide range of performance and price options. In addition, taxpayers or their authorized representatives will be able to access account information on-line both for pre-filing and post-filing purposes. Two-way electronic communications will be available. For example, taxpayers will be able to check on the status of their refund or account on-line, while the IRS will be able to issue notices electronically.

### Strategic Goals

Electronic Tax Administration's strategic goals for 2007 are ambitious. Last year, intermediate goals for 2003 were added to the Strategic Plan in order to establish a yardstick for determining whether the IRS is on track. This year, the strategic goal to "electronically transact with 80 percent of U.S. taxpayers" has been replaced by three separate goals to place greater emphasis on the principal components of electronic tax administration: filing, payment and communications. In addition, a new strategy has been added to encourage private sector competition.

The strategic goals, which are illustrated in Table 1, are consistent with the Balanced Measurement System that the IRS is implementing to modernize the Agency. The Balanced Measurement System is a core management tool with a set of balanced measures in three major elements — Customer Satisfaction, Employee Satisfaction and Business Results — with Business Results being comprised of measures of Quality and Quantity and Outreach. Each element represents an important aspect of IRS' overall goals and each is of equal importance in carrying out ETA's programs and functions.

TABLE 1

### Intermediate and Strategic Goals

Intermediate Goals for 2003	Strategic Goals for 2007
Electronically file all returns that are prepared electronically*	Electronically file 80 percent of individual tax returns, business tax returns, and information returns*
Electronically receive 40 percent of individual and business payments	Electronically receive 80 percent of individual and business payments
Electronically conduct 40 percent of individual and business contacts (other than filing or paying, for example, frequently asked notice questions and account and refund inquiries)	Electronically conduct 80 percent of individual and business contacts (other than filing or paying)
Reduce fully burdened IRS per return electronic transaction cost to less than \$3.50	Reduce fully burdened IRS per return electronic transaction cost to less than \$2.00
Achieve 99 percent transaction integrity and internal processing accuracy	Achieve 99.9 percent transaction integrity and internal processing accuracy
Achieve 80 percent taxpayer satisfaction	Achieve 90 percent taxpayer satisfaction
Achieve 80 percent distributor satisfaction	Achieve 90 percent distributor satisfaction
Achieve 70 percent employee satisfaction	Achieve 90 percent employee satisfaction

\*IRS Restructuring Reform Act of 1998

## E-FILE RETURNS

IRS currently receives only 28% of all individual income tax returns electronically.

The following is a brief description of each of the strategic goals along with a crosswalk to the eight key strategies (listed on page 13) that will enable the IRS to accomplish these goals.

### **Electronically file 80 percent of individual tax returns, business tax returns and information returns**

- 1.) Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing.
- 2.) Substantially increase taxpayer access to electronic filing, payment, and communication products and services.
- 8.) Encourage private sector innovation and competition.

This goal is now consistent with the IRS Restructuring and Reform Act of 1998, which established the objective that 80 percent of all tax and information returns should be filed electronically by 2007. The IRS interprets this goal to mean 80 percent of individual tax returns, 80 percent of business tax returns, and 80 percent of information returns as opposed to 80 percent of the combined total.

In the IRS Restructuring and Reform Act of 1998, Congress also established the intermediate goal that, to the extent practicable, all returns prepared electronically should be filed electronically for taxable years beginning after 2001, or in other words, by 2003. Since approximately 60 percent of all individual tax returns are prepared electronically, this establishes a formidable intermediate goal of approximately 80 million returns being filed electronically by 2003. Although initiatives such as eliminating the Form 1040PC are steps in the right direction, reaching this target will be difficult. IRS currently receives only 28 percent of all individual income tax returns electronically. As illustrated further in Appendix D, IRS projects an *e-file* volume in 2003 of approximately 57 million returns or 43 percent of all individual tax returns which, although impressive, will fall short of the intermediate goal. The ETAAC in its June 30, 2000, report to Congress also concluded that the IRS will not meet the 2003 goal; they indicated that the IRS has insufficient incentives in place within the tax practitioner community to effect the magnitude of change required to meet this goal.

### **Electronically receive 80 percent of individual and business payments**

- 1.) Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing.
- 2.) Substantially increase taxpayer access to electronic filing, payment, and communication products and services.
- 8.) Encourage private sector innovation and competition.

The addition of this strategic goal is evidence of the increased emphasis that is being placed on providing electronic payment options to both individual and business taxpayers. While individual taxpayers have had the option of paying by credit card or direct debit since 1999, employers have been able to use EFTPS since November 1996. During FY

## SERVICE

The IRS encourages private sector innovation and competition.

2000, the EFTPS program had grown in popularity so that approximately 94 percent of all employment depository tax payment transactions were made electronically. On the other hand, the electronic payment options for individuals are still maturing. Although the number of electronic payments by individuals more than doubled in 2000, the combined total of 446,705 credit card and direct debit payments represent less than two percent of all individual income tax payments.

### **Electronically conduct 80 percent of individual and business contacts (other than filing and paying)**

- 1.) Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing.
- 2.) Substantially increase taxpayer access to electronic filing, payment, and communication products and services.
- 8.) Encourage private sector innovation and competition.

In addition to electronic filing and paying, electronic tax administration is revolutionizing how taxpayers communicate with the IRS, including how they receive the information and assistance they need to comply with the tax laws. Communicating electronically will quickly become one of ETA's most dynamic goals that will have to be continually redefined as the IRS transitions from an information-based Web site to both an information and transaction-based Web site. The IRS home page currently provides taxpayers with easy to use options for accessing tax forms and tax information and performing a limited number of transactions. In the future, taxpayers will be able to perform a wide range of transactions via the Internet including accessing their account information on-line.

### **Reduce fully burdened IRS per return electronic transaction cost to less than \$2**

- 4.) Substantially reduce IRS electronic filing per return processing costs.

In last year's Strategic Plan, the per unit cost for electronically filed individual income tax returns was estimated at \$4.14 based on a volume of approximately 30 million electronically filed returns for FY 1999. The comparable per unit cost for paper returns was \$4.28. In order to define more accurately the cost of processing electronic returns and to develop a better understanding of what drives the total cost for processing electronic returns, the IRS requested Booz-Allen & Hamilton to analyze available information and to develop creative and analytic methods for understanding and projecting *e-filing* costs. Focusing primarily on submission processing costs where cost differences for paper and *e-filed* returns are most likely to occur, the study results indicated that paper returns averaged \$1.50 in direct cost, while *e-filed* returns averaged \$.74. The March 2000 study further concluded that eliminating the paper signature jurat and consolidating sites were the principal options for reducing costs.

### **Achieve 99.9 percent transaction integrity and internal processing accuracy**

#### 3.) Aggressively protect transaction integrity and internal processing accuracy.

ETA will continue to demonstrate that the security and integrity of its electronic systems and the confidentiality of taxpayer information are among its most important responsibilities. It will also strive to provide the highest quality products and services to both its customers and its distributors. ETA has consistently achieved an accuracy rate for electronically filed returns of approximately 99 percent, including a rate of 99.05 percent in 2000. Last year, this goal was raised from “achieve 99 percent transaction integrity and accuracy” to “achieve 99.9 percent error transaction integrity and internal processing accuracy” based on ETAAC recommendations. To achieve this stretch objective, ETA will work with practitioners and software developers in a true give-and-take forum to substantially reduce user-originated electronic filing and payment reject rates.

### **Achieve 90 percent taxpayer satisfaction**

- 1.) Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing.
- 5.) Deliver the highest quality products and services as promised.
- 6.) Seek the best people, ideas and partners to ensure success.

Taxpayers are ETA’s service consumers. Working in conjunction with its partners in both the public and private sectors, ETA is gaining a better understanding of the needs of taxpayers in order to provide products and services that are so simple, inexpensive and trusted that they will be preferred to the traditional methods of calling and mailing. ETA is rethinking its entire approach for developing and delivering products and services to taxpayers. It must clearly designate employees who will champion the causes of wage earners, small businesses and self-employed individuals, large and mid-size corporations, employee plans, exempt organizations and state and local governments. In order to gauge its progress in this area, the IRS adopted an intermediate goal of 80 percent of all taxpayers in 2003 and a strategic goal of 90 percent of all taxpayers using electronic services in 2007 as being satisfied with the ETA products and services.

The results from the customer satisfaction surveys to date have already exceeded IRS’ initial expectations. The 1999 taxpayer *e-file* satisfaction survey conducted by Russell Marketing Research, Inc. on IRS’ behalf indicated that taxpayers reported high satisfaction (very satisfied) with *e-file* products ranging from 75 percent for practitioner *e-file*, 84 percent for on-line filing and 85 percent for TeleFile. Adding those who are somewhat satisfied raises the scores to 95, 97 and 99 percent respectively. These findings are confirmed by the President’s Management Council (PMC) Customer Satisfaction Results which found that the satisfaction levels for IRS *e-file* exceeded the index scores for the government sector, as well as for the retail sector. Based on a scale of 1-10, IRS *e-file* achieved an overall satisfaction index of 8.3 in 1999. Taxpayer satisfaction surveys were conducted in 2000 as well; the results will be posted to the IRS Web site as they become available.

## DISTRIBUTORS

The IRS recognizes the important role that its distributors play in Electronic Tax Administration.

### Achieve 90 percent distributor satisfaction

- 2.) Substantially increase taxpayer access to electronic filing, payment, and communication products and services.
- 5.) Deliver the highest quality products and services as promised.
- 6.) Seek the best people, ideas and partners to ensure success.
- 8.) Encourage private sector innovation and competition.

The IRS recognizes the important role that its distributors (tax practitioners, payroll service providers, reporting agents, etc.) play in electronic tax administration. In support of this vital relationship, ETA will seek to support its distributors with national advertising, promotional kits, education and training, management information systems and various product and service incentives. An accounts management program is being established to ensure that distributors receive the services, information and incentives they need to be effective. Again, the goal is to have 80 percent of the distributors by 2003 and 90 percent of the distributors by 2007 rate themselves as being satisfied with IRS electronic services.

In order to begin to establish a baseline for distributor satisfaction, the IRS conducted an ERO satisfaction survey at the completion of the 1999 filing season. The results indicate *e-file* speed, accuracy and customer satisfaction. Distributors reported high satisfaction (very satisfied) with *e-file* products ranging from 75 percent for practitioner *e-file*, 70 percent for on-line filing and 63 percent for TeleFile. Adding those who are somewhat satisfied raises the scores to 95 percent, 92 percent and 86 percent respectively. An ERO satisfaction survey was also conducted in 2000; results will be posted to the IRS Web site as they become available.

### Achieve 90 percent employee satisfaction

- 7.) Create a work environment where employees and partners are skilled, informed and empowered to succeed.

Recognizing that employee satisfaction is critical to its success, ETA has adopted the private sector benchmark of 90 percent of its employees being either very satisfied or else satisfied on a five point scale with their job and working environment. An intermediate goal of 70 percent has been established for 2003. ETA's overall employee satisfaction score from Survey 2000, the most recent employee survey, was 57 percent. The results indicated that ETA exceeded IRS ratings for employee empowerment/involvement, quality, and management effectiveness, but that improvements were needed in such areas as resources, training, manager communications, and performance management. Overall, the scores for the twelve employee satisfaction indexes ranged from a low of 50 percent to a high of 72 percent. Initiatives to increase employee satisfaction are underway including improving employee communications, training programs, and an innovative awards program. In addition, all managers are taking action based on the Survey 2000 feedback from their employees.

## EMPLOYEES

Employee satisfaction is critical to the success of ETA.



## Key Strategies

As indicated in Table 2, the IRS will accomplish its mission for Electronic Tax Administration and achieve its goals through eight key strategies. Business goals for each of these strategies can be found in Appendix B.

TABLE 2

## ETA Strategies

- 1.) Make electronic filing, payment and communication so simple, inexpensive and trusted that tax payers will prefer these to calling and mailing.
- 2.) Substantially increase taxpayer access to electronic filing, payment, and communication products and services.
- 3.) Aggressively protect transaction integrity and internal processing accuracy.
- 4.) Substantially reduce IRS electronic filing per return processing costs.
- 5.) Deliver the highest quality products and services as promised.
- 6.) Seek the best people, ideas and partners to ensure success.
- 7.) Create a work environment where employees and partners are skilled, informed and empowered to succeed.
- 8.) Encourage private sector innovation and competition.

## IRS Strategic Planning and Budgeting

In keeping consistent with the recommendations of the ETAAC, the IRS recognizes that one of the challenges of its new business processes is to ensure that the ETA plans and goals for expanding electronic tax administration are incorporated into the strategic planning and budgeting process of the business operating divisions including Large and Mid-Size Business, Small Business/Self-Employed, Tax Exempt and Government Entities, and Wage and Investment (W&I). ETA will be a major stakeholder in this process, while the business operating divisions, who own the relationships with the taxpayers, will be the drivers. Some progress was made in this direction in 2000 during the initial year that the new IRS planning process was employed.

During the FY2003 strategic planning and budgeting process, Electronic Tax Administration will work closely with the operating divisions to assist them in conducting their strategic assessments and developing their strategy and program plans. The operating division assessments and plans in turn will be used to develop an IRS Strategic Plan that fully incorporates IRS' efforts to promote electronic tax administration consistent with the objectives of the IRS Restructuring and Reform Act of 1998.

## STRATEGY

One major IRS strategy is to broaden the use of electronic interactions with taxpayers.



# Market Opportunities

**The prospects for the IRS accomplishing its mission for ETA are promising given the considerable market opportunities that exist. The combination of two key factors demonstrates the potential for continued growth in the years ahead. First, the size of the potential ETA market – nearly every individual and business in this country – is enormous. Second, both individuals and businesses are becoming more comfortable with technology, although it is clear that future inroads will be heavily dependent on the availability of practical applications that have utility in peoples' lives.**

## **The IRS is the Largest Processor of Information in the World, but Paper Still Prevails**

The IRS receives approximately 225 million tax returns and 1.2 billion information returns, issues 94 million individual refunds, assists over 120 million taxpayers and collects \$1.9 trillion annually. Some of these transactions occur electronically, but the majority do not. For example:

- Only 1 out of every 4 individual tax returns is filed electronically;
- Only 447 thousand of approximately 30 million remittances that accompany balance due individual returns are received electronically;
- Only 1 in 8 employment tax returns is filed electronically or via magnetic media;
- Only 1 in 3 fiduciary returns is filed electronically along with 1.3 million electronically filed Schedules K-1;
- Only 140 of the 2.1 million partnership returns are filed electronically; and
- None of the 5.6 million corporation returns and none of the 2.9 million corporate extensions are filed electronically.

Opportunities for growth in electronic tax administration are also evident in the tax preparer community, which prepares 1 out of every 2 individual income tax returns. However, only a little more than 1 out of every 3 tax returns that is prepared electronically by paid preparers is filed electronically.

In just five years, the World Wide Web has gone from a strange new frontier to a powerful medium.

## **The Internet Era has Begun Online Households Have Become the Majority**

As the Washington Post reported in a May 17, 2000 Special Section on “Wired Life,” the Internet is fast becoming as much a part of daily life as the telephone. In just five years, the World Wide Web has gone from a strange new frontier to a powerful medium for sharing information, transacting business and communicating with people across the room or across the globe.

