

Alabama ERO Handbook



Publication 4163 Modernized e-File (MeF) Individual e-file Preparers Tax Year 2016

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Alabama Department of Revenue
Income Tax Electronic Filing
Center Publication 4163 (9-16)

November 1, 2016

Dear Alabama EROs:

During the **2016** filing season, Alabama received over **1.6 million** E-Filed income tax returns. The Department continues to be enthusiastic about the Electronic Filing Program and EROs have played a major part in the success of this program. Your efforts and interest have been greatly appreciated.

NOTABLE INFORMATION FOR THE YEAR 2016

Modernized e-File (MeF)

The Modernized e-File (MeF) system was developed to provide a standardized format using the widely accepted Extensible Markup Language (XML) format and standardized transmission methods for e-filed returns. IRS works regularly with stakeholders, including accounting firms, practitioners, software developers and the states.

The ADOR automatically accepts electronic filers (electronic return originators and transmitters) which have been accepted to participate in the Federal Electronic Filing Program. No additional registration is required on the part of electronic filers.

Attachments can be e-filed, but are not required

Accepted Forms (List not all inclusive)

FORM 40
Schedule A
Schedule B – accept 50 occurrences of Interest and 50 of Dividends
Schedule CR - 20 other state occurrences
Schedule D – accept 50 occurrences
Schedule DC
Schedule E – accept 50 occurrences
FORM 85
FORM 85A – accept 15 occurrences
FORM 4952A
Schedule OC

FORM W-2 – accept 50 occurrences
FORM 1099R – accept 20 occurrences
FORM W-2G – accept 30 occurrences

For TY2015, the Internal Revenue Service will require the manual key entry of the Taxpayer Identification Number (TIN) as it appears on Form W-2 received from the employer for all taxpayers with Individual Taxpayer Identification Numbers (ITINs) who are reporting wages. No software package should utilize the auto-population feature regardless of the presence of an override feature to populate the TIN on the Form W-2 for these ITIN filers. Per IRS Revenue Procedure 2007-40, failure to comply with this requirement could result in a written reprimand, suspension or expulsion from the e-file program.

Consumer Use Tax information

In order to insure that taxpayers understand their financial obligations in relation to consumer use tax, please incorporate the following language in to your programs. Rather than asking if they bought something outside of Alabama, ask if they bought something *from* outside of Alabama.

For Consumer Use Tax you will be required to check yes or no concerning if you bought something from outside of Alabama.

Debit Cards are no longer an option.

The returned must be transmitted as a LINKED return.

The state of Alabama allows a **10 Calendar** day period to re-transmit the corrected return. **The perfection period starts from the date the State of Alabama rejects the original submission.**

Driver's License or Non-Driver's License Number, State, Expiration Date and Issue Date must be populated.

If a taxpayer has a Non-Driver's Id which has "Lifetime" as the expiration date - you may populate that field with 12-31-9999 or non-expiring. (Check with your software provider to properly populate.

If there are any questions, comments, or suggestions concerning this handbook please write to:

Tavares D. Mathews - Alabama MeF Coordinator
Alabama Department of Revenue
Income Tax Electronic Filing Center
P.O. Box 327450
Montgomery, Al 36132

E-Mail: tavares.mathews@revenue.alabama.gov

ERO FORM RETENTION REQUIREMENTS

Alabama refund, nonpayment and balance due returns requiring the following forms and schedules can be filed electronically for the 2015 tax year:

Form 40	Alabama Individual Income Tax Return,
Form 40	Schedule A Itemized Deductions,
Form 40	Schedule B Interest and Dividend Income,
Form 40	Schedule D Profit from Sale of Real Estate, Stocks, etc.,
Form 40	Schedule E Supplemental Income and Loss,
Form 40	Schedule CR Credit for Taxes Paid to Other States, (including the other state's return)
Alabama Form 4952A	Investment Interest Expense Deduction,
Federal Schedule C	Profit or Loss from Business,
Federal Schedule C EZ	Profit or Loss from Business, (Short Form)
Federal Schedule F	Profit or Loss from Farming,
Federal Form 2106	Employee Business Expenses,
Federal Form 2106 EZ	Employee Business Expenses (Short Form)
Federal Form 3903	Moving Expenses,
Federal Form 4562	Depreciation and Amortization,
Federal Form 4684	Casualties and Thefts,
Federal Form 6252	Installment Sale Income,
Federal Form 8283	Noncash Charitable Contributions, and
Federal Form 8829	Expenses for Business Use of Your Home

The Electronic Return Originator (ERO) is required to retain an electronic copy of the above forms and schedules for a period of three years from the due date of the return or the date the return is filed, whichever is later. **Note: This list is not all inclusive.**

If the need arises, ADOR may request any of the documents, in writing, and the ERO must provide a copy of the document within five working days of the request.

