

Tax Technologies, Inc.

This newsletter is from JD Choi of Tax Technologies, Inc. (TTI) to tax professionals whose interests include improving tax management processes.

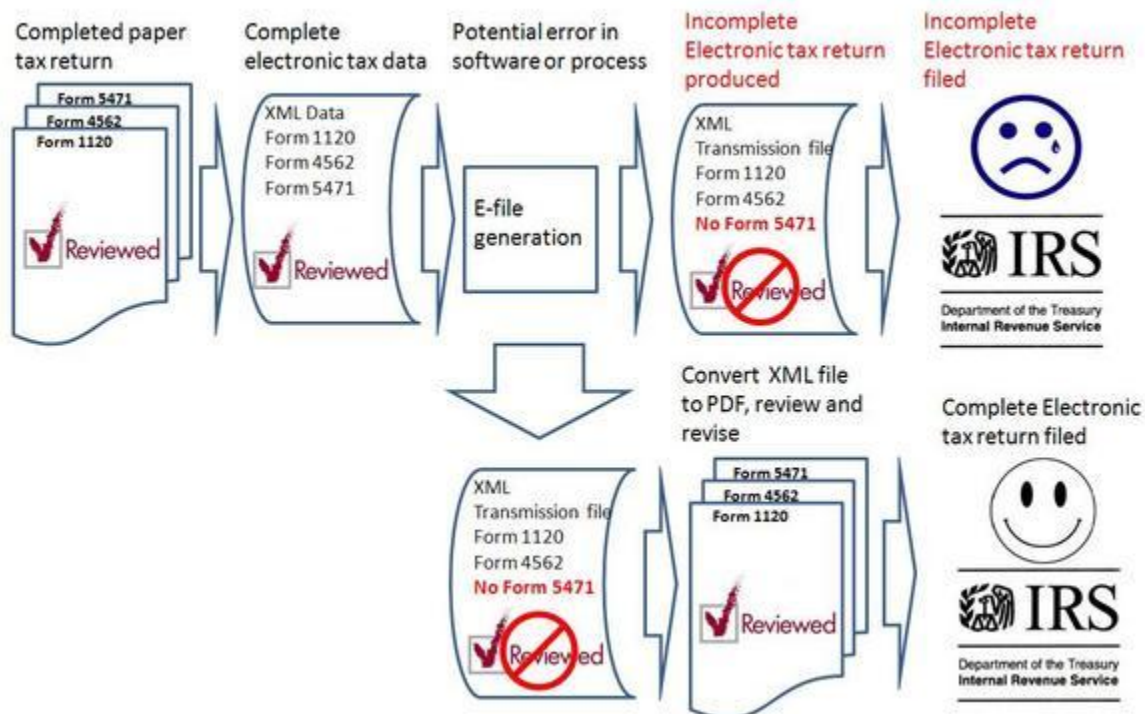
Inside this issue:

Should you pay penalty for other's mistakes? TTI guarantees accurate e-file content to help you avoid an IRS penalty.

The IRS has been issuing penalty notices for missing tax return components such as Forms 926, 3520, 5471, 5472, 8621, 8858 or 8865. The IRS has imposed these penalties, in many cases, due to no fault of taxpayers. Nevertheless, the IRS is not providing relief to taxpayers.

TTI has identified over \$15 million in potential penalties as part of its review of corporate tax returns. The detriment goes beyond the penalties.. Under the new Hiring Incentives to Restore Employment (HIRE) provision, the IRS will extend the statute of limitations on the entire return until missing return components are filed. This article explains how the penalty conditions can occur due to no fault of taxpayers and how they can be avoided..

Such penalties can be avoided easily with a minor change to the process..



Most tax managers review printed tax returns and approve tax returns for filing. However, what companies actually file with the IRS is the electronic file. There is a general assumption that electronic returns have the same content as paper tax returns, but that assumption has turned out to be inaccurate in many cases. Since the beginning of e-filing, there have been numerous instances of erroneous tax return filings unbeknownst to the preparers.

The errors on the tax returns can occur in many ways. They may be due to software errors or errors in the review procedure. For example, some of the consolidated tax returns are missing Forms 5471 because the forms are not properly included as part of the return due to user error. Alternatively, Form 5471s are missing from the consolidated tax return because the tax return software has a flaw in the e-file generation. Regardless of the reasons, the result is the same – penalty to taxpayers. Unfortunately, these errors are difficult for the average preparers to identify.