Consistent with IRS *e-file* breaking the 35 million barrier in 2000, Forrester Research, Inc. reported in its Benchmark Data Overview that 2000 will be remembered as the year that important psychological thresholds were crossed and technologies once considered cutting-edge entered the mainstream. By New Year’s 2001, Forrester predicts that:

- more than one-half of U.S. households will be on-line;
- more than one-third will have purchased on-line, and
- one in 10 will have banked or invested on-line.

Based on their analysis of the new Internet era, Forrester further predicts that:

- On-line households will exceed PC households by 2001. As PC penetration slows, the growth of on-line households will come from two sources. Initially, much of the growth will be driven by on-line access from places outside the home, like work or school. Starting in 2000, a growing number of homes will get on-line using devices like Web TV, games consoles, and Netpliance’s i-opener.
- Though on-line households look more mainstream, a digital divide exists. The on-line population starts to look more like the off-line population, but almost 20 percent of U.S. households, usually with lower incomes and less education, say they will never go on-line.
- Communication and research remain the most popular on-line activities. Despite the meteoric growth of e-commerce, activities like e-mail and search engine queries remain two or four times more common. Still, Forrester predicts that eighty percent of on-line households will buy on-line by 2004 and more than 45 percent will use the Internet for financial services.

Findings from the ETA Taxpayer Attitudinal Studies conducted for the IRS by Russell Marketing Research, Inc. the past three years are further indication of the opportunity for substantial growth in electronic tax administration. The 2000 results show that taxpayers are still ambivalent toward technology, but are increasingly accepting of it, particularly as their usage of Internet and PC technologies grows. Consequently, the challenge for the IRS, in conjunction with the private sector, is to offer products and services that are so simple, inexpensive and trusted that taxpayers will prefer these to the traditional methods of calling and mailing.

# Challenges

**Although the opportunities for electronic tax administration are considerable so too are the challenges. The IRS is meeting these challenges by addressing such critical issues as product and service costs and complexity, the ETA technical infrastructure, taxpayer suspicions, security and privacy, and clarification of ETA ownership and accountability.**

## **Product and Service Cost and Complexity**

The *e-file* system must be improved to make it less complex. To begin with, IRS *e-file* is not completely paperless. Paper signature jurats, other forms, and checks are still part of the system. In addition, some forms and schedules cannot be filed electronically. These factors complicate the *e-file* system and drive up the costs for practitioners, which unfortunately are passed onto the consumer — the American taxpayer. The IRS is taking a series of actions over the next several years to remove these barriers to make IRS *e-file* more convenient and cheaper to use for both practitioners and taxpayers. Some of these actions include:

- **Expanding the Use of Electronic Signatures:** For the 2001 filing season, taxpayers nationwide, with some exceptions, will be provided the opportunity to file electronically using a self-selected, five-digit PIN and two pieces of information from the prior year tax return known only to the taxpayer and the IRS. This will eliminate the paper signature jurat, making electronic filing truly paperless for those taxpayers choosing to participate.
- **Accepting More Forms and Schedules:** Over the next two years, IRS *e-file* will accept the remaining forms and schedules electronically, increasing the occurrences of forms and schedules, and enabling preparer notes and regulatory/election statements on electronically filed returns. Twenty-three new forms will be added in 2001 with the remaining 40 added in 2002. This will open eligibility of IRS *e-file* to over 99 percent of all filers.
- **Improving Electronic Payment Options:** Even more electronic payment options will be made available to taxpayers in 2001. Taxpayers wishing to make payments for extensions of time to file or quarterly estimated taxes can do so by direct debit. Direct debit payments for extensions of time to file can be made via on-line software, an ERO or TeleFile. Taxpayers who *e-file* a 1040 tax return, regardless of whether there is a balance due, can simultaneously authorize a direct debit estimated payment. In addition, taxpayers who use a credit card will have two pay-by-phone service providers to choose from. Both of these companies will also accept credit card payments over the Internet. Taxpayers will be able to use these service providers to make payments for balance due returns, estimated taxes and extensions of time to file.

## BENEFITS

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

### Technical Infrastructure

IRS must ensure that its technical infrastructure can support a robust Electronic Tax Administration program. Not only does the IRS expect a significant increase in the number of EROs and in the volume of returns that they transmit electronically, but it also envisions many new products and services which will enable individual taxpayers and businesses to transact and communicate directly with the IRS.

Toward that end, in 1998 the IRS awarded a PRIME contract to Computer Sciences Corporation and a team of leading technology and consulting firms to be major partners in managing the modernization of IRS' core business and technology systems with near-term focus on improved telephone service and increased e-services. The strategic focus for the next two years will be to enable value-added e-services requested by the preparer community as incentives to promote and encourage IRS *e-file*.

### Taxpayer Suspicions

Another barrier that must be overcome is the public's perception that there is a greater chance that they will be contacted or audited by the IRS if they file electronically. This is absolutely not true. Electronically filed returns have proven to be more accurate than paper returns which reduces the likelihood of contact by the IRS to resolve errors. Furthermore, IRS' audit selection criteria does not take into account whether a return was filed electronically or by paper. Although these suspicions are unfounded, the IRS is taking proactive steps to dispel these concerns and to build taxpayer trust and confidence in its new systems. First, by conducting market research studies, the IRS is gaining a better appreciation of taxpayer attitudes towards electronic tax administration. Second, the marketing campaigns for IRS *e-file* communicate the important messages that it's fast, accurate and secure. Taxpayers who file electronically have fewer hassles, fewer contacts with the IRS, and faster and safer refunds than if they file on paper.

### Security and Privacy

Many taxpayers also have concerns about the security and privacy of electronic transactions with the IRS. The IRS must demonstrate through its words and deeds — through both the messages that it conveys in its marketing campaign as well as through the systems that it develops, implements, and maintains — that the security and integrity of its electronic systems and the confidentiality of taxpayer information are among the most important responsibilities that it has to the American people. While the IRS is expanding its capabilities to receive tax information electronically, it must also enhance its capabilities for safeguarding taxpayer information and put in place the mechanisms needed to prevent those who would attempt to gain access to the system inappropriately. Toward this end:

- The IRS has adopted a two-pronged approach to establishing the validity of claimed identity in electronic transactions between the IRS and the public. The Self-Select PIN with validation of tax information will be implemented in the short term. A digital signature, which is the most secure and convenient option for taxpayers, is considered a long term solution.



## RESPONSIBILITY

In 2000, the IRS established the new ETA Policy Council, headed by the IRS Commissioner, to set ETA policy and provide strategic guidance.

- ETA systems are being designed and implemented in compliance with security certification and accreditation guidelines and the use of National Institute of Standards and Technology (NIST) security standards appropriate to evolving activities.
- ETA further recognizes that taxpayer privacy is protected by designing programs that collect and maintain the minimum amount of taxpayer information necessary to accomplish tax administration purposes.

### **Ownership and Accountability**

In the past, the Administration, Congress and other external stakeholders had expressed frustration over the lack of a focal point for electronic tax administration activities.

As indicated below, the IRS has worked hard over the past several years to address these concerns and to improve its overall management of electronic tax administration.

- In 1997, the IRS took an important step toward clarifying the responsibilities for electronic tax administration by establishing a new organization headed by an Assistant Commissioner devoted exclusively to the management of existing and planned programs.
- Further centralization occurred in 1998 with the transfer of the EFTPS and STAWRS programs to Electronic Tax Administration.
- In partnership with the National Treasury Employees Union, last year Electronic Tax Administration began testing a new organizational structure to better support the delivery of the Strategic Plan and to facilitate transition into IRS' overall Modernization Redesign.
- This year, Electronic Tax Administration will be assuming management responsibility for the IRS Internet, which is a continuation of the trend over the past several years to centralize all e-services initiatives.
- Also in 2000, the IRS established the Electronic Tax Administration Policy Council to involve the Commissioner, the Operating Division Commissioners and other key IRS executives in setting policy and providing strategic guidance for the Electronic Tax Administration Program.

# Priorities

**ETA's priorities for the future are twofold. First, it must continue to build the foundation – the technical infrastructure, marketing and channel management, management improvements, and Internet services – necessary to support significant growth in the years ahead. Second, it must sustain electronic tax administration's momentum by continuing to offer innovative products and services to the public that are simple, inexpensive and trusted. These priorities represent a cross-strategy compilation of the initiatives derived from ETA's strategies and their attendant goals.**

## Building the Foundation

**Technical Infrastructure:** The IRS is undertaking a number of initiatives to enhance the technical capabilities of electronic tax administration including developing Modernization releases through the PRIME contract, prototyping secure communications, expanding the use of the Internet, consolidating processing operations, and supporting the IRS' Revenue Protection Strategy.

**PRIME Alliance:** Since the current legacy environment severely limits the potential for new product development, building the technical infrastructure required to support electronic business practices is critical to the future success of electronic tax administration. The IRS took a major step in this direction when it awarded the PRIME contract in December 1998 and identified electronic tax administration as a top Modernization priority, including e-services among the early releases.

The Office of the ETA Modernization Executive ensures the effective planning, development and delivery of information technology by the PRIME Alliance in support of "A Strategy for Growth". In addition, the e-services integrated product team (IPT) made up of IRS and PRIME Alliance business and information systems subject matter experts is working to develop the concept, requirements and systems design for two subreleases. The IPT has reviewed existing plans and documents using the Enterprise Life Cycle as a benchmark for completeness, with the analysis resulting in a preliminary business case for the ETA Modernization subreleases. The subreleases will include functionality in service to third parties such as *e-filers* and payers. The first subrelease, scheduled for October 2001, will take place with a rollout of e-services Web-based front-end functionality (Application, Registration, and Common Services) and will include establishing primary and supporting data stores. The second subrelease, scheduled for July 2002, will include software applications riding on the first release. The functionality will include electronic transcript delivery, assisted e-services, electronic disclosure authorization, and TIN matching. Future increments will provide greater capacity and capabilities and will facilitate such initiatives as electronic account resolution.

### PRIME ALLIANCE

The IRS has identified Electronic Tax Administration as a top Modernization priority.

## INTERNET

The IRS is positioning itself to take full advantage of the public's growing acceptance and use of the Internet.

*Secure Communications:* Secure messaging provides two-way communication between the IRS and external entities using the Internet and/or Extranet as a means of data transfer. It will support Customer Service Representatives in their efforts to respond to electronic messages. In 2000, ETA began prototyping a Practitioner Secure Messaging System to provide practitioners with a convenient, secure, electronic messaging system for communicating with the IRS to resolve client's account issues. The prototype system involved a selected number of practitioners and was limited to the resolution of notices, account problems, transcript requests, and installment agreements.

*Internet Capabilities:* In order to position itself to take full advantage of the public's growing acceptance and use of the Internet, ETA is assuming responsibility for managing the IRS Web site as the agency begins to transition from an information-only web site to a broader set of web services. ETA will be responsible for administering day-to-day changes to the site as well as developing improved capabilities. In particular, a key management responsibility of ETA will be the development of security and authentication approaches to facilitate communication with stakeholders via the IRS web site.

*Authentication:* For years, the major criticism of the IRS *e-file* program has been that it is not paperless. Feedback from the practitioner community indicates that this change alone will significantly increase the willingness of tax preparers to file returns electronically. The IRS has developed and published an authentication strategy, which will guide its future efforts in this area. IRS has conducted two very successful pilots the past two filing seasons that provided a paperless filing experience for millions of taxpayers. An *e-file* Customer Number (ECN) pilot targeted taxpayers filing from their home PCs, while the Practitioner PIN Pilot targeted the practitioner market.

- For the 1040 On-Line ECN Pilot, the IRS distributed over 16 million *e-file* Customer Numbers (ECNs) to 11 million households that prepared their returns using tax preparation software. During the 1999 filing season, over 660,000 returns were filed using an ECN. For the 2000 filing season, over 1.4 million returns were filed using the ECN, representing a 112 percent increase.
- Intuit, H&R Block and the National Association of Enrolled Agents (NAEA) participated in the Practitioner PIN Pilot during the 1999 filing season. Approximately 8,100 practitioners were selected for the pilot and nearly 500,000 returns were filed using a PIN. For the 2000 filing season, seven additional software developers participated including Atilla Taluy, Drake Enterprises Ltd., Jackson Hewitt, Inc., NELCO, Petz Enterprises, Inc., TaxWorks by Laser Systems and Universal Tax Systems, Incorporated. Over 18,000 practitioners were selected for the 2000 pilot and more than 5.4 million returns were filed using a PIN.

In 2001, the IRS will introduce the new Self Select PIN for *e-file* Program, which is a direct outgrowth of both the Practitioner PIN and ECN Pilots. This program will allow most taxpayers to file their completely paperless returns electronically using tax preparation software, an on-line filing company or filing through a tax professional. Taxpayers will e-sign their returns by entering a five-digit PIN and providing IRS with two pieces of information from their prior year return. This will make the return completely paperless by eliminating the paper signature jurat.



## AWARENESS

The IRS plans to expand its campaign for informing and educating taxpayers and practitioners about the benefits of electronic filing.

***Return-Free:*** As required by the IRS Restructuring and Reform Act of 1998, the IRS will be reporting annually to Congress on its progress in developing a return-free tax system for appropriate individuals. Annual reports on the return-free tax system will be submitted to Congress by June 30th of each year and will address the following issues: 1) what additional resources the IRS would need to implement the return-free system; 2) the changes to the Internal Revenue Code that would facilitate the system; 3) the procedures being developed by the IRS to implement the system; and 4) the number and classes of taxpayers that would be permitted to use the system. The first report to Congress will more clearly define the return-free concept, address issues and obstacles to the system, and assess taxpayer attitudes regarding return-free.

***Processing System Consolidation:*** The IRS has undertaken a number of initiatives to improve the efficiency and reduce the cost of its *e-file* processing systems, including consolidating operations at fewer sites. First, in 1997 the IRS consolidated its Applications and Suitability processing for EROs at the Andover Service Center. Second, the IRS replaced its outdated IBM Series 1 computers with the Electronic Management System, which is located at fewer sites. An Electronic Filing (ELF) Consolidation Project has also been initiated to determine the appropriate number and location of the sites necessary for the receipt and processing of electronic returns. Plans will also be developed for conducting Participants Acceptance Testing (PATs) at fewer sites, providing both primary and back-up capability, in order to ensure uniformity and consistency for all filers during the test period.

***XML:*** The Extensible Markup Language (XML) is becoming a pervasive force in the development of e-business systems. The IRS is currently in the process of assessing how XML could best be added to the IRS e-services environment.

***Fraud Prevention and Control:*** As part of IRS' overall Revenue Protection Strategy, continued steps will be taken to protect ETA systems against those who would attempt to file fraudulently. Emphasis will be placed on evaluating new systems and initiatives to determine the potential for fraud and, as important, the ways to minimize fraud. The IRS will assess the risks and the potential exposure to fraud before any new initiative is undertaken and will ensure that systems are designed with mechanisms in place to prevent those who would attempt to circumvent the system fraudulently.

***STAWRS: State/Federal Filing:*** The STAWRS Program has partnered with a number of states, software developers and employers to test the single point filing of state withholding returns, state unemployment insurance returns, and federal Form 941 returns. This partnership will define standards that will enable private industry to develop integrated software packages to include payroll and financial accounting as well as electronic filing functions.