BALANCE DUE RETURNS

The ADOR accepts the transmission of balance due returns. The Alabama Form 40V, Individual Income Tax Payment Voucher, will serve as the remittance advice for Alabama individual income tax payments made by check or money order. **Credit card payments can no longer be paid with the Alabama Form 40V Payment voucher.**

HOW TO PAY YOUR ALABAMA TAXES BY CREDIT CARD

You can use your American Express, Discover/Novus, Visa or Master Card to pay your Alabama income taxes. Credit Card payments may be made by telephone by calling 1-800-2PAY-TAX

(1-800-272-9829), or over the internet by visiting **www.officialpayments.com**, and clicking on the "Payment Center" link. There is a convenience fee for this service. The fee is paid directly to Official Payments Corporation based on the amount of your tax payment. You must enter a Jurisdiction Code when prompted. **The Jurisdiction Code for Alabama is 1100.**

Other Payment Options:

[Value Payment Systems](#) (Bill Me Later, Visa, Discover, MasterCard)

ALABAMA SALARIES, WAGES, AND TIPS

NOTE: ALABAMA DOES NOT FOLLOW THE FEDERAL 1040 CRITERIA FOR SALARIES, WAGES, TIPS, ETC.

Total AL Wages: Form 40, Pg. 1, line 5. Total Alabama Wages (Field 350 - AL Generic Record) must equal the total amount of all state wages (including Wages Earned Out of State) as reported in Box 16 of the Federal 1040 W-2 (IRS Fields #'s 0390 and 0460). **ALABAMA WILL ACCEPT AN ELECTRONIC RETURN WITH A STATUTORY EMPLOYEE VIA A W-2 OR FEDERAL SCHEDULE C.** A plus/minus +/- \$3.00 variance allowance has been added to Generic Field 350 to allow for rounding errors.

The 2015 AL40 Instruction Booklet for **LINES 5A THROUGH 5D "WAGES, SALARIES, TIPS, ETC. STATES THE FOLLOWING:** "Income" show the amount of wages you were paid before taxes, insurance, etc. were deducted. You should use the amount shown in the box headed "State Wages" on your Form W-2. The amount shown in this box may or may not be the same as the amount taxable for federal purposes. **ALL OTHER TAXABLE ITEMS LISTED ON YOUR W-2 FORM THAT ARE NOT INCLUDED IN THE "STATE WAGES" BOX SHOULD BE ENTERED ON LINE 8, PART 1, PAGE 2 "OTHER INCOME".**

The following income amounts as defined by line 7 of the federal 1040 **MUST NOT BE INCLUDED IN ALABAMA WAGES, SALARIES, TIPS, AL40, PG 1, LINE 5.** The ALABAMA E-FILE PROGRAM will generate an **ALABAMA ERROR CODE # 50 AND REJECT THE ELECTRONIC RETURN. THESE AMOUNTS SHOULD BE REPORTED ON AL40, PG. 2, PART 1, LINE 8 "OTHER INCOME". THE DESCRIPTION OF THE ITEM, LINE 8, "STATE NATURE AND SOURCE" MUST ALSO BE REPORTED.**

ITEMS NOT ON FORM W-2 OR FORM 1099R:

1. Miscellaneous Income, from Federal Form 1099-MISC
2. Earned Income from Federal Form 2555 (Foreign Earned Income)
3. Excess reimbursement, from Federal Form 2106
4. Excess Adoption Benefits
5. Forfeited Childcare Benefits from Federal Form 2441
6. Excess moving expense reimbursement, from Federal Form 3903
7. Wages earned as a household employee – House Hold W-2
8. Sick pay or disability payments
9. Wages from a Foreign Source

ALABAMA SALARIES, WAGES, AND TIPS

(Continued)

10. Ordinary income from ESPP stock sale
11. Ordinary income from incentive stock options
12. Federal "Guaranteed" Payments to K-1 Partnership
13. Taxable Scholarships
14. Taxable tips from Federal Form 4137

Form W-2:

