

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

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- Are you ready for year-end provision?

This issue discusses three key elements in provision software implementation failures.

- Hidden Dangers of E-filing

Both taxpayers and the IRS recognize that there are differences between e-filed and paper printed returns that may result in significant penalties.

### Are you ready for year-end provision?

This time of year most calendar year companies are completing their third quarter close. Many companies appear to be having difficulty implementing their tax provision (FAS 109) software, which raises the question as to whether companies are ready for year-end provision using their current software. With high-profile corporate failures and ensuing litigation (for example, PriceWaterhouseCoopers' agreement to pay \$97.5 million in Ohio), chances are that auditors are going to be far more aggressive in their financial audits, including their review of tax provisions.

There are three primary reasons why provision software implementation engagements fail, regardless of the software used: 1) mistaken expectations of the software functionality and the ability to support such software (software and support issue); 2) insufficient data or inadequate processes to obtain the data (data and process issue); and 3) lack of FAS 109 technical knowledge or inadequate training on how to generate the necessary reports (knowledge and training issue). In many cases, it is a combination of all these key elements that contribute to a delay or failure in implementing tax provision software.

In my view, of the three elements mentioned, the only one that companies can control is providing sufficient training. Often, software is presented in its best light during a sales demonstration, which makes it very difficult to determine if a particular software is the right choice for a company. A short trial period may help, but, it is virtually impossible to comb through all possible scenarios with unfamiliar software. Also, because the data required varies from one software to another, it is difficult to pre-determine if the data a company has obtained through its current process is adequate for any particular software. Thus, the only variable that companies can control, which is also the most important, is that of knowledge and training. Companies can determine how FAS 109 reporting can and should be done and implement the software based on their needs.

One alternative is to hire new employees who have an existing knowledge of FAS 109 reporting as well as the software currently being used. However, it takes a considerable amount of time to recruit new employees and to bring them up to speed so that they can meet productivity standards. Thus, one of the easiest and most cost-effective ways for companies to address the tax provision knowledge issue is to provide existing employees with adequate training. The training must be practical so that it can have an immediate and positive impact on participants' performance levels.

TTI has successfully produced FAS 109 training programs for the past four years. Building on that success, we are expanding our training programs to many more participants and, to that end, we have officially opened the Tax Technologies Institute in New York City to provide year-round training.

One of the course offerings at the Tax Technologies Institute is a “how-to-do” FAS 109 workshop based on Best Practice case studies using Tax Series software. I believe this training can make a significant difference in the amount of time and effort associated with training resources regardless of the software a company uses to prepare for year-end provision because the class content is focused solely on the FAS 109 reporting framework with practical examples on how the reporting can and should be done. Companies that participate can bring their data and walk through the provision processes as part of the training.

During the remainder of 2008, the Tax Technology Institute will offer the FAS 109 – Tax Accounting Basics, a 2-day Best Practices hands-on training course on the following dates:

- October 20-21
- November 3-4
- November 17-18
- December 1-2
- December 15-16

The Tax Technology Institute is located at 336 West 37<sup>th</sup> Street between 8<sup>th</sup> and 9<sup>th</sup> Avenues in New York City. Although TTI provides computers for use in hands-on training, participants are encouraged to bring their own laptops with their own data.

As part of our comprehensive business solutions offerings to our clients, we also provide unlimited training at no cost to Tax Series users.

Click the following hyperlink for details related to the training courses:

<http://www.taxtechnologies.com/training/default.aspx>

**Training from the Tax Technologies Institute is designed to help maximize the productivity, efficiency, and effectiveness of corporate tax resources.**

### **Hidden Dangers of E-filing**

Has your company received automated notices from the IRS related to missing forms from a return that was e-filed?

PriceWaterhouseCoopers Washington National Tax Services (WNTS) group reported in September of 2008 that the IRS has begun mailing letters to taxpayers regarding late filed Form 5471s and it plans to expand the penalty associated with late filed Forms 926, 5472, 8858, and 8865. The WNTS also claimed that the IRS will begin enforcing the \$10,000 late-filing penalty provision effective January 1, 2009.

Although the issue addressed by the WNTS was that of late filing, the penalty provision applies the same way whether the return was filed late, or was omitted in an incomplete transmission file. Therefore, if a company did not include any of the forms that are subject to the penalty provision in the transmission file that was submitted to the IRS in the form of an e-file, it may be subject to a severe penalty even though the omission was inadvertent during the e-filing process. From the IRS’s perspective, field audit teams are also seeing significant differences between the content of the transmission files and that of the paper tax returns presented to them during field audits.

On September 25, 2008 I participated in a conference call hosted by the IRS on this subject. The call featured a large group of stakeholders ranging from software developers and service vendors to professional organizations – all of whom are concerned about this issue. During that call, the IRS acknowledged that it recognizes the difference between the paper return and transmission files as an

issue. In particular, it recognizes that some statements are missing from the returns, and that forms that are subject to penalty provision are missing from transmission files even though the return was accepted by the IRS without having triggered a business rule violation.

As a software and service provider, TTI has advocated the position that the content of the transmission file must be reviewed before it is transmitted to the IRS to ensure that correct content is being submitted to the IRS. To support our position, we have developed [eFileReviewer](#), which converts the content of a transmission file (including PDF attachments) to legible PDF tax forms so that our clients can review the content of their returns before they are submitted to the IRS. Some non-TTI clients have taken advantage of TTI's [eFileReviewer service](#) to review the content of their transmission files before the file is submitted to the IRS.

Most taxpayers have not been able to review their transmission files because they do not have the appropriate means to view them, especially in the case of large return filings. Some companies have been provided with an XML tool to view the content of XML portion of e-file, and others have been given an IRS provided style sheet viewer. Neither of these tools has proven to be an adequate means for tax professionals to review transmission file content.

In some cases, companies have chosen to outsource the return preparation. In such instances, the service provider often presented companies with paper returns that contained complete content that was to be filed. However, the tax return actually submitted was an electronic file that did *not* include all items that were included in the paper return presented to the company. As a result, these companies may face a non-filing penalty assessment even though their omission was unintentional. Practically, the IRS cannot distinguish between an inadvertent omission, negligence or intentional omission. Given the position of the IRS regarding late or non-filing of Forms 5471, 926, 5472, 8858, and 8865, taxpayers may be facing an unpleasant surprise as a result of e-filing.

### **How to Use TTI's Service**

For more information on how to begin the eFileReviewer process, visit [www.taxtechnologies.com](http://www.taxtechnologies.com) or contact us directly at 1-866-239-4884 for more information.

**Filing errors are harder to fix once the return is submitted to the IRS.  
Take precautionary measures *now* to perfect your tax returns.**

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The content of this e-mail is reproduced in the "Newsletter" section of TTI's Web site ([www.TaxTechnologies.com](http://www.TaxTechnologies.com)) one week after its release to TTI subscribers.

Regards,

JD Choi  
CEO, Tax Technologies, Inc.  
201-387-9451