***Marketing and Channel Management:*** As we move forward in the new IRS, primary marketing ownership for ETA products and services will be transferred to the business operating divisions, because they now own the relationship with the taxpayers. However, ETA, similarly to the strategic planning process, will continue to support the ETA Program by building upon the extremely successful marketing campaign that currently exists. For the 2000 marketing campaign, we are expanding the use of targeted paid advertising and strengthening the business product marketing strategy that was launched this year. Emphasis is being placed on specific market segments, as well as distributors. Qualitative

and quantitative methods have been established to evaluate the effectiveness of ETA's marketing initiatives. Greater insight into customer needs will be obtained by continuing to conduct taxpayer and third-party surveys and focus group interviews, performing demographic and attitudinal analysis, and enhancing the marketing data base that was established in 1998. In addition to establishing a national account management program and piloting a field-based account management operation, the IRS will develop an ERO Web site and initiate service-based incentive programs.

*Individual e-file Promotions:* In conjunction with its advertising agency, Emmerling Post, the IRS plans to continue enhancing and expanding its campaign for informing and educating taxpayers and practitioners about the benefits of IRS *e-file*. Specifically, the IRS plans to build on its extremely successful filing season campaigns of the past three years. The 2000 filing season campaign, "30 Million Americans Use IRS *e-file*", not only promoted the use of electronic filing options, but also promoted the availability and use of electronic payment options. The IRS plans to leverage this theme for the 2001 filing season and will continue its series of television and radio commercials, magazine ads, Internet banners, video productions and various other public relations activities that strengthen the IRS *e-file* brand.

As part of its campaign, the IRS relies heavily on the provision in the IRS Restructuring and Reform Act of 1998 that authorized the use of paid advertising to promote the benefits of ETA Programs. In 2000, the IRS continued its research, in conjunction with Angell and Company, to gauge the effectiveness of *e-file* advertising in the selected paid and controlled markets. The research showed that advertising campaigns continue to raise the level of awareness of electronic filing. As a result of IRS communications programs, the percentage of taxpayers using electronic filing methods has increased each year. Research shows that without effective communication programs, awareness of electronic filing would likely decrease.

*Business e-file Promotions:* The IRS has also extended its marketing efforts into the business community. In conjunction with outside consultants, the IRS is developing an overall marketing strategy for ETA business products and services, primarily focusing on the top six business returns including Form 1065, the Form 941 suite of products, Form 1041 and information returns (W-2s, 1099, etc.). With the assistance of Emmerling Post, ETA has launched an interim campaign to promote IRS *e-file* for businesses. The interim campaign consisted of introducing an IRS *e-file* for business logo, national network radio advertising and direct mail. ETA is also maximizing its use of existing IRS communication channels to inform and educate business taxpayers about available and planned electronic filing products for businesses. ETA is supporting these efforts by baselining demographics on the filers of the top six business returns. The campaign will also integrate other business filing and payment products including EFTPS and STAWRS. In addition to public service and paid promotions, ETA is interested in establishing a partnership program with providers of approved business *e-file* solutions and in forging agreements with the private sector for cooperative marketing.

*Electronic Federal Tax Payment System (EFTPS) Promotions:* The EFTPS marketing campaign will continue to build upon its success by expanding the marketing strategy beyond those taxpayers who are required to participate. Outreach will include targeted messages to potential volunteer taxpayers, tax practitioners and financial institutions using direct mail, print advertising and public awareness. Campaign results will be assessed using a knowledge-

## CUSTOMERS

Both taxpayers and practitioners report a high level of satisfaction with IRS *e-file*.

based tracking plan. EFTPS promotions will also support upcoming enhancements to EFTPS including the EFTPS On-Line pilot and launch, international payments, and Form 1040ES estimated tax payments.

*Distribution Channel Management:* Tax practitioners authorized to electronically file tax returns to the IRS as Electronic Return Originators must be recognized, supported and motivated as ETA product and service distributors. Much as the private sector employs store front operations, whether independent, franchise or corporate owned, the IRS depends upon tax practitioners to promote electronic filing and payment to taxpayers. In support of this vital channel and based on their input, ETA will assist EROs by expanding the marketing support available including national advertising and promotional kits; implementing a program of product and service incentives, rewards and special recognition depending upon an ERO's success in marketing ETA products and services; developing an ERO Web site; and establishing an ETA account management program. In this vein, the IRS intends to establish an incentive program for practitioners. Consideration will be given to differing tiers of e-services based on the percent of eligible returns.

*ERO Web Site:* In support of its distribution channel, ETA will be establishing an ERO Web site consisting of management information system, tax law, privileged e-mail and account resolution capabilities. Initially, the ERO Web site will allow direct access to the IRS Internet (Digital Daily), tax forms and publications and marketing information. In particular, a Distributor Management Information System (MIS) will be used to communicate with ETA external partners. The Distributor MIS will be populated with marketing information so that our partners can research the progress of their electronic filing programs. Electronic services which will be made available, potentially on an incentive basis, will include among others: electronic power of attorney, electronic offers-in-compromise, electronic installment agreements, electronic account inquiry, electronic transcript delivery, priority e-mail handling, etc.

*Account Management Program:* An Account Management Program is being established to support EROs, payroll service providers, software developers and transmitters who distribute ETA products and services to taxpayers. Like the private sector, the IRS recognizes that a select number of these distributors are market leaders who can have a significant impact on ETA's goals. These distributors have a disproportionate impact on the industry, have unique needs and should be serviced accordingly. Each of these distributors will be serviced by a National Account Manager who will be responsible for establishing a strategic partnership with these key stakeholders. The first group of National Account Managers assumed their positions in June 2000. Furthermore, in order to interact effectively with the majority of its distributors, the IRS is also putting a seasoned sales/account management workforce in place at the local level. As a first step in this direction, the IRS piloted field-based account management in the Southern California District (Laguna Niguel, CA) and in the Kansas-Missouri District (St. Louis, MO) beginning in the fall of 1999. Based on the results of the pilot and in conjunction with IRS' overall Organizational Modernization effort, the Account Management Program will be implemented in the Stakeholder Partnership, Education and Communication (SPEC) Division as part of the W&I operating division.

*ETA Telesupport Services:* ETA plans to pilot and implement practitioner support centers which will enable Account Managers to dedicate themselves to relationship building with larger accounts. The centers will handle in-bound questions or inquiries (telephone or e-mail) from the practitioner community. A limited set of equivalent services are currently provided by the five *e-file* submission processing centers. With the growth of *e-file* and the addition of new services, this infrastructure will need to be expanded and refined. The users of the centers may be practitioners or preparers who are interested in offering ETA products and services for the first time or those who are already participating. Outside of the filing season, these same resources could turn to outbound telemarketing, inviting new practitioners to join the Authorized IRS *e-file* file Provider Program or attempting to surface barriers to those participating from filing even more electronically. Given that there are over 108,000 EROs, the majority of practitioners and EROs will be serviced and supported by telephone or through e-mail.

**PARTNERSHIP  
OPPORTUNITIES**

Visit the IRS Procurement Web Site at [www.procurement.irs.treas.gov/](http://www.procurement.irs.treas.gov/) to learn more about partnership opportunities with ETA. Click on “solicitations” for RFA/RFP information or on “guides” for instructions on submitting unsolicited proposals.

**Management Improvements:** The IRS must begin to operate more like the private sector if it is to be successful in today’s electronic environment. Toward this end, Electronic Tax Administration is already in the midst of transforming itself into a business-like operation through a series of organizational, analytical and communication initiatives. IRS must leverage private sector business approaches to convince taxpayers of the advantages of using electronic services.

*Alliance Strategy:* In implementing the RRA98 directive to encourage electronic filing, we continue to partner with the private sector to utilize competitive market forces. The IRS continues to build upon alliances with the private sector through the Request for Proposal (RFP) and Request for Agreement (RFA) processes. Because taxpayers have various filing options, we must leverage private sector approaches to convince them to use IRS’ electronic services. During the 2000 filing season, the IRS partnered with various private sector companies to bring taxpayers affordable, convenient, user friendly *e-file* options. As part of these non-monetary arrangements, the IRS placed hyper-links from the “IRS *e-file* Partnerships” page of its Web site “Digital Daily ([www.irs.gov](http://www.irs.gov))” to the partners’ Web sites. The companies, in turn, developed initiatives to increase e-filing. As indicated in Table 3, in 2000 the IRS *e-file* Partnerships page had links to the following companies providing services, including free services for qualifying taxpayers.

**TABLE 3**

**IRS *e-file* Partnerships**

<b>IRS <i>e-file</i> for Taxpayers</b>	<b>IRS <i>e-file</i> for Tax Professionals</b>	<b>IRS <i>e-file</i> for Financial Institutions/Employers</b>	<b>IRS <i>e-file</i> Credit Card Payment Options</b>
Intuit, Inc UDS ELECTroTAX LLC 2nd Story Software, Inc. Block Financial Corp. Jackson Hewitt H.D. Vest e1040.com Taxes4less.com	Drake Enterprise, LTD E-Filing TODAY	QuickFile USA Tax Refund Express Members	Discover Card Official Payments Corporation MasterCard International, Inc.

Plans for the 2001 filing season are already well underway. In addition, ETA is seeking industry views on which barriers inhibit lower-cost to no-cost private sector supplied options for tax preparation and filing over the Internet. Comments were requested regarding the provision contained in the President’s FY2001 Budget Request that no later than tax year 2002, the IRS would be required to offer one or more options to the public for preparing and filing individual income tax returns over the Internet at no cost to the taxpayer. If the IRS offered such options through contract arrangements with its 108,000 Authorized IRS *e-file* Providers, it would be with the assurance that the taxpayer’s tax return information would not be used by the Provider without the taxpayer’s permission for any purpose other than submission to the IRS. As indicated previously, ETA has also begun to purposefully expand its Alliance Strategy to include business electronic filing programs. ETA has laid the foundation for the establishment of a partnership program to promote IRS *e-file* for business. The evaluation process for initiating agreements with providers of approved IRS *e-file* for business solutions has begun and new partnerships are expected in 2001.

## ADVISORY COMMITTEE

The Electronic Tax Administration Advisory Committee provides a public forum for discussion of ETA issues.

In addition to building upon its alliance with the private sector, the IRS continues to work cooperatively with other federal agencies and state governments through a series of initiatives, including Access America, STAWRS, ETAAC, and the Community of Practice to take a broader “government” approach to electronic tax administration. In conjunction with the Department of Treasury, the Department of Labor, the Social Security Administration and the states, the IRS is pursuing ways to improve the nation’s tax and wage reporting system under the STAWRS program. The IRS is also championing an effort on behalf of the National Partnership for Reinventing Government (NPR) to make electronic government a reality at the federal level. To assist NPR in this effort, the IRS has agreed to sponsor a Community of Practice of high impact agencies involved in the electronic delivery of government services. Through this effort, which is designed to share agency best practices, NPR hopes to strengthen inter-agency relationships and ultimately increase the availability and quality of electronic services throughout America.

*Electronic Tax Administration Advisory Committee (ETAAC):* As required under the IRS Restructuring and Reform Act, the ETAAC was established in 1998 to provide an organized public forum for the discussion of ETA issues in support of the overriding goal that paperless filing should be the preferred and most convenient method of filing tax and information returns. The ETAAC, which is comprised of representatives from various groups, including tax practitioners and preparers, transmitters of electronic returns, tax software developers, small and large businesses, employers and payroll service providers, individual taxpayers, state governments, and financial industry members, was established to provide continuing input into the development and implementation of the IRS’ Strategy for Electronic Tax Administration. The ETAAC issued its second annual report to Congress on the status of the ETA Program on June 30, 2000, concluding that although the IRS has made some progress, it still needs to do more to achieve the electronic filing goals established by Congress. The ETAAC identified the following five critical challenges facing the IRS:

- Continuing to develop a strategic planning process to achieve goals.
- Encouraging all professional tax preparers to become Electronic Return Originators and convincing them that filing and communicating with the IRS electronically is preferable to other methods.
- Increasing electronic filing among self-preparers.
- Increasing electronic interactions between the IRS and businesses, including filing, payment and communication activities.
- Forming strategic alliances with businesses, federal agencies, states, and other organizations to facilitate and promote the growth of electronic tax administration.

*Electronic Tax Administration Policy Council (ETAPC):* In March 2000, the IRS established the ETAPC to provide an effective governance and management decisionmaking forum for electronic tax administration policy issues. The ETAPC puts in place a formal structure for involving the Commissioner, the Operating Division Commissioners, the Chief Information Officer, the Director (Electronic Tax Administration) and other key IRS executives in setting policy and providing strategic guidance for developing the business operating divisions’ business plans.



## SMALL BUSINESSES

The IRS is undertaking a number of cross-government initiatives for one-stop service.

*ETA Organization:* In order to facilitate the delivery of the Strategic Plan, in partnership with the National Treasury Employees Union, a test reorganization of ETA began in late 1999 and is continuing this year. The reorganization realigned the two operating divisions to reflect Commissioner Rossotti's overall vision for modernizing the IRS and established the Account Management and ETA Modernization Executive offices. Through its reorganization and related initiatives, ETA is rethinking its approach for developing and delivering products and services to taxpayers. ETA recognizes that taxpayers are its service consumers and that it must clearly designate within its own organization employees who will champion the causes of individual and business taxpayers, exempt organizations and state and local governments. These employees will ensure that products and services for filing, paying and communicating with the IRS are designed with the different market segments in mind and according to the preferences designated by taxpayers during the qualitative research that has been conducted to date. Product management staff will be responsible for the full range of product management activities including opportunity analysis, market segmentation and targeting, product and service definition, product development, product usability, channel management, promotion and product launch.

*Economic Insight:* The IRS must gain a better understanding of the economic implications of electronic tax administration, including continuing to address such basic issues as the cost of electronic filing versus the cost of paper filing. Previous efforts to answer this question have been incomplete. However, the 1998 Service Center Submission Processing Activity Based Costing offered a good start and was followed by a Booz-Allen & Hamilton analysis in 2000. In order to define more accurately the cost of processing electronic returns and to develop a better understanding of what drives the total cost of processing electronic returns, the IRS requested Booz-Allen & Hamilton to analyze available information and to develop creative and analytic methods for understanding and projecting *e-filing* costs. Focusing primarily on submission processing costs where cost differences for paper and *e-filed* returns are most likely to occur, the study results indicated that paper returns averaged \$1.50 in direct cost, while *e-filed* returns averaged \$.74. The March 2000 study further concluded that eliminating the paper signature jurat and consolidating sites were the principal options for reducing costs.

*Consumer Insight:* In addition to gaining a better understanding of the economic implications of electronic tax administration, the IRS must also gain greater insight into the needs of its customers (i.e., taxpayers and distributors). The IRS must do a much better job of understanding not only the demographics, but also the attitudes and behavior of its customers in order to provide the products and services that the public will use. In 1998, the IRS began making pertinent tax return demographic data from the ETA Marketing Database accessible to both internal and external stakeholders via the IRS Web site. For the past several years, taxpayer and preparer satisfaction research has also been conducted for ETA by Russell Marketing Research, Inc. As discussed previously under Strategic Goals, both taxpayers and practitioners reported a high level of satisfaction with IRS *e-file* products and services.

