

## **FILING AND PAYING TAXES ELECTRONICALLY**

The Internal Revenue Service is again expanding the options for filing and paying federal taxes electronically during the 2001 filing season. Most taxpayers can easily file a tax return, pay a balance due, get an extension of time to file or make estimated tax payments without sending any paper to the IRS.

### **E-FILE -- AN INCREASINGLY POPULAR OPTION**

More than 35 million Americans chose IRS e-file options last year -- a 20 percent increase over the year before. The IRS expects that growth rate to continue, to more than 42 million e-filers this year. They'll see how fast and simple it is to file their federal tax returns through a computer or over the telephone and get these benefits:

- **Faster refunds:** Taxpayers who e-file get their refunds in less than half the time as paper returns, even faster with Direct Deposit.
- **More accurate returns:** E-filed returns are more accurate and reduce the chance of getting an error letter from the IRS.
- **Quick electronic confirmation:** Computer e-filers receive an acknowledgment that the IRS has received their returns. Callers using TeleFile receive a confirmation number while they're still on the phone, letting them know that the TeleFile system has accepted the filing of their return.
- **No paper:** The IRS has combined the best points of the methods it piloted for electronic signatures the past two years to make the process simple and easy for all computer filers. Rather than assigning personal identification numbers (PINs) to taxpayers or relying on paid preparers to sign up for the program, the IRS will let taxpayers select their own five-digit PINs, whether they do their own returns or go to a paid preparer. This Self-Select PIN, together with the adjusted gross income and tax amounts from the previous year's tax return, will serve as an electronic signature and no paper form will be needed. First-time filers under age 16 and taxpayers who must send signed attachments will not be able to use electronic signatures.

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- **Easy payment options:** E-filers with a balance due can schedule a direct debit payment for withdrawal from their bank account, or pay with a credit card.
  
- **Federal/State filing:** Many taxpayers in 37 states and the District of Columbia can e-file their federal and state tax returns in one transmission to the IRS. The IRS forwards the state data to the appropriate state tax authority. This federal-state electronic filing is available in Alabama, Arizona, Arkansas, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, Virginia, West Virginia, Wisconsin and the District of Columbia. Taxpayers in four states -- Georgia, Indiana, Kentucky and Oklahoma -- can also e-file both their federal and state returns with a single phone call to the IRS TeleFile number. These taxpayers must have received both the federal and state TeleFile packages to use the combined TeleFile system. Last year, nearly 12 million taxpayers e-filed their state returns with their federal returns.

### **E-FILING THROUGH AN AUTHORIZED PROVIDER**

Computer filing through an authorized provider has been the core e-filing method since its debut in 1986. Tax professionals can send clients' returns from their computers to the IRS, whether they originally prepared the returns or the clients filled out the forms and the providers entered the data into their computers.

### **E-FILING USING A PERSONAL COMPUTER**

Taxpayers with a computer, a modem, and tax preparation software can e-file their tax returns from home any time of the day or night. To do so, a taxpayer sends the completed tax return file to a transmitter. The transmitter converts the file to an IRS-approved format, and then sends the converted return file to the IRS. Within 48 hours, the IRS notifies the taxpayer through the transmitter whether or not the return is accepted. In 2000, more than 5 million taxpayers e-filed their returns from home.

Many tax preparation software programs and some company Web sites include an e-file option. The IRS Web site at [www.irs.gov](http://www.irs.gov) has a list of companies offering online filing software, as well as direct links to firms with low- or no-cost e-filing options.

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## **E-FILING BY PHONE**

The easiest way to file a return is to use TeleFile, the IRS file-by-phone system. Last year, 5.2 million people used TeleFile instead of filling out Form 1040EZ.

Potentially eligible TeleFile users get a special tax package from the IRS inviting them to file their taxes quickly and easily by phone. Instead of tax forms, the package has a worksheet that becomes the TeleFile Tax Record. This Record includes a Customer Service Number that the taxpayer uses as an electronic signature. If there are no changes to the name or address that the IRS has printed on the Tax Record and the taxpayer is otherwise eligible, he or she can fill out the worksheet, call the toll-free number and follow the step-by-step instructions.

Telefilers may take advantage of Direct Deposit for a refund -- or authorize a Direct Debit to pay taxes -- by entering their checking or savings account number. The user specifies the date for a debit to the account. Refunds arrive in half the time as with a paper return and any tax due can be paid as late as April 16, 2001.

Taxpayers may also call for an automatic extension of time -- to August 15 -- to file a tax return. This system will operate from April 1 to April 16, at 1-888-796-1074. Form 4868 has details on required information and how to pay a balance by phone.

Telephone filers get a confirmation number at the conclusion of the call, telling them that their return or extension request has been accepted.

## **E-PAYMENT OPTIONS**

There are two ways to pay taxes electronically -- authorizing a withdrawal from a checking or savings account ("direct debit"), or using a credit card. Electronic payments may be used for:

- taxes owed on a Tax Year 2000 return;
- a projected balance of Tax Year 2000 taxes a taxpayer chooses to pay with a request for an automatic extension of time to file; or
- estimated tax payments for Tax Year 2001.

Those who pay estimated taxes electronically or e-pay with an automatic extension request will not need to file the respective paper Forms 1040-ES or 4868.

The IRS has entered into partnerships with private industry, including credit card processors and tax preparation software developers, to make these electronic payment options available. More than 400,000 people paid their federal taxes by direct debit or credit card during 2000.

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## **DIRECT DEBITS**

There is no fee for a direct debit, and the taxpayer may designate a future date for the withdrawal to occur. A person must e-file -- either by computer or by phone -- to authorize a direct debit -- it is not available for paper return filers.

A taxpayer may pay any balance due by direct debit when e-filing, whether by computer or by phone. A person may file early and schedule the withdrawal as late as April 16. For returns filed after April 16, the payment will be effective on the filing date.

A person may make a 2001 estimated tax direct debit payment only when filing a 2000 tax return via computer, whether or not there is a balance due on the return. The estimated tax payment may be the one due in April, June or September. A person can authorize only one estimated tax direct debit. This payment may not be done by phone.

The direct debit TeleFile option for automatic extensions will be available from April 1-16, 2001, with the payments effective on the 16<sup>th</sup>.

## **CREDIT CARD PAYMENTS**

Taxpayers can make credit card payments through tax software, by phone, or via the Internet. The IRS does not set or collect any fees for credit card payments, but the private sector processors do impose convenience fees. The tax payment to the U. S. Treasury and the convenience fee will be listed separately on the cardholder's credit card statement.

Some tax software developers offer integrated e-file and e-pay combinations for those who want to pay a balance due with a credit card. The software transmits both the electronic tax return and the credit card information to the company, which forwards the tax data to the IRS and the credit card data to a payment processor.

The IRS has authorized two companies to accept credit card charges from both electronic and paper filers: Official Payments Corporation and PhoneCharge, Inc. Each company has its own fee schedule and each offers both phone and Internet payment services. Any individual may use these services to charge taxes to an American Express, Discover Card or MasterCard account. A person may file early and wait until April to make the credit card charge.

The "Electronic Services" section of the IRS Web site -- [www.irs.gov](http://www.irs.gov) -- has more information about IRS e-file, the Self-Select PIN, private sector partnerships and electronic payments. Click on and see how the IRS is working to put service first.