1. Social Security Tips
2. Bonuses
3. Fees
4. Commissions
5. Allocated Tips OR tips from Federal Form 4137
6. Advanced EIC payments
7. Dependent Care Benefits

Form 1099R:

1. Disability before minimum retirement age
2. Return of contributions

ALABAMA ELECTRONIC FILING CALENDAR - TAX YEAR 2016

For Tax Period January 1, 2016 to December 31, 2016

- **Begin ADOR Software Testing** **November 18, 2016**

- **Final Date for**
First ADOR Test **January 1, 2017**

- **Federal/State Electronic Filing Operational** **January 23, 2017***

- **Last Date For Timely Pay Tax Due** **April 18, 2017**

- **Last Date to Timely File** **October 15, 2017**

***Alabama will follow IRS Live Date**

- **NOTE: These dates are subject to change at any time.**

There are no testing requirements for EROs under the Alabama Electronic Filing Program.

CONTACT NAMES AND PHONE NUMBERS

Tavares D. Mathews: Alabama E-File Coordinator	(334) 353-9497
Fax	(334) 353-8068
E-Mail	tavares.mathews@revenue.alabama.gov
Individual Efile	Individual.Efile@revenue.alabama.gov
Alabama ERO Help Desk	(334) 353-9497
ADOR Internet Web Site	www.revenue.alabama.gov
IRS Help Line	(866) 255-0654

ALABAMA TESTING

Neither EROs nor transmitters are required to test data nor are they required to test transmissions. However, they should ensure that their software has been accepted and approved by both the Internal Revenue Service and the Alabama Department of Revenue. A master list of all approved software developers will be maintained by the Alabama ERO Help Desk and will be available upon request. An approved list of vendors can also be found on our ADOR website at the following URL address:

<http://www.revenue.alabama.gov/incometax/efilemain.htm>

All software developers are required to annually test their software with Alabama test data. Only software which has been tested and approved by the ADOR may be used for Alabama electronic filing. An Alabama ELF return will not be rejected if the return is prepared using ADOR approved software and the return meets the criteria as defined in the 2015 Alabama Error Reject Codes.

Upon request, software developers will be provided software specifications and test materials with instructions. When these software developers have successfully completed testing with the IRS, they may begin Alabama testing. The department will retrieve the state test data through the IRS Austin Service Center, process it, evaluate it, and notify the software developers of the results, usually within 24 hours of receipt.

WHO CAN PARTICIPATE, ACCEPTANCE PROCESS

There are three (3) classifications of participants in the Federal/State Electronic Filing Program, as defined in IRS Publication 1345:

1. Electronic Return Originators (EROs)
2. Transmitters
3. Software Developers

The IRS's definition of electronic return originator, transmitter, and software developer are also applicable to the Alabama Electronic Filing Program. Acceptance into the federal program allows an electronic filer (an ERO or transmitter) automatic acceptance into the Alabama Electronic Filing Program.

EROs accepted into the Alabama Electronic Filing Program serve as agents of the ADOR for the origination of Alabama electronic returns and the retention of the non-electronic Alabama return data.

Those who wish to participate in the Federal/State Electronic Filing Program must first apply to the IRS by submitting Form 8633, Application to Participate in the Electronic Filing Program. IRS Publication 4163 specifies the application process and requirements for federal participation.

Although no separate application form is necessary for the Alabama Electronic Filing Program, electronic return originators, transmitters, and software developers must indicate on Form 8633 that they expect to transmit returns. The IRS will provide the ADOR with an electronic file of accepted EROs and transmitters.

The Electronic Filing Identification Number (EFIN) and the Electronic Transmitter Identification Number (ETIN) are assigned to EROs and electronic transmitters by the IRS. The ADOR will use the IRS-assigned EFINs and ETINs to identify EROs and electronic transmitters in the administration of the Alabama Electronic Filing Program.

Software developers must obtain annual approval of their software from the ADOR.

RIGHT TO REVOKE ACCEPTANCE AND APPROVAL

The Alabama Department of Revenue reserves the right to revoke the acceptance of an ERO or transmitter for cause. Furthermore, the ADOR reserves the right to revoke the approval of any software developer for cause. Failure to comply with the guidelines set forth in the Alabama Handbook for Electronic Filers of Individual Income Tax Returns (Tax Year 2015) and in Electronic Return Record Layouts for Alabama Individual Income Tax Returns (Tax Year 2015) is considered just cause.