*Early and Open Communications:* Effective communication with stakeholders is critical to ETA's success. Problems and issues that arise, whether they involve a delay in forms delivery or a delay in the availability of IRS' processing programs, must be communicated



in a clear and concise manner to a wide range of stakeholders including the software community, the tax preparation community, state taxation authorities and to the public at large so that they have sufficient time to plan and react accordingly. The IRS continually re-examines its communications vehicles to ensure that it has modern capabilities to provide timely information to all interested parties.

*Standardization of e-file Specifications:* In an effort to expand electronic filing of business returns, ETA encouraged software developers to develop tax preparation software to *e-file* business returns. Software developers provided feedback that one factor in their participation was standardization of *e-file* specifications for shared forms (currently forty-three forms may be attached to either Form 1040, 1041, 1065, 1120 or 1120S). In response to that feedback, ETA took the following steps toward standardizing specifications:

- Field lengths on shared forms have been standardized and ETA has made a commitment to issue consistent specification for any new forms added for 2001, and
- Complete standardization of existing shared forms will be accomplished for 2002.

*Intranet:* Last year, ETA established a Web-based (Intranet) management information system to provide the IRS workforce, both at the Headquarters office and in the field, with the business data necessary for them to perform their jobs effectively. The Intranet Web site provides on-line technical, marketing and statistical information relating to ETA products and services. It contains current information on ETA's accomplishments, upcoming events, press releases, job vacancies, and program advisories to name just a few and also has links to other Web sites including STAWRS, EFTPS and IRS Procurement. In addition to the ETA Intranet, ETA has also established an *e-file* Reports Web Page and ETA Research and Analysis System (ADHERES).

*Strategic and Operations Planning:* To paraphrase Winston Churchill, preparing the first version of "A Strategy for Growth" in 1998 was not the end of strategic and operations planning for Electronic Tax Administration, nor was it the beginning of the end. It was perhaps the end of the beginning. Over the past two years, strategic planning within the IRS has undergone significant changes, culminating with the introduction of a new strategic planning process this year. Consistent with the ETAAC's recommendation, ETA is now an integral part of IRS' overall strategic and modernization plans. Consequently, this will be the last issuance of a Strategic Plan for ETA in its current form. Beginning next year, IRS strategy for ETA will be incorporated into the business plans for the business operating divisions and will no longer be a stand-alone plan.

## BUSINESS PLAN

Beginning next year, IRS strategy for ETA will be incorporated into the business plans for the business operating divisions.

## WEB SERVICES

In order to satisfy growing customer expectations, the IRS must transition to a broader set of web services.

*Internet Services:* Although the IRS has successfully used its Internet Web Site (www.irs.gov) to provide information to taxpayers, the dawn of the new millennium brings a new challenge to the IRS. In order to satisfy growing customer expectations, the IRS must transition to a broader set of web services, which will enable taxpayers and their representatives to communicate and transact over the Internet. By doing so, the IRS will fundamentally change how it administers the tax system. As indicated below, the IRS currently has a useful, but limited portfolio of Web-based products and services including the Digital Daily, STAWRS and EFTPS that meet only a small subset of customer needs.

*IRS Web Site (Digital Daily):* Since 1996, the IRS began offering a variety of products and services over the Internet including:

- **On-Line Forms:** An increasing number of taxpayers are discovering that the IRS Web site is an excellent and convenient source for tax forms and tax information. Anyone with Internet access can receive on-line: tax forms, publications and instructions; the latest tax information and tax law changes; tax tables and rate schedules; hypertext versions of all taxpayer information publications; all TeleTax topics; answers to most frequently asked questions; a library of tax regulations; and the weekly Internal Revenue Bulletin which contains the latest revenue rulings, revenue procedures, notices, announcements, proposed regulations and final regulations.
- **Innocent Spouse:** The IRS Web site has become an important tool in the IRS' efforts to educate and inform taxpayers of their rights under the IRS Restructuring and Reform Act of 1998 innocent spouse provisions and assists them in making correct and accurate claims. An interactive application was added to the Web site this year to provide taxpayers with a general explanation of eligibility for spousal relief. The interactive application includes not only the innocent spouse provisions, but also injured spouse and community property issues as well. It provides taxpayers with direct access to forms and publications so they can apply for any of the applicable relief options.
- **Installment Agreements:** In 1999, the IRS announced a new aid for those interested in paying their taxes on an installment plan. The IRS Web site has an interactive calculator that helps taxpayers determine their monthly payment amount. The taxpayer is able to fill-in and print the form on-line for them to file.
- **Web Site Alerts:** This feature alerts taxpayers and practitioners to potential problems that could affect them. The Index of Problem Alerts, found under the What's Hot section, describes the problem, its scope (the number of people likely to be affected), where they are located, and more importantly, what the IRS is doing to fix the problem, and what, if anything, the taxpayer needs to do about it.
- **Small Business Corner:** The Small Business Corner on the IRS Web site was inaugurated in January 1999 to benefit the over 23 million small business taxpayers and the 800,000 start-up businesses begun each year. This one-stop shopping assistance provides small business taxpayers with easy-to-access and understand information.

- **Web-based Customer Service:** Through this application, the IRS provides interactive, electronic tax law assistance to taxpayers via its Web site. Users click on the mailbox icon on the Digital Daily home page and then proceed to the Tax Law Question section. Taxpayers select one of a number of categories, provide an e-mail address, and submit their questions or comments. IRS customer service staff will provide answers to general tax law questions, however it is not intended for highly complex tax issues or questions regarding specific tax accounts.

***ERO Extranet:*** As indicated previously, in support of its distribution channel ETA will be establishing an ERO Web site consisting of management information system, tax law, privileged e-mail and account resolution capabilities. Initially, the ERO Web site will allow direct access to the Digital Daily, tax forms and publications and marketing information. In particular, a Distributor Management Information System (MIS) will be used to communicate with ETA external partners. The Distributor MIS will be populated with marketing information so that ETA's partners can research the progress of their electronic filing programs. Electronic services which will be made available, potentially on an incentive basis, will include among others: electronic power of attorney, electronic offers-in-compromise, electronic installment agreements, electronic account inquiry, electronic transcript delivery, priority e-mail handling, etc.

***STAWRS:*** Presented from the employer's perspective, the STAWRS Web site ([www.biz-tax.gov](http://www.biz-tax.gov) or [www.employers.gov](http://www.employers.gov)) offers a one-stop guide for businesses which spans federal agencies and the states. This Web site focuses specifically on the business person. The Web site is designed around the business life cycle and presents a tutorial for new business owners. Furthermore, the partnership of STAWRS, practitioners, states and a small business information center will test request and receipt of an Employer Identification Number (EIN) over the Internet.

***EFTPS:*** The IRS, in conjunction with Financial Management Service, is piloting a Web site for EFTPS enrollments, payments and customer service. The following section on electronic payments, as well as Appendix A, provides additional information on IRS' plans for EFTPS.

In the future, the IRS will rely heavily on the Internet to meet the needs of its customers including wage earners and investors, small businesses and self-employed, large and mid-size businesses, and tax-exempt organizations and government entities at each stage of the tax process. This will require a diverse set of Internet products and services for filing, paying and communicating. The IRS must develop these new capabilities quickly if it is to meet the growing demands of its customers in the rapidly changing technological environment. To accomplish this objective, the IRS has transferred the management of the IRS Web site to Electronic Tax Administration as it begins to transition from an information only Web site to a broader set of web services. ETA will be responsible for administering day-to-day web site activities as well as the development of new and/or improved capabilities.

## INTERNET

In the future the IRS will rely heavily on the internet to meet the needs of its customers.

## FORMS 1040

IRS is targeting 56.9 million Forms 1040 to be filed electronically by calendar year 2003.

### Offering Innovative Products and Services

During 2000, the IRS introduced several enhancements to electronic tax administration including launching a new *e-file* marketing campaign, expanding electronic payment options, continuing the PIN pilots, offering Form 941 On-Line, and accepting Forms 1065 electronically. Although these actions combined to increase the volume of electronic filings and payments, bolder steps will be needed in the future. In support of the mission and strategies for Electronic Tax Administration, the IRS has identified initiatives in the areas of individual income tax, other business returns, payroll tax, and electronic payments. These initiatives, which are more fully explained in Appendix A, consist of specific ETA products and services that will be developed and implemented over the next five years.

*Individual Income Tax:* Through a range of products and services designed to meet the specific needs of individual taxpayers, the IRS is targeting 56.9 million Forms 1040 to be filed electronically by calendar year 2003 (See Appendix D for additional information on IRS *e-file* projections). Over the next five years, more and more taxpayers will use an IRS *e-file* option. The *e-file* system will become paperless and electronic payments will be accepted for most payment transactions. Internet applications will mushroom and the opportunities for electronic communications with the IRS will be greatly enhanced. The IRS will rely heavily on the private sector in developing these initiatives and will aggressively market its products and services through a variety of means including paid advertising.

*Other Business Returns:* A significant increase in electronic transactions will also occur by focusing on such areas as corporations, partnerships, fiduciaries, exempt organizations and information return documents including implementing the Taxpayer Relief Act provisions regarding Forms 1065/Schedules K-1. Electronic filing, Internet applications and additional private sector innovations will be emphasized in order to achieve a higher volume of electronic returns including related Schedules K-1 and non-paper information documents filed annually by calendar year 2003 (see Appendix D for specific information on K-1 and information return projections).

*Payroll Tax:* Under this initiative, the IRS plans to expand the filing, payment and communications options available to employers. Federal/State options will be piloted, information services for employers will be established and additional products and services will be developed through partnering with private industry. Marketing campaigns will be conducted to ensure that employers are aware of their new options for interacting with the IRS. Through these and other efforts, the IRS is targeting in excess of 3.3 million Forms 941 and 940 annually filed electronically or via magnetic media by calendar year 2003. Under the STAWRS initiative, the IRS will continue to work with the Department of Treasury, the Social Security Administration, the Department of Labor, the Small Business Administration and the states to identify and pursue ways to improve the nation's tax and wage reporting system. The objective of each agency's participation in STAWRS is to reduce the reporting burden on employers while improving the efficiency and effectiveness of each agency's operations. Key initiatives underway in this area include the harmonized wage code, single point filing and streamlined customer service.

*Electronic Payments:* Under this initiative, the IRS will continue to expand the electronic payment products and services available to taxpayers. Emphasis will be placed on expanding electronic payment options for individual taxpayers including credit cards and direct debit, as well as improving and promoting EFTPS. A Web site for EFTPS enrollments, payments and customer service will be deployed. Marketing campaigns will promote and encourage use of electronic payment options by taxpayers, tax practitioners and financial institutions.

# Appendices

The appendices to the Strategic Plan contain the following information:

- Appendix A contains the Implementation Schedules and Project Descriptions for the Individual Income, Other Business Returns, Payroll Tax, and Electronic Payments products and services.
- Appendix B includes the Business Goals for the ETA strategies.
- Appendix C includes the Industry Overview, which consists of ETA statistics and participation levels.
- Appendix D contains IRS *e-file* Calendar Year 2001 - 2007 Projections for individual and business returns.

The IRS welcomes comments on “Electronic Tax Administration: A Strategy for Growth.” Comments may be mailed to the Director, Electronic Tax Administration, 1111 Constitution Ave. NW, Washington, D.C. 20224; faxed to (202) 622-6264; or e-mailed to [\\*eta-strategic-plan@irs.gov](mailto:*eta-strategic-plan@irs.gov).

# Products and Services

## Electronic Tax Administration Priorities Offering Innovative Products and Services

Individual Income Tax  
Other Business Returns  
Payroll Tax  
Electronic Payments

### Building The Foundation

#### Technical Infrastructure

- PRIME Alliance
- Secure Communications
- Internet Capabilities
- Authentication
- Return-Free
- Processing System Consolidation
- XML
- Fraud Prevention and Control
- STAWRS: State/Federal Filing

#### Marketing and Channel Management

- Individual *e-file* Promotions
- Business *e-file* Promotions
- EFTPS Promotions
- Distribution Channel Management
- ERO Web Site
- Account Management Program
- ETA Telesupport Services

#### Management Improvements

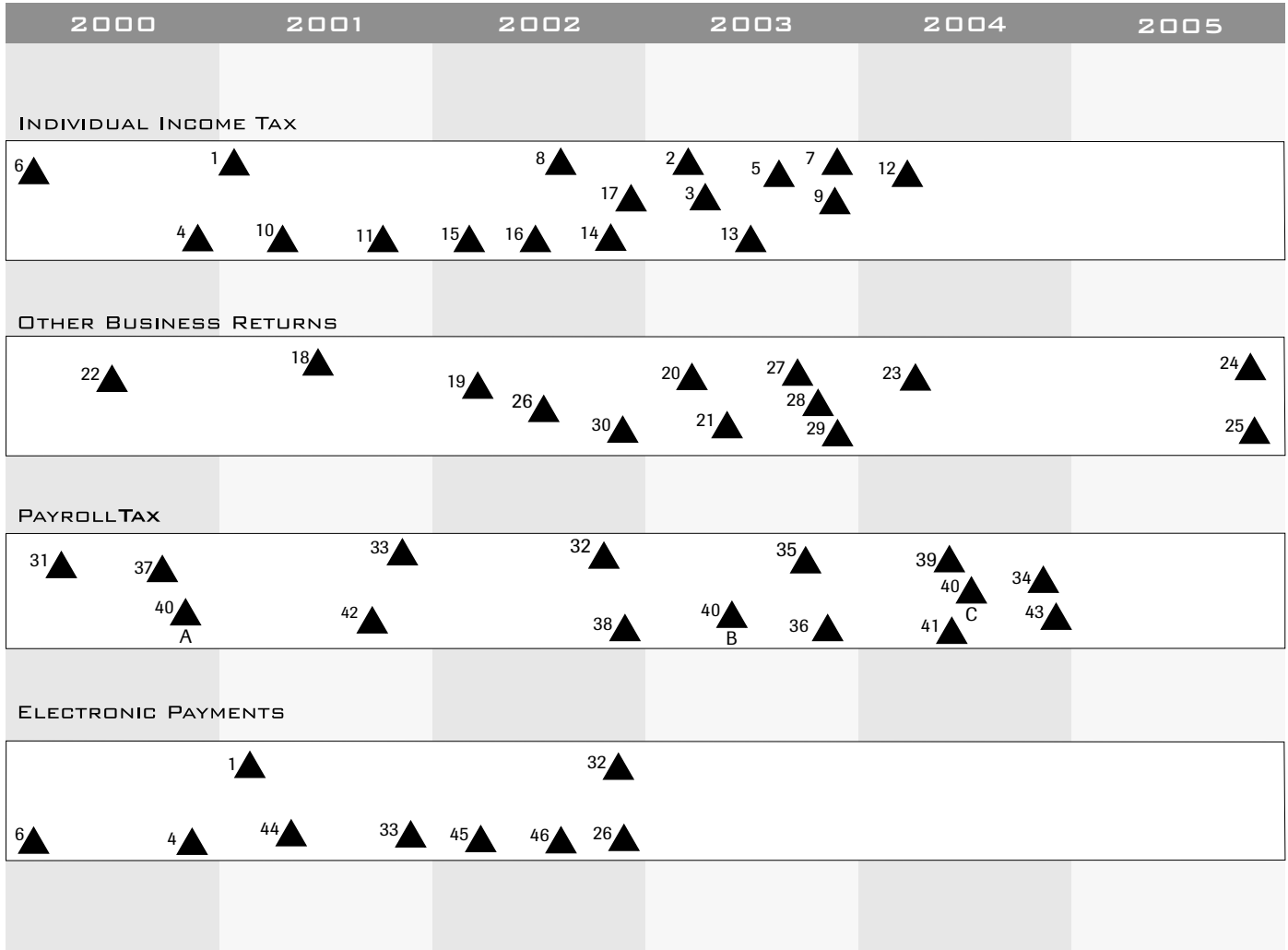
- Alliance Strategy
- ETAAC
- ETA Policy Council
- ETA Organization
- Economic Insight
- Consumer Insight
- Early and Open Communications Program
- Standardization
- Intranet
- Strategic and Operations Planning

