

# E-filing tug-of-war

## Is filing taxes electronically making things easier or more difficult?

By **CLAUDE SOLNIK**

**A**rmao, Costa & Ricciardi, an accounting firm in Locust Valley, conducted an experiment in January. The firm clicked and filed its first income tax return electronically, using an employee's taxes as a guinea pig. This year, it plans to file all of its roughly 300 tax returns that way.

"We're trying to go paperless," said Lisa Ricciardi, a partner at Armao Costa. "It's a big change. Like anything else new, you have to get used to it."

E-filing has some big benefits: Refunds are returned in weeks, not months, and returns with errors usually are bounced back within two days for correction.

The file clerk whose return ushered in the Armao Costa's electronic age "got her refund back in two-and-a-half weeks for both the federal and the state," Ricciardi said. "It's working out great."

For the first time, this year New York State is requiring preparers of more than 200 individual tax returns to file electronically, unless clients opt out.

As a result of this mandate, what was once a trickle and then a slight flow is expected to turn into a tidal wave of electronic filing.

About 68 million individual tax returns were filed electronically last year with the Internal Revenue Service. That number is expected to climb to at least 74 million this year.

Regulations will only get stricter, however. Accounting firms that file more than 100 tax returns this year with the state will have to file electronically next year.

Additionally, the IRS currently is requiring companies with assets of \$50 million or more and at least 250 returns to file electronically. The bar descends to \$10 million next year.

### *Experimenting with e-filing*

Although Ricciardi's firm's transition has been smooth, the accounting industry's shift

isn't proving as easy as hitting a button or flicking a switch.

Firms not only must fill out and provide the taxes to clients – who often want hard copies – but also must offer electronic filing, adding work, and bureaucracy. Many, seeking to stay competitive, aren't adding extra fees.

"There are things that have to be done within various software that create added data entry. There's an upfront administrative burden that gets added to electronically file," said Steven Eller, tax partner at Manhattan-based Rosen Seymour Shapss Martin & Co. and chairman of the New York State Society of Certified Public Accountants' Municipal Tax Committee. "In the long run, it's a time-saver. In the short run, you have to train or add administrative staff."

Other hassles plug in to electronic filing as well.

"It used to be we mailed the return to the client. That was the end of it. Now we have to wait for authorizations to come back," said Suzanne LoBiondo, director of tax compliance for Marcum & Kliegman in Melville. "Right now if the forms take a week to get back to us, it's not a big issue. As we get closer to April 15, we'll have to follow up much quicker."

What's more, Ricciardi acknowledges the process added steps, requiring her firm to register for electronic filing in nearly 30 states where clients do business.

### *The e-tax loophole*

While on the surface the government requires accounting firms to file electronically if they handle more than 200 individual returns, there's a loophole big enough to drive a U.S. Postal Service truck packed with tax returns through it.

This year, the state is letting accountants file hybrid electronic returns, with each paper return containing a bar code including some financial information.

"New York State gave the practitioner community, basically, a grandfathering posi-

tion. That was the compromise," Eller said. "Next year you cannot rely on the barcode."

Holtz Rubenstein Reminick, in Melville, plans to file many individual returns with a bar code rather than going completely electronic.

"We're a very technologically oriented firm – all the bells and whistles," said Alan Weiner, a partner at Holtz Rubenstein. "Right now it's still awkward for accounting firms to do this."

Weiner said data from paper forms that can be attached to a paper filing often must be re-entered for e-filing, requiring time and additional charges.

Stock transactions also may need to be re-entered into the computer, adding hundreds of dollars in costs for each return, ultimately making it more expensive for the client.

When the government allows PDF files to be included with electronic filings several years down the road, it will be easier to e-file complicated returns, Weiner said.

"I would love to e-file tax returns," Weiner said. "But we need checks and balances."

### *Attitude adjustment*

While legislation is forcing accountants to acknowledge e-filing, the process has been going on to some degree for about 20 years. The IRS first began e-filing in 1986, although it altered the process and only recently developed widely used systems.

At this point, most accountants are ambivalent about the procedure, taking a wait-and-see approach.

"Like anything else, if it's not broken, don't fix it," Eller said.

Some firms, such as Ricciardi's, coerce clients to file electronically so they can shift entirely to a new system.

While filing the first electronic returns is a big moment, the next milestone may be filing the last for the year – and evaluating whether there have been snafus along the way.

"We haven't had had any mistakes," Ricciardi said. "Not yet." ■