The following may result in the revocation of a participant's acceptance into the program:

- (1) Conviction of a criminal offense under the revenue laws of any state, or of any offense involving dishonesty, or breach of trust.
 - (2) Failure to file timely and accurate tax returns, both personal and business.
 - (3) Failure to pay personal tax liabilities or business tax liabilities.
 - (4) Suspension or rejection from the program in a prior year if corrective action is not taken and approved by the Alabama Department of Revenue.
 - (5) Other facts or conduct of a disreputable nature that would reflect adversely on the program.
 - (6) Unethical practices in return preparation.
 - (7) Suspension by IRS.
- Applicants and participants may inquire about filing and paying any outstanding personal and business taxes by contacting the **Alabama Department of Revenue ERO Help Desk** for assistance at **(334) 353-9497**.

RANDOM MONITORING VISITS

- EROs serve as agents of the ADOR for the origination of Alabama electronic returns and the retention of the non-electronic Alabama return data, and the ADOR will conduct random monitoring visits with EROs in order to verify compliance with the requirements of the Alabama Electronic Filing Program. **Failure to comply with Administrative Rule 810-3-27-.09 - .10 "Mandatory E-File" may also lead to a random monitoring visit.**

ALABAMA EXCLUSIONS

The following state returns are excluded from the Alabama E – File Program:

AL Withholding from K-1's and /or 1099INT **disallows** the ELF return.

Form 40X, Amended Alabama Individual Income Tax Return.

Deceased taxpayers or any Federal return containing the Federal 1310.

=> **Note: Only Married Filing Jointly returns may be filed electronically with a deceased taxpayer.**

The return must be transmitted as a LINKED return.

Individual E-file Mandate

<http://revenue.alabama.gov/incometax/elfmandreqs.cfm>

(1) (a) If an income tax return preparer prepares 11 or more acceptable, original individual income tax returns using tax preparation software in a calendar year, then for that calendar year and for each subsequent calendar year thereafter, all acceptable individual income tax returns prepared by that income tax preparer must be filed using electronic technology, as defined in the "Electronic Tax Return Filing Act," as codified in Chapter 30 of Title 40, Code of Alabama 1975.

NOTEWORTHY

Form 40 will allow for 1 occurrence

Schedule A will allow for 1 occurrence

Schedule B will allow for 50 interest and 50 dividend items

Schedule CR will allow for 20 other states occurrences

Schedule D will allow for 50 (1000 transactions) for each return transmitted.

Schedule DC will allow for 1 occurrence

Schedule E will allow 50 occurrences of Schedules E to be transmitted

Schedule NTC will allow for 1 occurrence

Schedule AATC will allow for 1 occurrence

Schedule AAC will allow for 1 occurrence

Federal Income Tax Deduction Worksheet will allow for 1 occurrence

Form NOL85 will allow for 1 occurrence

Form NOL85-A will allow for 15 occurrences

Form 4952A will allow for 1 occurrence

Schedule OC will allow for 1 occurrence

Schedule C will allow for 7 occurrences

Schedule C-EZ will allow for 2 occurrences

Schedule F will allow for 5 occurrences

Form 2106 will allow for 2 occurrences

Form 2106-EZ will allow for 2 occurrences

Form 4864 will allow for 1 occurrence

Form W-2 will allow for 50 occurrences

Form W-2G will allow for 30 occurrences

Form 1099R will allow for 20 occurrences

Driver's License Information

- **The Driver's License State Id Number, State Code (e.g. AL, CA), Expiration Date and Issue Date must be populated.**
- **The State ID non-driver's license may also be used.**
- **If this information is not available – a paper return must be filed.**

REJECTION BY ADOR

Transmitters must contact the State regarding rejections, taxpayer problems or any other questions that may arise about the state acknowledgement.

An Alabama ELF return will not be rejected if the return is prepared using ADOR approved software and the return meets the criteria as defined in the 2015 Alabama Error Reject Codes. All accepted Alabama electronic returns (meaning those received and not rejected), will be processed.

Contact **Tavares D. Mathews** at Tavares.mathews@revenue.alabama.gov or (334) 353-9497 for more information about the **Alabama/Federal** Acknowledgment System or if Alabama acknowledgments are not received within **five** days.

ERROR RESOLUTION FOR ALABAMA ELECTRONIC RETURNS

Although the error rate is very low for electronic returns, a few errors may be identified on Alabama returns when they enter the tax processing system at the ADOR. Returns prepared with software that is not approved by the ADOR will be rejected. Returns with errors will be rejected (AL Error Reject Codes), but can be corrected and retransmitted. Some errors that may be identified are duplicate returns, omission of required data, duplicate social security numbers, and computation errors.