#### Internet Services

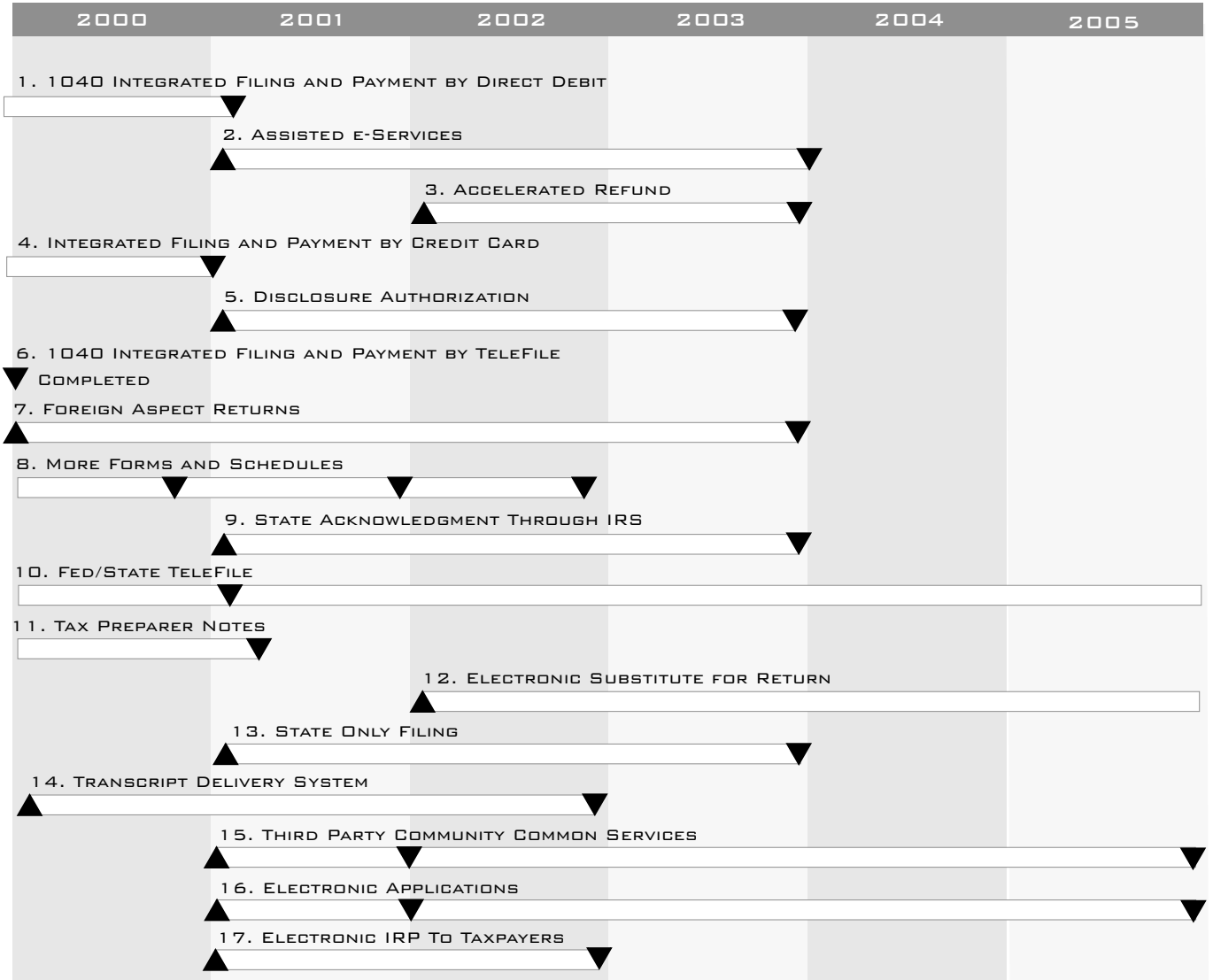
- IRS Web Site (Digital Daily)
- On-Line Forms
- Innocent Spouse
- Installment Agreements
- Web Site Alerts
- Small Business Corner
- Web-based Customer Service
- ERO Extranet
- STAWRS
- EFTPS



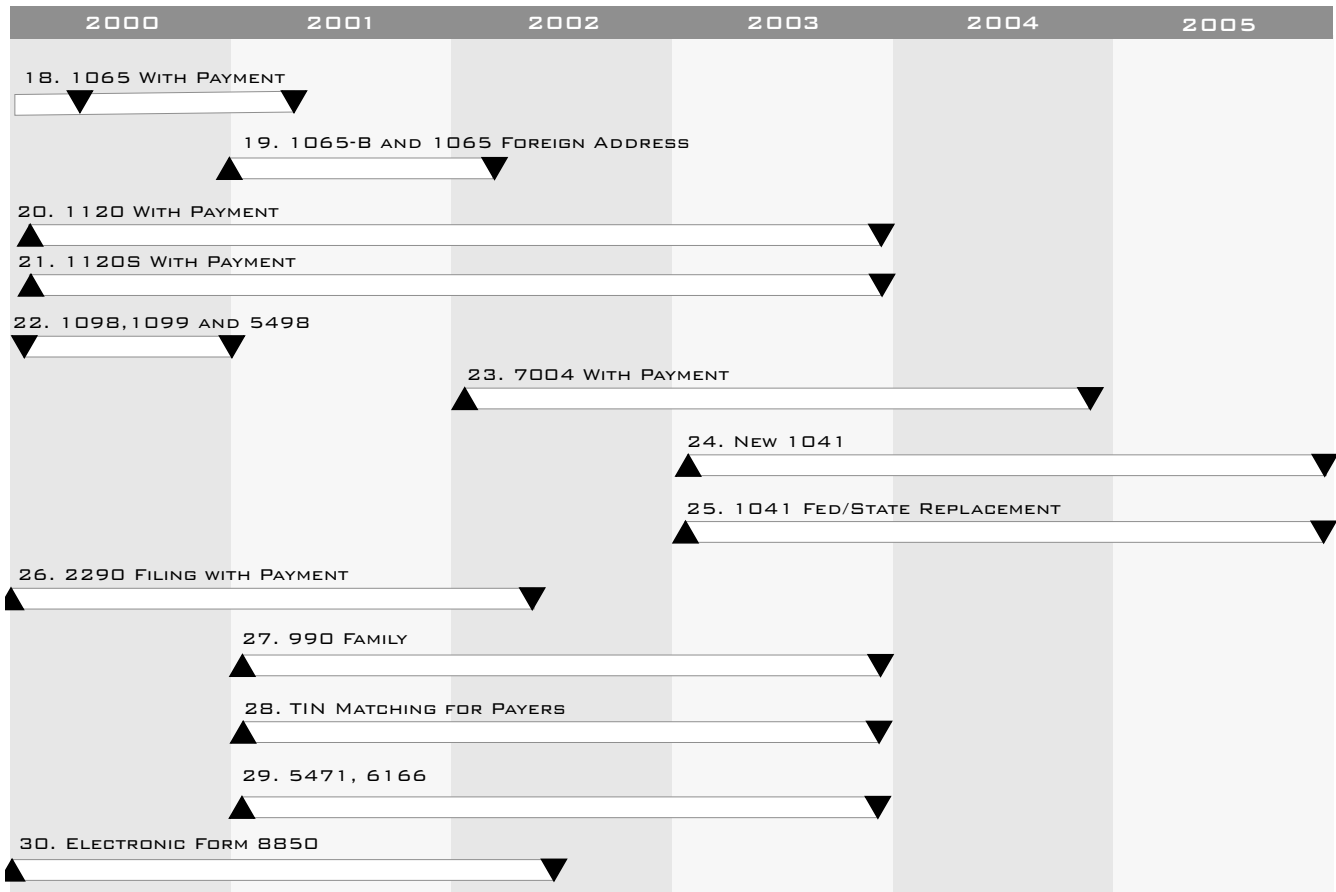
# ETA Products and Services Implementation Schedule



