

Issue Paper Number 01-008



BOARD OF EQUALIZATION
KEY AGENCY ISSUE

- Board Meeting
- Business Taxes Committee
- Customer Services and Administrative Efficiency Committee
- Legislative Committee
- Property Tax Committee
- Other

Expansion of the Electronic Filing (E-Filing) Program

I. Issue

How should the Board of Equalization (BOE) expand the E-Filing Program?

II. Staff Recommendation

Staff recommends expanding the E-Filing Program as follows:

1. Conduct interested parties meetings with the BOE's larger taxpayers to determine their issues and needs in the area of E-Filing.
2. Conduct additional research to confirm the use of electronic commerce best practices.
3. Develop a conceptual system design that meets the needs of the BOE's larger taxpayers by July 2001.

III. Other Alternative(s) Considered

None

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IV. Background

On October 5, 1999 the Board approved proceeding with the development of a voluntary electronic filing (e-filing) system enabling taxpayers to file electronic tax returns and make payments via the Internet. To file a return, taxpayers access the system through a third party service provider's website and pay any tax due electronically by using the Automated Clearing House (ACH) debit method. The Board of Equalization (BOE) identifies the data to be captured and defines the types of data validation necessary. The initial implementation for e-filing included single outlet taxpayers that presently file sales and use tax return forms BOE-401-A (Schedule A only) and BOE-401-EZ.

An interested parties meeting was held in April 2000 for potential third party service providers to distribute available materials and discuss the business requirements of the E-Filing Program. As a result of this meeting, the BOE received several inquiries. In September 2000, Nantiontax Online, Inc. (Nantiontax) became the BOE's first electronic filing service provider applicant. BOE staff completed program construction and began system testing with Nantiontax. In November 2000, staff finalized an Operations Memo and the E-Filing Handbook, which presents service providers with information on the E-Filing Program.

The BOE implemented the E-Filing Program on January 9, 2001. Since implementation of the program, the BOE has received 66 e-filed returns for a total of \$52,117 (as of February 28, 2001). Nantiontax is currently the only provider of this service for taxpayers. However, three additional parties have applied to become authorized service providers. These potential service providers are building their systems to meet BOE's technical requirements and hope to begin testing with BOE in Spring 2001.

The BOE website has been updated to include E-Filing Program information for taxpayers and potential service providers. The website provides a link for taxpayers to go directly to the Nantiontax website to file their taxes electronically. Additional service provider links will be added as they are approved. Additionally, to advertise the program, staff has developed a marketing plan. This plan includes a press release, distribution of E-filing posters to district offices, and development of a joint marketing campaign with our authorized service providers. An article on e-filing was published in the December 2000 Tax Information Bulletin, and an insert are scheduled to be mailed to taxpayers in March 2001.

The first phase of the electronic filing project allowed for the smaller, single location taxpayers to file their Sales and Use Tax returns electronically. Although this includes the majority of taxpayers required to file a return under the sales and use tax program, the BOE is committed to providing the electronic filing option to all sales and use tax accounts. The next logical step for enhancing the e-filing system is to build the functionality necessary to accept the remainder of the sales and use tax schedules and prepayment forms which are required of BOE's larger taxpayers, many whom operate from multiple business locations.

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V. Staff Recommendation

A. Description of the Staff Recommendation

Staff recommends expanding the E-Filing Program as follows:

1. Conduct interested parties meetings with the BOE's larger taxpayers to determine their issues and needs in the area of E-Filing.
2. Conduct additional research to confirm the use of electronic commerce best practices.
3. Develop a conceptual system design that meets the needs of the BOE's larger taxpayers by July 2001.

Expanding the E-Filing Program requires enhancing the Integrated Revenue Information System (IRIS) to accept sales and use tax schedules and prepayment forms electronically. These enhancements will require the Technology Services Division (TSD) to:

- Develop the conceptual and detail system design and the new system requirements.
- Communicate the new requirements for prepayment and scheduled accounts to the third party services providers.
- Revise eligibility rules to enable prepayment and scheduled accounts to use the E-Filing Program.
- Modify the load process to include the matching processes for EFT and prepayment accounts.
- Modify IRIS processes to reflect prepayment and scheduled account electronic filing information.
- Revise communication messages returned to the taxpayer to include issues surrounding prepayment and scheduled accounts.
- Modify Fiscal Accounting and Management reports to capture information regarding prepayment and scheduled accounts.

Expansion of the E-Filing Program would also require our authorized e-filing service providers to enhance their systems to include the sales and use tax schedules and prepayment forms. In addition, some of the larger, more complex taxpayers may possess the technology and sophistication to provide the BOE the required sales and use tax data electronically directly from their legacy systems. Staff will be exploring adding this capability along with additional service providers.

In order to ensure that the BOE provides the highest possible degree of customer service to our larger taxpayers, it is recommended that staff first conduct interested parties meetings over the next quarter to gain input from taxpayers to learn their needs and objectives. Through these meetings, a conceptual system design will be developed by July 2001 to meet the needs of our larger taxpayers. This design will serve as the blueprint for enhancing our existing e-filing system. In addition, staff will conduct further research to ensure that the continuing development of the E-Filing program uses electronic commerce best practices.

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B. Pros of the Staff Recommendation

- E-file enhancement requirements developed with taxpayer input.
- Captures the larger, more complex taxpayers including accounts that pay by EFT and have multiple locations.
- Convenient filing method for the larger, more complex taxpayers.
- Less paper for BOE to file and maintain.
- Potential administrative efficiencies in the mail, cashiering, and data entry functions.
- Possible increase in interest earned.

C. Cons of the Staff Recommendation

- Cost to build prepayments and additional schedules into the E-Filing Program.
- Service provider system modifications are required.

D. Statutory or Regulatory Change

None

E. Administrative Impact

As the program grows, the potential exists for improved administrative efficiencies in the mail, cashiering, data entry, and filing functions.

F. Fiscal Impact

1. Cost Impact

Technology cost estimates for this effort will be completed once the interested parties meetings have been conducted and a system design has been planned.

2. Revenue Impact

Payments of tax due amounts received electronically may result in minor revenue increases associated with an acceleration in the deposit of funds. However, any increase in revenue is dependent upon the number of taxpayers that use the E-Filing Program and the amount of tax paid electronically.

G. Taxpayer/Customer Impact

- E-file enhancements based on taxpayer feedback.
- Online electronic filing for the larger, more complex taxpayers.
- Allows all taxpayers to e-file.
- Easy to use with convenient access.
- Provides an alternative method for filing tax returns.

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H. Critical Time Frames

Because e-filing is a critical element of the BOE's technology vision, staff will report back to the Committee in July 2001.

Prepared by: Administration Policy, Planning & Evaluation Division and the Technology Services Division.

Current as of: March 15, 2001