## ALERTS AND UPDATES

### Be Aware and Prepared for the IRS's New Mandatory Electronic Filing Requirements

January 10, 2011

In late 2009, President Obama signed into law the Worker, Homeownership, and Business Assistance Act of 2009 (the "Act"). One of the lesser-known provisions in the Act is Congress' mandate for the Internal Revenue Service (IRS) in 2012 to require tax preparers who prepare more than 10 individual, estate or trust income tax returns to file these returns electronically. The mandate will be phased in over two years.

Currently, individual taxpayers have the option to file their tax returns electronically or via the traditional paper method. However, beginning with tax returns due after January 1, 2011, taxpayers using a professional tax preparer's services more likely than not will be required to file their individual income tax returns electronically.

With the exception of the filing method, not much else will change. There are many benefits to electronically filing tax returns. A few such benefits are:

- Faster refunds—when using direct deposit, refunds are received in as little as 10 days;
- No paper returns to mail;
- Quick notification from the IRS of receipt of the return; and
- The ability to file now and pay later.

Despite the new electronic filing requirement, the IRS will continue to allow taxpayers to receive refunds or remit their balance due by check. However, in addition to these traditional methods, the IRS allows taxpayers to have refunds directly deposited into their bank accounts. Additionally, taxpayers may elect to split and directly deposit their refunds into a maximum of three separate bank accounts.

Electronic filing also permits taxpayers to pay electronically any balances due via Automated Clearing House (ACH) debits, which are withdrawals directly from the taxpayers' bank accounts. A benefit to ACH debits is that taxpayers may file their tax returns electronically and elect to have payments debited from their bank accounts any time prior to the due dates. Thus, if a taxpayer filed a tax return on March 15, the taxpayer could instruct the IRS to debit any balance due on April 15, thereby maximizing cash-flow up to the due date of the tax return.

In addition to the IRS electronic filing requirements, many states have imposed electronic filing requirements. In years past, California, Maine, New Jersey, New York and Massachusetts have required tax preparers to file individual income tax returns electronically. On July 3, 2010, Pennsylvania joined this growing list, for all tax returns due after January 1, 2011.

States tend to follow the lead of the IRS, and given the budgetary concerns of many states, more states are anticipated to follow this electronic filing trend. Not only can electronic filing lead to more accurate tax returns, but it also can result in administrative cost savings to states and faster refunds to taxpayers.

### For Further Information

If you would like more information about this topic or your own unique situation, please contact Michael A. Gillen, Steven M. Packer or the practitioner in the Tax Accounting Group with whom you are regularly in contact.

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