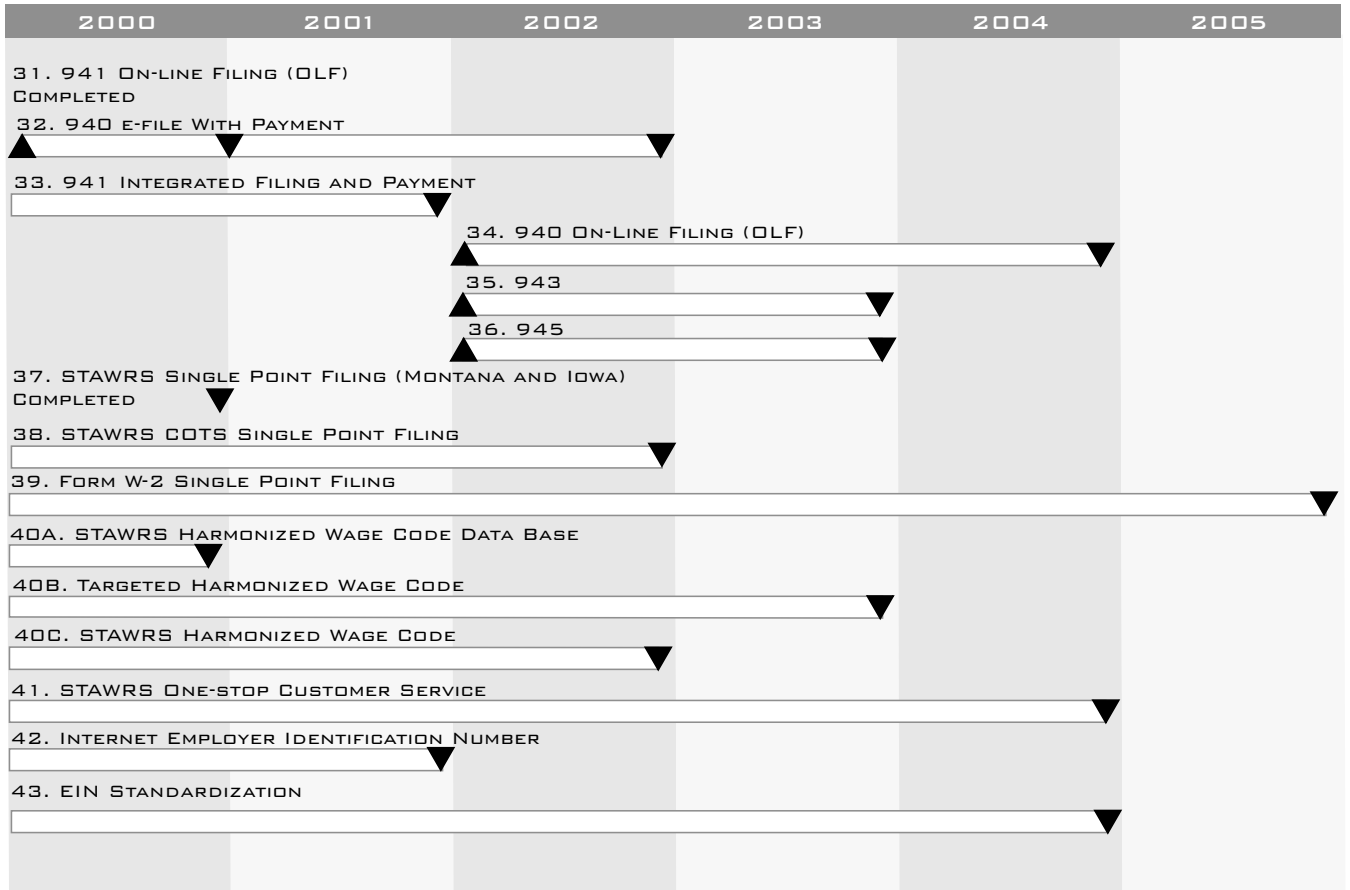
# Individual Income Tax



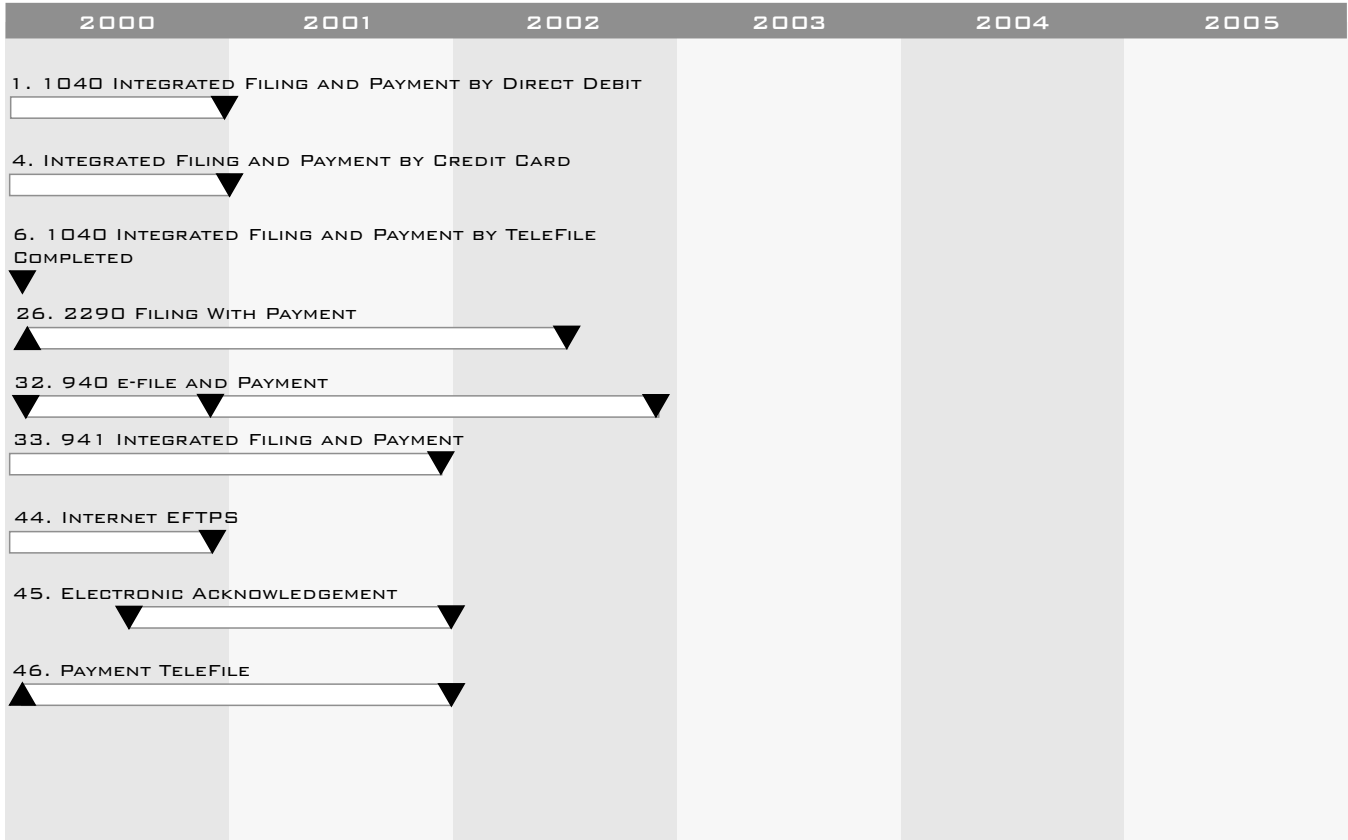
## Other Business Returns



# Payroll Tax



# Electronic Payments



# Project Descriptions

Number	Title	Description
1	<b>1040 Integrated Filing and Payment by Direct Debit</b>	For January 2001, a payment record will be included as part of the Form 1040 electronic return for an estimated tax payment. Perform application validation and consistency checks for the payment data. Strip off accepted payment records and transmit to the Treasury Financial Agent (TFA).
2	<b>Assisted e-services</b>	While ensuring that adequate security and privacy safeguards exist, the IRS has been exploring the use of e-mail for resolving account related issues through the Practitioner Secure Messaging Prototype. The CRM Modernization release will permit authorized third parties to resolve account issues by corresponding with customer service representatives electronically. By 2006, Modernization will include electronic account resolution for taxpayers as required under the IRS Restructuring and Reform Act.
3	<b>Accelerated Refund</b>	Reduce by 50% the time from acceptance of an electronic return to issuance of the refund. Further acceleration is likely to occur under the Modernization Customer Account Data Engine (CADE) project.
4	<b>Integrated Filing and Payment by Credit Card</b>	For January 2001, revise current credit card bulk filer requirements to include a streamlined process through which all software developers and credit card processors can obtain credit card bulk filer certification.
5	<b>Disclosure Authorization</b>	Analyze Form 2848, Power of Attorney, and Form 8821, Tax Information Authorization, to determine what information needs to be captured and where it needs to be captured. Modify any forms and files determined to be impacted and coordinate any related programming and procedural changes to permit electronic submission of disclosure authorizations. The 2002 e-services Modernization release includes the electronic submission of disclosure authorizations.
6	<b>1040 Integrated Filing and Payment by TeleFile</b>	<b>Completed in 2000.</b>
7	<b>Foreign Aspect Returns</b>	Beginning in January 2001, taxpayers with foreign addresses are permitted to e-file their returns. For January 2002, the IRS will include the supporting forms and schedules specific to foreign income tax returns. Also, the IRS is developing an e-file proprietary system for processing non-resident alien returns beginning with Form 1040NR-EZ; later expansion will include the Form 1040NR.
8	<b>More Forms and Schedules</b>	Over the next two years, the IRS will accept the remaining forms and schedules electronically. 23 additional forms and schedules will be accepted electronically in 2001 with approximately 40 more in 2002.
9	<b>State Acknowledgement through IRS</b>	Identify requirements and develop the capability to provide states participating in Federal/State e-file an IRS conduit to provide state acknowledgements to <i>e-filers</i> .



<b>Number</b>	<b>Title</b>	<b>Description</b>
<b>10</b>	<b>Federal-State TeleFile</b>	This project will allow taxpayers to file both their federal and state tax returns during one phone call using the TeleFile system. Additional data required only by the state will be entered after the federal return is completed. Indiana and Kentucky participated in the prototype. Oklahoma and Georgia will join the program in 2001. Maryland, Oregon and West Virginia are scheduled to join the program in 2002.
<b>11</b>	<b>Tax Preparer Notes</b>	The IRS will enable preparer notes and regulatory/election explanations on electronically filed returns beginning in January 2001.
<b>12</b>	<b>Electronic Substitute for Return (SFR)</b>	Research and evaluate the existing electronic substitute for return program and determine what improvements and enhancements are needed to make it completely electronic. Consider providing revenue officers and other applicable staffs with electronic filing software and laptops with modems to prepare and transmit substitute returns from the source. Develop plan for development and roll out system. Assess feasibility of developing a program to electronically generate a substitute for return to assist field employees. Analyze the requirement for replacing the A-6020B program that prints a substitute return for Forms 941 and Forms 940 based on systemic calculations. Currently the paper is manually processed. Analyze existing 1040 substitute programs for possible solutions.
<b>13</b>	<b>State Only Filing</b>	Allow state returns from participating filers for selected states into the electronic filing system for taxpayers who have an accepted federal return on file. Put state returns on the State Retrieval System for retrieval by the applicable states.
<b>14</b>	<b>Transcript Delivery System</b>	Automate the disclosure of taxpayer information to designated third parties that have been authorized by the taxpayer to receive their tax return information. The current transcript request process is labor intensive and paper-based and takes an average of 7-10 days for customers to receive the transcripts that they requested. The Transcript Delivery System will automate the process, ensure secure transmissions and return requested information within 24 hours. The 2002 e-services Modernization release includes the Transcript Delivery product for state governments and tax preparers. Future releases will expand the capability to other audiences.
<b>15</b>	<b>Third Party Community Common Services</b>	To better serve third parties, including <i>e-filers</i> , states, financial institutions, software developers and others, the 2002 e-services Modernization release is developing an on-line community for third parties. The community will include common services that ensure that transactions and users are authenticated, secured and audit trails established.
<b>16</b>	<b>Electronic Application</b>	The first release of 2002 e-services Modernization will include the ability to apply electronically to participate in the <i>e-file</i> program and business <i>e-file</i> as well as register to use e-services. The product will also permit current users to update their profiles electronically.
<b>17</b>	<b>Electronic IRP to Taxpayers</b>	By January 2002, develop criteria permitting the electronic delivery of information returns (1098, 1099, W-2) from financial institutions and employers to taxpayers.

<b>Number</b>	<b>Title</b>	<b>Description</b>
<b>18</b>	<b>1065 with Payment</b>	Accommodate capacity and program requirements of legislative mandate in the Taxpayer Relief Act of 1997 requiring certain filers to submit Forms 1065 and Schedules K-1 electronically. Provide the capability to transmit a payment record for the balance due amount of an electronic return.
<b>19</b>	<b>1065-B and Foreign Address</b>	To enhance the current 1065 e-file Program, the IRS needs to accept Form 1065-B and partnership returns with a foreign address electronically. Form 1065-B, U.S. Return of Income for Electing Large Partnerships, is an information return used to report the income, deduction, gains, losses, etc. from the operation of an electing large partnership. In addition, a foreign partnership that engages in a trade or business within the United States or has gross income derived from sources in the United States must file Form 1065 even if its principal place of business is outside the U.S. or all its members are nonresident aliens.
<b>20</b>	<b>1120 with Payment</b>	Currently, there is no electronic processing system for Forms 1120. Develop plans to move these forms and schedules to some form of electronic filing. Provide the capability to transmit a payment record for the balance due amount of an electronic return.
<b>21</b>	<b>1120S with Payment</b>	In conjunction with the Form 1120 initiative, ETA will also explore electronic filing for Forms 1120S for subchapter S businesses. Provide the capability to transmit a payment record for the balance due amount of an electronic return.
<b>22</b>	<b>1098, 1099 and 5498</b>	Currently, Martinsburg Computing Center (MCC) receives Forms 1098, 1099 and 5498 electronically on the Filing Information Returns Electronically (FIRE) System and on magnetic media. MCC also processes this data on mainframe programs. MCC is expecting FIRE to receive 350-400 million returns for 2001. Additional upgrades to the telecommunication system will enable FIRE to receive 80 percent (up to 800 million) information returns by 2007.
<b>23</b>	<b>7004 with Payment</b>	Currently the extension to file business returns is received only on paper. Extensions are usually requested for complex business returns. Develop capability to receive the 7004 electronically. Provide the capability to transmit a payment record for the balance due amount of an electronic return.
<b>24</b>	<b>New 1041</b>	Receive Form 1041 data electronically in proprietary format through EMS.
<b>25</b>	<b>1041 Federal-State Replacement</b>	Expand the participation of the 12 banks in New York to other geographical areas. Philadelphia Service Center has already initiated contacts with other interested parties.
<b>26</b>	<b>2290 Filing with Payment</b>	This project will allow business filers to prepare and file Form 2290 using a PC, modem and Web-based or off-the-shelf software to transmit returns to a third party transmitter who will then transmit to the IRS. An integrated file and payment option will be offered. Implementation is scheduled for July 2002.
<b>27</b>	<b>990 Family</b>	Identify the requirements for filing the Form 990 family returns electronically. Identify optimum alternative ways of filing. Identify the targeted audience to include what the impact of "parent" organization may require.

<b>Number</b>	<b>Title</b>	<b>Description</b>
<b>28</b>	<b>TIN Matching for Payers</b>	Develop the capability for payers of certain Form 1099 income (those subject to backup withholding) to match payee's name and taxpayer identification number with IRS records before filing the information return with the IRS. Payers, using the Internet, will be able to match their records in either a batch request (24-hour turnaround) or using real time smaller requests. The 2002 e-services Modernization release includes TIN matching functionality.
<b>29</b>	<b>5471 and 6166</b>	Form 5471 - Information Return of U.S. Person with Respect to Certain Foreign Corporation. Form 6166 - Certification of Filing a Tax Return (used by corporations). Currently, both of these forms are received and processed at Philadelphia Service Center on their BBS and ECS. Identify requirements and develop the capability to receive both forms electronically.
<b>30</b>	<b>Electronic Form 8850</b>	A partnership has been formed with the private sector, professional associations, state governments and other federal agencies to develop an electronic transmission method for the Form 8850 (Pre-screening Notice and Certification for the Work Opportunity and Welfare-to-Work Credits). This project will involve the creation of an electronic Form 8850, electronic filing of the form, and determining opportunities for re-engineering the very paper intensive process surrounding the current certification requirements.
<b>31</b>	<b>941 On-Line Filing (OLF)</b>	This project allows business filers to prepare and file Form 941 using a PC, modem and off-the-shelf software to transmit tax returns to a third party transmitter who will then transmit to the IRS. The project was implemented Nationwide in the first quarter of 2000.
<b>32</b>	<b>940 e-file with Payment</b>	This project will allow business filers to submit Form 940 to the IRS electronically either by the business taxpayer via 940 On-Line Filing (OLF) or by the Reporting Agent via 940 e-file. As with the 941 e-file options, business taxpayers will be able to take advantage of Web-based, off-the-shelf, or independently developed software. Both the OLF and e-file options will be available to business filers by January 2001. In January 2002, an integrated file and payment option will be available.
<b>33</b>	<b>941 Integrated Filing and Payment</b>	Accept receipt of electronic Forms 941 returns with electronic payment records for ACH debits at all 941 e-file locations. Payment records should be implemented for e-file, OLF and TeleFile programs.
<b>34</b>	<b>940 On-Line Filing (OLF)</b>	Identify requirements and build EMS module for receipt from transmitters and processing of Forms 940 in Proprietary format and interface with CDB. 940 OLF will use the same programs (back end) as 940 e-file. Include assignment of a new doc code to identify OLF returns for reporting and statistical analysis. Pilot accepting Forms 940 OLF in EDI and/or proprietary format in EMS at AUSC. Build automated interface with Business Customer Database for signature authentication.

<b>Number</b>	<b>Title</b>	<b>Description</b>
<b>35</b>	<b>943</b>	This project will allow business filers to submit Form 943 to the IRS electronically either by the business taxpayer via 943 On-Line Filing (OLF) or by the Reporting Agent via 943 e-file. As with the 941 <i>e-file</i> options, business taxpayers will be able to take advantage of Web-based, off-the-shelf, or independently developed software. Implementation is projected for January 2003.
<b>36</b>	<b>945</b>	This project will allow business filers to submit Form 945 to the IRS electronically either by the business taxpayer via 945 On-Line Filing (OLF) or by the Reporting Agent via 945 e-file. As with the 941 <i>e-file</i> options, business taxpayers will be able to take advantage of Web-based, off-the-shelf, or independently developed software. Implementation is projected for January 2003.
<b>37</b>	<b>STAWRS Single Point Filing (Montana and Iowa)</b>	<b>Completed in 2000.</b>
<b>38</b>	<b>STAWRS (Commercial Off-the-Shelf) COTS Single Point Filing</b>	A partnership of IRS, commercial software developers, payroll providers, 12 states, and other federal agencies has been formed to define standards to facilitate the development of commercially available software that enables employers to file federal and state tax and wage reports to a single location. This builds upon the success of Project Number 37.
<b>39</b>	<b>Form W-2 Single Point Filing</b>	STAWRS successfully completed a demonstration project with 33 states allowing employers to submit Forms W-2 to the Social Security Administration (SSA) to meet both federal and state reporting requirements. STAWRS has begun work to implement single point filing of Forms W-2 through a partnership of the IRS, SSA and the states.
<b>40A</b>	<b>STAWRS Harmonized Wage Code (HWC) Database</b>	A Harmonized Wage Code (HWC) Database has been developed that enables comparison of component provisions of 96 federal and state employment tax codes. This database is available at the STAWRS Web site, <a href="http://www.biztax.gov">www.biztax.gov</a> .
<b>40B</b>	<b>Targeted Harmonized Wage Code (THWC)</b>	The THWC was developed as an interim recommendation to the HWC. The THWC recommends harmonization of the 14 components of the various codes most commonly affecting small employers. The THWC Report has been published and endorsed by 4 states that are already in harmony. STAWRS has partnered with the Department of Labor to study the impacts of the THWC on revenue and UI.
<b>40C</b>	<b>STAWRS Harmonized Wage Code</b>	The STAWRS Program is focusing on decreasing the complexity of the federal and state employment tax and wage reporting laws by developing two broader HWCs, one for income tax withholding and one for unemployment insurance (including FICA and FUTA).
<b>41</b>	<b>STAWRS One-Stop Customer Service (OCS)</b>	STAWRS developed an operational integrated Web site ( <a href="http://www.biztax.gov">www.biztax.gov</a> or <a href="http://www.employers.gov">www.employers.gov</a> ) that provides businesses with easy access to up-to-date and accurate employment tax and wage information, forms, regulations, publications, electronic filing services and more via Web site links to the IRS Internet site, other federal agencies and state governments.
<b>42</b>	<b>Internet Employer Identification Number (EIN)</b>	This partnership of STAWRS, practitioners, states and a small business information center will test request and receipt of the EIN over the Internet.

<b>Number</b>	<b>Title</b>	<b>Description</b>
<b>43</b>	<b>EIN Standardization</b>	STAWRS has partnered with representatives of the employer community, other federal agencies, and professional associations to investigate the feasibility of standardizing the EIN registration and number usage.
<b>44</b>	<b>Internet EFTPS</b>	The IRS, in conjunction with Financial Management Service, is in the process of deploying a Web site for enrollments, payments and customer service.
<b>45</b>	<b>Electronic Acknowledgement</b>	By January 2002, an electronic acknowledgement will be provided to taxpayers that their payment has been submitted to their financial institution for collection.
<b>46</b>	<b>Payment TeleFile</b>	Identify requirements and develop the capability for taxpayers to call and make a direct debit payment for a notice (either for an individual or business) for January 2002. A payment record output file will be forwarded to the Treasury Financial Agents for processing.

