Modernized e-File—What Practitioners Need to Know
New Technology to Replace Legacy Processing

The Modernized e-File (MeF) system is a replacement of the current IRS tax return filing technology with a modernized, Internet-based electronic filing platform. This transaction based system allows tax return originators to transmit returns electronically to the IRS in real-time, improving turnaround times. This is a major improvement over the legacy processing system which processed returns in several batches per day, rather than in real time.

IRS plans to rollout the 1040 MeF in phases.   The first release of 1040 MeF will include the base Form 1040 and 20 forms and schedules that can be attached to the 1040, plus the Form 4868. The next phase of 1040 MeF will also include the ability to submit amended returns electronically and include the remaining forms. Once MeF is fully implemented, the legacy program will be phased out over an extended period of time.

Sidebar of 20 forms and schedules
1040 Sch A
1040 Sch B
1040 Sch D
1040 Sch EIC
1099-R
2441
8812
8863
W-2
1040 Sch C
1040 Sch E
1040 Sch R
1040 Sch SE
2106
2210
4562
8283
8829
8880
8888

MeF is currently successfully processing electronically filed tax returns for corporations, partnerships, excise tax filers and exempt organizations. It provides real-time processing of tax returns and extensions that improves error-detection, standardizes business rules and makes them easier to understand, and expedites acknowledgements. MeF also allows users to attach PDF files. The forms that MeF supports include: Corporations (1120, 1120S, 1120-F), Exempt Organizations (990, 990EZ, 990PF, 1120 POL, 990-N, 990 Redesign), Partnerships (1065, 1065-B), Excise Tax (2290, 720, 8849), and Extensions (7004, 8868). The number of tax returns filed through the Modernized e-File system increased 49 percent in the 2008 processing year to more than 3 million accepted returns.

Advantages for Practitioners

MeF will deliver significant value and benefits to practitioners beyond the capabilities of the legacy system.

1. Faster acknowledgements: A response time of about five minutes to the transmitter should be expected in non-peak periods. MeF returns are processed as they are received instead of being delayed in a batch system, as they are under the legacy program. This will enhance customer service by allowing preparers to fix return issues in "real-time." It will be important for tax practitioners to discuss with their transmitters the response time they will experience.
2. Specific explanation of errors: Under the legacy program, one error code may apply to multiple types of *e-file* errors. MeF error codes use simple wording to clarify each error that triggers a rejection.
3. Improved processing: Form 1040 and any attachments will be submitted electronically to MeF in XML (Extensible Markup Language) format. This will allow for more effective use of data. MeF will also allow attachments in PDF (Portable Document Format) to accommodate late-legislation and form changes.
4. Amended and prior year returns: Practitioners will need to talk with their transmitter to determine which prior year returns and amended returns will be accepted by MeF.

Impact on Practitioners

Modernized e-File will not change the way tax practitioners transmit *e-file* returns. Practitioners may not even know that the return was a MeF return, although a rapid acknowledgement will be the giveaway. In most cases, the returns are sent to a transmitter who then sends the return to the IRS. Practitioners should discuss MeF with software development companies, especially when it comes to error codes. According to David Williams, IRS Director of Electronic Tax Administration, "it's important to find out specifically what the provider is offering. Practitioners should learn whether or not their provider will support MeF, how the provider will handle acknowledgements and error codes, and if they will support PDF files."

As MeF is phased in, there will be some limitations for transmitters on how many returns can be sent to MeF versus the legacy system. The IRS has no intention of requiring transmitters to use the MeF system during the initial transition. Practitioners will need to contact their software vendor to determine how soon and which benefits they can look forward to.

Next Steps

Modernized e-File will offer clear advantages to practitioners once it becomes fully operational. The IRS will be establishing the MeF 1040 website soon to keep practitioners updated on the status and changes with 1040 MeF including deployment dates, tax practitioner working group minutes and other information. Practitioners can also email 1040MeF@irs.gov for additional information and help with 1040 MeF.