Since 2005, large U.S. corporations have been required to file their tax returns using the modernized e-file (MeF) format. MeF format is essentially computer code similar to that of programming code. Most tax preparers are not familiar with the MeF format file and, therefore, reviewing the electronic file is very difficult. In order to ease the review of tax returns in MeF format, most tax software provides a built-in review mechanism.

The majority of preparers assume that reviewing the electronic file using the review mechanism provided by their tax software provides sufficient assurance that the return includes all intended content. However, most of these reviews are performed **before** the electronic files are prepared for transmission. Thus, the software does not capture errors that can occur as part of producing the transmission file. For example, if errors occur while producing the tax return file, the review of electronic file content before the transmission file is created will not capture such errors. Likewise, the review will be ineffective if there are any user errors in creating the transmission file.

The only way to assure complete tax return content is included in the transmission file is to review the electronic file **after** the transmission file is produced by the tax software. Preferably, the review should be done by independent software such as eFileReviewer, not the same software that produced the e-file so as to validate the content of the transmission file without being linked to the database from which it originated. Some companies have performed the review of their electronic file manually after the transmission file is produced to make sure it has complete content. Nevertheless, many of them failed to identify missing components of their tax returns due to the complexity of reviewing the MeF format file content manually.

On the other hand, all TTI user companies follow a recommended process and review their electronic file after the final transmission file is produced by converting the electronic file into a tax return format. This process is performed using eFileReviewer, which is an independent MeF format e-file converter. By converting the electronic file into a paper return format after the transmission file is produced, tax managers can review the content of the electronic file easily. To see how eFileReviewer works and how it helps companies review the content of the transmission file, go to on www.youtube.com and enter eFileReviewer in the Search field.

In our experience, we have encountered numerous instances in which a transmission file had significant missing or omitted content. The tax directors we worked with, however, were unaware that their tax return in electronic format was missing a substantial part of their tax returns. In many cases, they performed internal reviews before the transmission file was produced from their tax return preparation software. Time after time, it was proven that a review of the e-file **before** the production of the transmission file is ineffective. The only way to avoid the penalty is by reviewing the e-file **after** the transmission file is produced.

Conclusion

Over last few years, both the IRS and taxpayers began recognizing the flaw in their assumptions as a detailed review of the e-file contents by the IRS revealed some of the tax returns filed in MeF format did not contain all parts of tax returns intended by the taxpayers. Regardless of the intent and lack of knowledge, the IRS started issuing penalty notices for missing tax return content. This trend is expected to continue as the MeF process has now been in existence for 5 years and therefore the IRS is less likely to be forgiving. The only effective way to assure the correct content is included in the transmission file is by validating the content of the transmission file itself **after** it is created and **before** it is submitted to the IRS. TTI guarantees companies the accuracy of their e-file content if they use **eFileReviewer**.

Benefits of using eFileReviewer

- 1) No software installation is required (offered as Saas by means of the Internet)
- 2) No training required (Three easy steps – upload, select, and generate)
- 3) E-file from any software that conforms to an MeF format can be converted for content review
- 4) Produce the entire return or only the selected part of returns in Adobe® Acrobat® PDF format and print
- 5) Create an interactive table of content for the entire return
- 6) Produce a searchable PDF tax return file
- 7) Produce consolidated supporting schedules in PDF and Microsoft® Excel® formats
- 8) Produce consolidated tax return diagnostic reports identifying content inaccuracies
- 9) Navigate within a tax return easily by cross-referencing

Customer referral program

Earn up to \$1,250 by referring eFileReviewer to your friends!

We are confident that the use of eFileReviewer will assist companies to file accurate tax returns by e-file. To promote the use of eFileReviewer, we are announcing a customer referral program limited to eFileReviewer. It is simple, go to <https://efile.taxseries.com/web> and refer your friends by clicking the **Refer your friend and get paid** hyperlink. If your friend signs up, you will be paid up to \$1,250 (if multiple people refer the same customer, it will be allocated among participants). The program is simple and it helps your friends file accurate tax returns.

About Tax Technologies, Inc.

Tax Technologies, Inc. produces industry leading corporate income tax compliance and provision software as well as related services. Visit <http://www.taxtechnologies.com> and learn more about our software solutions and services.

The content of this e-mail is reproduced in the "Newsletter" section of Tax Technologies, Inc.'s Web site (www.TaxTechnologies.com) one week after its release to Tax Technologies, Inc.'s subscribers.

Regards,

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