## Business Goals

ETA has established the following annual business goals and attendant measures in support of the eight strategies that were discussed previously on pages 7-15 of the Strategic Plan. These goals are consistent with the Balanced Measurement System, which the IRS is implementing to modernize the Agency and to reflect the Service's priorities, as articulated in its mission statement. The Balanced Measurement System is a core management tool with a set of balanced measures in three major elements - Customer Satisfaction, Employee Satisfaction and Business Results, with Business Results being comprised of measures of Quality and Quantity and Outreach. Each element represents an important aspect of IRS' overall goals and each is of equal importance in carrying out ETA's programs and functions.

**Please note that the goals involving electronic filing volumes are based on the most recent projections developed by the office of the Director (Research, Analysis and Statistics of Income). Increases to the current projections are expected as IRS gains more experience with the impact of the enhancements that are reflected in the Strategic Plan.**

### **Make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing:**

- 72.9 million Forms 1040 received electronically (51.2%)
- 7.3 million Forms 941 (29.2%) and 1.2 million Forms 940 (21.2%) received electronically or on magnetic media
- 16.7 million other business tax returns including related Schedule K-1s received electronically (45.4%)
- 1.6 billion information returns received in non paper form (95.8%)
- 94 percent of all federal tax deposit dollars received electronically
- 50 million self-serviced and assisted applications resolved electronically

### **Substantially increase taxpayer access to electronic filing, payment, and communication products and services:**

- 108,000 paid preparer EROs file individual and business tax returns electronically
- Enable appropriate direct filing, payment and communications through the Internet
- Accept all forms and schedules and preparer notes electronically
- 100,000 returns filed electronically through IRS Employee *e-file*
- 500,000 returns filed electronically through VITA and TCE/AARP
- All of the top 22 payroll service providers file Forms 941 and 940 electronically
- All of the top 1,000 financial institutions file Forms 1099 electronically
- 75 percent of the Fortune 1,000 file their business tax returns electronically
- Maintain unplanned downtime at less than 1 percent of system availability



**Aggressively protect transaction integrity and accuracy:**

- Achieve 99.9 percent transaction integrity and internal processing accuracy
- Restrict participation to suitable resellers
- Regulate resellers to assure the quality of service delivery
- Authenticate taxpayers in advance of transaction acceptance
- Deploy sophisticated and advanced approaches to detect and prevent refund fraud
- Design systems in compliance with security certification and accreditation guidelines

**Substantially reduce electronic filing per return processing costs:**

- Develop processing component cost insight
- Deploy an electronic authentication approach
- Enable debit and credit card payments
- Automate ERO application and suitability processes
- Consolidate and modernize service center ETA assets
- Increase Direct Deposit usage
- Reduce and eliminate other costs as possible

**Deliver the highest quality products and services as promised:**

- Reduce electronic filing and payment rejects
- Meet 100 percent of all scheduled product, service and feature commitments
- Achieve 90 percent customer satisfaction
- Achieve 90 percent distributor satisfaction

**Seek the best people, ideas and partners to ensure success:**

- Employ an ETA Policy Council (ETAPC)
- Collaborate with the ETA Advisory Committee (ETAAC)
- Regularly identify and implement best practices from both public and private organizations
- Seek and hire the best people from diverse qualified applicant pools and evaluate solely on performance and ability
- Seek and partner with the best solution providers and evaluate candidacy and success on ability, performance, results, quality and then price

**Create a work environment where our employees and partners are skilled, informed and empowered to succeed:**

- Continue timely and thorough communications
- Ensure that employees are skilled in marketing, finance, and product and program management
- Establish an appropriate structure to suit the organization's strategy
- Update all position descriptions to match the structure
- Annually establish clear and relevant objectives
- Annually conduct timely and thorough performance reviews
- Enable budgetary consolidation and insight
- Achieve 90 percent employee satisfaction

**Encourage private sector innovation and competition:**

- Cooperate with and encourage the private sector by encouraging competition to increase electronic filing
- In conjunction with the private sector, facilitate one or more options to the public for preparing and filing individual income tax over the Internet at no cost to the taxpayer
- Deliver value-added e-services through partnership with the PRIME Alliance
- Foster robust private sector competition through the Request for Proposal (RFP) and Request for Agreement (RFA) processes

# Industry Overview

An important aspect of developing any strategic plan is to understand where we have been, where we are, and where we need to go. The following section documents the growth of electronic tax administration over the past decade and analyzes current *e-filer* characteristics as well as taxpayer attitudes toward ETA products and services.

## THE EVOLUTION OF ELECTRONIC TAX ADMINISTRATION

### IRS *e-file* for Individuals

The IRS' involvement in electronic tax administration began in 1986 with the first pilot of electronic filing, which consisted of the electronic transmission of 25,000 individual refund returns from a handful of professional tax preparers through third party transmitters.

Fourteen years later, IRS *e-file* programs have evolved so that better than one out of every four individual taxpayers are now filing electronically. To facilitate this growth, numerous enhancements and features have been added to the program over the years as summarized in Figure 1.

After testing and piloting electronic filing, the IRS built its first fully operational system in 1989, receiving over a million returns the initial year. A major enhancement was added the following year when the IRS, in conjunction with the State of South Carolina, kicked off joint federal/state filing which allows taxpayers to satisfy both their federal and state obligations with a single transmission. Upon receipt of the electronic data, the IRS strips off the state data and makes it available for downloading by the states. Over the years, the federal/state electronic filing program has grown dramatically. In 2000, thirty-five states and the District of Columbia participated in the program and 12.0 million individual taxpayers took advantage of this option.

While the IRS continued its efforts to improve the practitioner electronic filing program including adding more forms and schedules, it also began to explore other filing options for individuals. In 1991, the IRS began a research project on the filing of tax returns over the telephone and one year later the TeleFile system became operational.

FIGURE 1

### Key Milestones for 1040 IRS *e-file*

Year	Milestone
1986	First pilot of electronic filing
1990	Electronic filing is available nationwide
1991	Joint Federal/State electronic filing begins
1992	TeleFile begins
1994	On-Line Filing begins
1996	TeleFile becomes totally paperless
1998	IRS <i>e-file</i> campaign is launched
1999	Electronic payment piloted
1999	Signature alternatives piloted
2000	Account Management piloted
2000	Brand new <i>e-file</i> campaign created

## ON-LINE FILING

Filing on-line figures grew to over 5 million in 2000, an increase of 100% from 1999.

The award-winning TeleFile system allows eligible taxpayers to file Forms 1040EZ using a touch-touch telephone. Filing by TeleFile is easy, fast, free and available seven days a week. Millions of taxpayers can file their tax returns in one short, ten minute call. A confirmation number is provided at the end of the call to verify that the return has been received by the IRS. During the 2000 filing season, 5.2 million taxpayers used the system, down from its peak of nearly 6.0 million taxpayers in 1998. Part of this decline can be attributed to the dramatic increase in on-line filing as explained further below.

In the mid-Nineties, the IRS introduced yet another filing option for individuals when it allowed taxpayers to file on-line via their home computer. All that is needed is a modem, IRS-accepted tax preparation software and an on-line service provider or transmitter. Beginning with a limited pilot in 1995 with about one thousand on-line returns being filed, the program has grown to 2.5 million filers in 1999 and to 5.0 million in 2000.

TABLE 1

### Individual IRS *e-file* (In Thousands)

Year	Practitioner	TeleFile	On-Line	Total
1986	25			25
1987	78			78
1988	583			583
1989	1,161			1,161
1990	4,204			4,204
1991	7,567			7,567
1992	10,919	125		11,045
1993	12,334	149		12,482
1994	13,502	519		14,021
1995	11,126	680	1	11,807
1996	11,971	2,839	158	14,968
1997	14,083	4,686	367	19,136
1998	17,668	5,955	942	24,580
1999	21,223	5,664	2,458	29,346
2000	25,201	5,161	5,019	35,381

Further inroads were made in 1999 and 2000 as the IRS piloted several electronic payment options, as well as alternatives to paper signature documents. After initially offering payment by direct debit and credit card in 1999, during the second year of operation 237,281 taxpayers filing balance due returns paid by authorizing that either their checking or savings account be debited as part of their electronic return. In addition, taxpayers made 238,200 tax payments using their credit cards in 2000. The IRS also conducted two pilots which provided a paperless filing experience for over 1 million taxpayers in 1999 and nearly 7 million taxpayers in 2000. These pilots, involving the Practitioner *e-file* and On-Line filing programs, tested the use of a Personal Identification Number (PIN) as the taxpayer's signature in order to eliminate the need to file the paper jurat. Based on IRS' experience with the PIN pilots, a Self Select PIN for *e-file* program will be implemented for the 2001 filing season.

As the filing options available to individual taxpayers continued to mature, the IRS recognized that it needed to do more to educate and inform the public about the benefits of electronic filing. In 1998, in conjunction with the advertising agency, Emmerling-Post, the IRS launched the first phase of its *e-file* awareness campaign which continued to evolve over the next several years. Attitudinal, awareness and tracking studies have also been conducted each year to improve the campaign for the next filing season. During the 2000 filing season, ETA conducted the largest *e-file* advertising campaign ever when it launched a brand new marketing campaign, "30 Million Americans Use IRS *e-file*." The latest

undertaking was a fully integrated campaign with new TV, radio and print media designed to strengthen the brand name of IRS *e-file*. Overall, the IRS spent \$5 million in FY1998, \$8 million in FY1999 and \$13 million in FY2000 on its *e-file* marketing campaigns.

As summarized in Table 1, the combination of new filing options and the continued enhancement of practitioner *e-file* has resulted in significant growth in electronic filing over the past fifteen years.

### IRS *e-file* for Businesses

As indicated in Figure 2, in concert with the IRS launching electronic filing for individuals, similar programs were made available to businesses beginning in the late-Eighties. Although not growing as fast initially as its individual counterparts, the electronic filing and payment options available to businesses began to take off in the mid-Nineties.

FIGURE 2

## Key Milestones for Businesses IRS *e-file*

Year	Milestone
1988	Electronic filing of Form 1065 Schedule K-1s
1988	Electronic filing of Form 1041 and Schedule K-1s
1988	Electronic filing of Form 5500
1992	TaxLink begins for payments
1994	Electronic filing of Form 941
1996	EFTPS becomes operational
1997	Form 941 TeleFile piloted
1998	Form 941 On-Line Filing piloted
1999	FIRE Program implemented for Form 1099
2000	Electronic filing of Form 1065

TABLE 2

## Business IRS *e-file*

Return	CY 1999 Actual	CY 2000 Estimated
Form 941	2,200,486	2,112,610
Form 1041	999,041	1,117,610
Form 1065	—	140
Schedule K-1 (1041)	1,399,468	1,495,200
Schedule K-1 (1065)	1,864,659	179,600

In 1988, the IRS introduced its first electronic filing program for businesses when it began accepting Schedule K-1 as well as Forms 1041 and 5500. By calendar year 1999, the IRS received 1.86 million Schedules K-1 (Form 1065) and 1.4 million Schedules K-1 (Form 1041) electronically. In 2000, the IRS also began accepting Forms 1065 electronically. In 2001, large partnerships with more than 100 partners will be required to file electronically under the provisions of the Taxpayer Relief Act of 1997.

1994 was the turning point for IRS' electronic filing programs for employers. In that year, the IRS introduced electronic filing for Forms 941, the Employers' Quarterly Federal Tax Return. The initial program permitted reporting agents, such as payroll service providers, to file electronically on behalf of their clients. After a first-year volume of 15,606 returns, the program grew to 2.2 million electronically-filed Forms 941 in 1999. In 1997, the IRS expanded the filing options available to employers with the pilot of Form 941 TeleFile. This program allows small businesses to file their quarterly employment returns using a touch-tone telephone. The IRS launched the program nationwide in 1998 and received 756,080 returns the first year. The on-line filing of Forms 941, implemented in 2000, is the latest employer filing option.

Recent receipts and future projections for IRS' *e-file* programs for businesses are shown in Table 2.

### Electronic Payment

While expanding its electronic filing programs for businesses, the IRS has also been automating the payment process. In 1992, the IRS embarked on a voluntary pilot referred to as TaxLink which automated the payment of Federal Tax Deposits (FTDs) by employers. Through this system, businesses could remit their deposits either through an ACH debit or credit. In

1994, electronic payments got a tremendous boost with the passage of NAFTA. This legislation mandated that 94 percent of all FTDs be deposited electronically by 1999. The U.S. Department of Treasury's Financial Management Service, supported by the IRS, contracted with two large financial institutions, First Chicago (now Bank One) and NationsBank (now Bank America), to deploy the Electronic Federal Tax Payment System (EFTPS) as a more rigorous and complete replacement to TaxLink. By using EFTPS, taxpayers can make their deposits over the telephone or using a personal computer, eliminating the need for paper FTD coupons, checks or trips to the bank. Taxpayers have made over four trillion in tax deposits electronically since the government established EFTPS in November 1996. Three million businesses are now enrolled in the Hammer Award winning EFTPS system. During FY2000, taxpayers made over \$1.6 trillion in tax deposits through EFTPS which accounts for over 94 percent of all federal tax deposits.

### **Internet Services**

In 1996, the IRS launched the Digital Daily, a Worldwide Web site home page ([www.irs.gov](http://www.irs.gov)) and TaxFax, a faxback form and information service. A growing number of taxpayers get the tax information they need from the IRS Web site where over 5,000 tax products are available including IRS forms, instructions and publications. Use of the Web site has skyrocketed in recent years. During Fiscal Year 1999, the IRS web site received over one billion hits for the first time ever, doubling last year's volume.

To assist tax professionals in helping taxpayers, the Tax Professional's Corner was added to the Web site. It provides advance notice of revenue rulings, procedures and other tax law items; news and administrative information for tax professionals; and information on workshops and how to become an Electronic Return Originator. By working with industry and using CD-ROM technology, the IRS has also been able to expand the distribution of tax forms, publications and other information. Through the "Corporate Partnership Program", the IRS is working with large corporations to make tax information available to their employees on their internal networks. Furthermore, the IRS is providing answers to taxpayers' questions via Internet e-mail. Taxpayers across the country and overseas can e-mail the IRS with tax law questions.

### **TAXPAYER ACCEPTANCE OF ETA PRODUCTS AND SERVICES**

In charting a path for the future, it is not only necessary to understand the evolution of the Electronic Tax Administration program up to this point, but it is also critical to acquire a better understanding of taxpayer characteristics and their attitudes toward ETA products and services. The questions that need to be asked include among many others: Why do taxpayers file electronically? Why don't they file electronically? Who is filing electronically? and, What do taxpayers think of ETA products and services?

#### **IRS WEB SITE**

IRS' Web Site (Digital Daily) received over one billion hits in 2000.

## Taxpayer Benefits

Why do taxpayers file electronically? For years, the success of IRS *e-file* has been attributed to the demonstrated benefits that it provides to taxpayers:

- It's the fastest way to get refunds. Refunds are received in half the time — even faster and safer with Direct Deposit.
- It's available in every state that has an income tax and the District of Columbia to file federal and state tax returns simultaneously.
- Its accuracy rate of 99 percent reduces the chance of getting an error notice from the IRS.
- It provides an acknowledgment that the return has been accepted within 48 hours by the IRS.
- It provides privacy and security.

In addition, a certain segment of the taxpaying population has been willing to pay extra for receipt of their funds in 3 to 5 days via a check printed at the preparer's office. This willingness launched the Refund Anticipation Loan Program by several major banks. The federal tax refund collateralizes these loans. Barring any detection of fraud or offsetting liabilities (past due student loan, past due child support, outstanding tax liability), the refund is direct deposited into the lending institution within 10 to 21 days.

## Taxpayer Demographics

Who is filing electronically? To answer that question, an extensive analysis of tax year 1998 returns was conducted to provide more detailed profiling of the following major *e-file* market segments:

- Self-prepared Simple Returns (Self-Simple)
- Self-prepared Complex Returns (Self-Complex)
- Paid-preparer Simple Returns (Paid-Simple)
- Paid-preparer Complex Returns (Paid-Complex)

For definitional purposes, self-prepared returns are returns where there was no paid-preparer identification numbers on the return.

A paid-preparer return contains a paid-preparer identification number on the return. Simple returns consist of Forms 1040EZ or Forms 1040A as well as Forms 1040 or 1040PC with no schedules, while complex returns are those that do not meet the definition of a simple return.

Principle observations from this analysis found that:

- As a group, Paid-Simple taxpayers were most likely to *e-file* with a participation rate of 47 percent, followed by Self-Simple and Paid-Complex at 24 percent. The participation rate for Self-Complex was the lowest at 13 percent.
- In each market segment, *e-file* users are more likely to be single, have a refund return, claim the Earned Income Credit, and utilize Direct Deposit than non-users.
- *e-file* users are younger than non-users in every market segment.
- Self-Simple taxpayers tend to be the youngest of all with nearly 50 percent under age 30, while Paid-Complex is the oldest taxpayer segment.



- 80 percent of Self-Simple taxpayers are single, while well over 50 percent of Paid-Complex taxpayers are married.
- Over 40 percent of Self-Complex filers have an Adjusted Gross Income (AGI) over \$50,000, followed closely by the Paid-Complex segment with just under 40 percent of filers with AGIs over \$50,000.
- The Direct Deposit option is used most frequently by the Paid-Simple Return segment with just over 40 percent choosing that option.
- Most self-prepared returns are prepared without a computer; 68 percent for Self-Simple and 55 percent for Self-Complex.

### **Taxpayer Attitudes**

Finally, why don't taxpayers file electronically and what do taxpayers think about ETA products and services? Since 1998, Russell Marketing Research, Inc. has conducted an annual study of taxpayer attitudes toward electronic filing to assist the IRS in the development of future ETA products and effective marketing strategies. The results from the recent 2000 Attitudinal Tracking Study indicated the following trends.

**Taxpayers and Technology:** Taxpayers are still ambivalent toward technology, but are increasingly accepting of it, particularly as their usage of Internet and PC technologies rises.

- This year's evidence of greater taxpayer acceptance of technology lies in the continuing increases in the number of respondents who agreed with statements characteristic of a technological "leader" and the corresponding decreases in the number who agreed with the technological "follower" statements.
- Increasing taxpayer acceptance of technology is clearly linked to rising usage of Internet and PC-based technologies, especially Internet information searches (or perhaps browsing), e-mail, and Internet shopping. There is also increasing usage of banking by computer.
- While technology acceptance and usage is increasing throughout the country, the clearest pattern of greater acceptance and use of technology is in the West.

**ETA Product Awareness and Usage:** This year, the awareness and usage measures showed substantial increases in mentions of ETA products, with the ETA gains again driven largely by the On-Line Filing method.

**ETA Product Consideration:** While the level of past-year usage of electronic filing products was only 26 percent, the potential for usage or consideration reached 79 percent or about the same level as found in 1999.

- Consideration of Third Party Electronic Filing and On-Line Filing were both stable (at about the 50 percent level), but consideration of TeleFile dropped (from 43 percent in 1999 to 35 percent this year).

**The Attitudinal Segmentation:** With the increasing acceptance and usage of technology, the four cluster groups: Upscale Technology Advanced, Pressured Technology Users, Experimental Hesitators, and Downscale Technology Challenged, are still changing in size. There is significant movement out of the least-technologically oriented of the segments and

into the more tech-forward group. For example, over the past three years the size of the Upscale Technology Advanced group has increased from 27 percent to 32 percent, while the Downscale Technology Challenged group has decreased from 35 percent to 25 percent.

- Two additional waves of research strongly reinforce the 1998 finding that the two technology-forward segments offer the greatest immediate potential for ETA because of their attitudes toward technology and their awareness of and consideration of ETA products. However, the potential noted in 1998 for the Downscale Technology Challenged segment versus Experimental Hesitators is fading as the Downscale Technology Challenged show continuing high resistance to technology and to electronic filing while the Experimental Hesitators appear to be increasingly accepting of technology, lower in resistance, and with electronic filing having high saliency in this group as measured by unaided awareness of ETA products.

**Marrying the Attitudinal and Behavioral Segmentation Data:** In this year's Attitudinal Study, the attitudinal data was linked to IRS filing data by classifying respondents into four filing or behavioral segments: Self-Simple, Self-Complex, Paid-Simple and Paid Complex.

- Strong skews were found toward one or two of the attitudinal segments in all filing groups except Self-Simple where there was fairly equal distribution to each attitudinal group.
- Unaided awareness of ETA products (especially On-Line Filing) was highest among the Self-Complex and lowest among Paid-Simple. Total awareness was similar in each group.
- However, usage of ETA filing methods differed from awareness with highest usage among simple filers, Paid-Simple and Self-Simple, and lowest usage among the complex return filers, Self-Complex and Paid-Complex.
- While there was similar "net" consideration of usage of ETA products across the four groups, Self-Simple filers focused more on TeleFile, Self-Complex on On-Line, and both Paid segments were more disposed to Third Party Electronic Filing.

# IRS *e-file* Projections CY 2001-2007

The following charts represent the official IRS projections for electronically filed individual and business returns as developed by the professional forecasters under the Director (Research, Analysis and Statistics of Income). The projections represent baseline extrapolations of current trends, existing marketing approaches, enacted legislation, and confirmed

(or reasonably certain) IRS program changes. **However, the projections do not reflect the full impact of all of the initiatives contained in the Strategic Plan. At this time, the IRS does not have sufficient information to make reasonable projections for many of the future initiatives. As the IRS gains more experience with the impact of the enhancements reflected in the Strategic Plan, increases to the current projections are expected.**

As recommended by the ETAAC and other stakeholders, last year's Table 3, Calendar Year Projections of Electronically Filed Business Returns, has been replaced by three new Tables that provide greater detail regarding projections for payroll tax returns, other business tax returns and information returns. IRS plans to further refine and expand its projections in these market segments in upcoming years

### The following tables are included:

Table 1, Calendar Year Projections of the Percentage of Individual Returns to be Filed Electronically 2001-2007 for the United States (in millions), illustrates the anticipated annual growth in IRS *e-file* returns as a percentage of total returns.

Table 2, Calendar Year Projections of Electronically Filed Individual Returns to be Filed 2001-2007 for the United States (in millions), provides a projected range of electronic filing volumes for each year for each *e-file* program. Based on differing assumptions and calculations, the projections range from an anticipated "middle ground" or likely scenario to a "more optimistic" scenario.

TABLE 1

## Calendar Year Projections of the Percentage of Individual Returns to be Filed Electronically 2001-2007 for the United States

(in millions)

Year	Total Individual Returns	Total <i>e-file</i> Returns	<i>e-file</i> Percent of Total
1999 Actual	124.9	29.3	23.5
2000 Estimated	127.3	35.4	27.8
2001	129.7	42.3	32.6
2002	131.7	50.1	38.0
2003	133.7	56.9	42.6
2004	135.6	62.0	45.7
2005	137.6	66.1	48.0
2006	139.9	69.7	49.8
2007	142.3	72.9	51.2

Based on differing assumptions and calculations, the projections range from an anticipated "middle ground" or likely scenario to a "more optimistic" scenario.

Table 3, Calendar Year Projections of Electronically Filed Payroll Tax Returns to be Filed 2001-2007 for the United States, includes volumes of Forms 940 and 941 filed via magnetic tape and electronically.

Table 4, Calendar Year Projections of Electronically Filed Other Business Tax Returns to be Filed 2001-2007 for the United States, includes volumes of Forms 1065 and 1041 and Schedules K-1 for Forms 1065 and 1041.

Table 5, Calendar Year Projections of Electronically Filed Information Returns to be Filed 2001-2007 for the United States (in millions) via magnetic tape and electronically.

**Calendar Year Projections of Electronically Filed Individual Returns to be Filed 2001-2007 for the United States** (in millions)

TABLE 2				
Year	Tele-File	On-Line Filing	Practitioner e-file	Total Individual e-file
1999 Actual	5.7	2.5	21.2	29.3
2000 Estimated	5.2	5.0	25.2	35.4
2001	4.9 - 5.2	8.5 - 8.7	28.9 - 29.8	42.3 - 43.6
2002	4.9 - 5.2	12.9 - 13.8	32.4 - 34.0	50.1 - 53.0
2003	4.9 - 5.2	16.5 - 18.5	35.5 - 38.1	56.9 - 61.9
2004	4.9 - 5.2	18.8 - 21.8	38.3 - 42.0	62.0 - 69.1
2005	4.9 - 5.3	20.4 - 24.1	40.8 - 45.7	66.1 - 75.0
2006	5.0 - 5.3	21.7 - 25.9	43.0 - 49.0	69.7 - 80.2
2007	5.0 - 5.3	22.8 - 27.3	45.1 - 52.1	72.9 - 84.8

**Calendar Year Projections of Electronically Filed Payroll Tax Returns to be Filed 2001 - 2007 for the United States**

**TABLE 3**

<b>Year</b>	<b>Total*</b>	<b>Electronic**</b>	<b>Magnetic Media</b>	<b>Electronic % of Total</b>	<b>Mag. Media % of Total</b>
<b>Forms 941</b>					
1999 Actual	22,985,095	2,200,486	1,215,304	9.6%	5.3%
2000 Estimated	23,475,510	2,112,610	1,502,550	9.0%	6.4%
2001	23,647,480	2,550,140	1,654,670	10.8%	7.0%
2002	23,840,470	2,994,080	1,806,800	12.6%	7.6%
2003	24,035,740	3,263,280	2,024,310	13.6%	8.4%
2004	24,228,540	3,530,730	2,246,430	14.6%	9.3%
2005	24,454,890	3,800,040	2,474,830	15.5%	10.1%
2006	24,682,410	4,064,930	2,709,410	16.5%	11.0%
2007	24,871,240	4,323,030	2,947,130	17.4%	11.8%
<b>Forms 940</b>					
1999 Actual	5,479,087	—	569,736	—	10.4%
2000 Estimated	5,558,610	—	625,700	—	11.3%
2001	5,599,810	60,000	625,490	1.1%	11.2%
2002	5,642,180	73,880	688,580	1.3%	12.2%
2003	5,687,650	90,640	770,310	1.6%	13.5%
2004	5,725,160	99,730	854,680	1.7%	14.9%
2005	5,764,270	108,880	939,920	1.9%	16.3%
2006	5,814,350	118,210	1,027,010	2.0%	17.7%
2007	5,874,870	127,740	1,116,170	2.2%	19.0%

\* Total includes both paper and electronic returns

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

**Calendar Year Projections of Electronically Other Business Tax Returns to be Filed 2001 - 2007 for the United States**

TABLE 4

Year	Total	Electronic	Electronic % of Total
<b>Form 1065</b>			
1999 Actual	1,974,667	—	—
2000 Estimated	2,147,890	140	0.0%
2001	2,291,330	4,390	0.2%
2002	2,425,870	7,350	0.3%
2003	2,564,870	19,070	0.7%
2004	2,701,640	34,420	1.3%
2005	2,839,520	51,800	1.8%
2006	2,976,840	70,680	2.4%
2007	3,114,440	91,490	2.9%
<b>Form 1041*</b>			
1999 Actual	3,403,273	999,041	29.4%
2000 Estimated	3,563,440	1,117,060	31.3%
2001	3,664,690	1,212,310	33.1%
2002	3,745,200	1,313,850	35.1%
2003	3,813,870	1,455,060	38.2%
2004	3,886,290	1,595,270	41.0%
2005	3,956,290	1,734,610	43.8%
2006	4,031,600	1,873,190	46.5%
2007	4,112,600	2,011,100	48.9%
<b>Schedule K-1 (1065)**</b>			
1999 Actual	18,227,748	1,864,659	10.2%
2000 Estimated	19,041,200	179,600	0.9%
2001	19,980,200	4,768,000	23.9%
2002	20,859,000	7,573,500	36.3%
2003	21,767,400	8,318,000	38.2%
2004	22,660,300	9,232,600	40.7%
2005	23,559,200	10,245,000	43.5%
2006	24,453,100	11,332,200	46.3%
2007	25,347,100	12,513,100	49.4%
<b>Schedule K-1 (1041)**</b>			
1999 Actual	4,051,790	1,399,468	34.5%
2000 Estimated	4,087,200	1,495,200	36.6%
2001	4,120,300	1,585,800	38.5%
2002	4,154,800	1,676,300	40.3%
2003	4,190,300	1,766,900	42.2%
2004	4,226,900	1,857,500	43.9%
2005	4,264,300	1,948,000	45.7%
2006	4,302,500	2,038,600	47.4%
2007	4,341,400	2,129,200	49.0%

**Note:** The business return *e-file* forecasts are the latest available projections from the IRS National Headquarters Research staff at the time this publication went to press. However, these *e-file* forecasts are essentially a "work in progress" that are refined and updated on a regular basis, and only cover part of the eventual *e-file* environment. In particular, the *e-file* projections only reflect extrapolations of existing trends, enacted law changes, and confirmed (or reasonably certain) future administrative and industry initiatives. They do not reflect less clearly defined or still evolving additional *e-file* strategies and initiatives for the future. For example, they do not include projections of *e-filed* corporation returns — even though IRS currently hopes to offer such an option in 2002.

\* Includes magnetic tape.

\*\* Includes magnetic tape and diskette filing.

**Calendar Year Projections of Electronically Filed Information Returns and to be Filed 2001 - 2007 for the United States** (in millions)

TABLE 5

Year	Total	Electronic	Magnetic Media	Electronic % of Total	Mag. Media % of Total
1999 Actual	1,282	121	1,084	9.4%	84.6%
2000 Estimated	1,328	219	1,031	16.5%	77.6%
2001	1,384	337	972	24.3%	70.2%
2002	1,422	475	875	33.4%	61.5%
2003	1,460	614	773	42.1%	52.9%
2004	1,513	751	690	49.6%	45.6%
2005	1,566	865	629	55.2%	40.2%
2006	1,625	960	593	59.1%	36.5%
2007	1,682	1,036	574	61.6%	34.1%







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