Unless authorized by the taxpayer to discuss the return with the preparer (see the 2015 Alabama Form AL8453), the ADOR will communicate directly with the taxpayer if additional information is needed to correct a return. EROs and transmitters will only be given limited

information about the tax return, pursuant to the limited disclosure statement on Alabama Form AL8453, including acknowledgment of receipt by the ADOR through the IRS, the reason for any processing or refund delay, and the date the refund check is released.

REFUND ANTICIPATION LOANS

The Alabama Department of Revenue neither supports nor prohibits Refund Anticipation Loans (RALs). Filing an electronic return that indicates a refund is due does not guarantee a refund will be issued.

REFUND / RETURN PROBLEMS

Taxpayers are advised to confirm acknowledgment of their Alabama returns with their ERO or transmitter, and are advised to wait at **least twelve weeks** from the date of acknowledgment before calling or writing the ADOR to inquire about the status of a refund check.

If a taxpayer and/or spouse owes money to the **ADOR, another State agency or the IRS** the amount owed may be deducted from the refund. Payment of the debt will delay the processing of the taxpayer's refund because all claims against the refund must be resolved before a refund check can be processed. The same policy applies to paper returns.

ERO HELP DESK

The Alabama Department of Revenue operates a Help Desk for EROs and transmitters to ensure the prompt resolution of processing problems.

The operating hours will be Monday through Friday, **8:00 AM to 4:30 PM. CST** except holidays. The **Help Desk telephone number, (334) 353-9497**, is to be used exclusively by electronic return originators.

The ERO Help Desk number should not be provided to your clients. To do so will only hinder the quality of service the Alabama ERO Help Desk can provide EROs.

ALABAMA REFUND HOTLINE

The Alabama Refund Hotline number is 1.800.558.3912. The Refund Hotline is a simple, easy way for your clients to check on their Alabama income tax refund. To access the hotline, all the taxpayer needs is a touch tone phone, and a copy of their current year tax return. Please share the Refund Hotline number with your clients. **Your clients can now check on the status of their refund by visiting our ADOR website using the following url link:**

<https://myalabamataxes.alabama.gov/>.

PAYMENT OF REFUNDS

DIRECT DEPOSIT - PAPER CHECK – APPLIED TO NEXT YEAR'S TAXES

Taxpayers can elect to have their overpaid taxes applied to next year's taxes, issued in the form of a paper refund check, or directly deposited into their financial institution. The ADOR neither guarantees a specific date a refund will be deposited into a taxpayer's financial institution account nor issues written notices to a taxpayer to confirm direct deposit.

An Electronic Return Originator must follow the same rules and guidelines for the Alabama

Direct Deposit as specified in the IRS handbook for Electronic Filing (Publication 1346), under Refunds and Direct Deposit.

The ADOR will make every attempt to process a direct deposit. However, if a direct deposit cannot be properly completed, a paper check will be issued.

RESPONSIBILITIES OF EROs

EROs and transmitters must maintain a high degree of integrity, compliance, and accuracy to continue participation in the Alabama Electronic Filing Program.

Compliance: All EROs and transmitters must comply with the requirements and specifications set forth in IRS publication 1345 and this handbook. Persons or firms not meeting these requirements are subject to having their acceptance into the program revoked. Should an ERO decide to no longer remain in the business, the ADOR must be notified, in order to, determine the proper resolution of electronic filing program documents and records.

Timeliness of Filing: EROs must ensure that electronic returns are filed in a timely manner. The transmission date of an Alabama electronic return will be considered the filing date for the return.

Deadline for Filing: The ADOR will accept electronically filed Alabama individual income tax returns which have been submitted for transmission to the Internal Revenue

Changes to the Returns: If the ERO or taxpayer wishes to make any changes after the electronically filed return has been accepted, the taxpayer must file an amended paper return on Alabama Form 40X. The taxpayer should ensure that the original electronic return has been processed before filing the amended return.

Responsibility to Clients: EROs have been entrusted with the task of filing a client's tax return and must assume the responsibility of ensuring that the return arrives at the Alabama Department of Revenue. In the event that the electronic Alabama return fails to arrive at its destination, EROs must notify their clients of the requirement to file a paper return.

ALABAMA FORM AL8453

ALABAMA FORM AL8453 - INSTRUCTIONS

NOTE: DO NOT MAIL THE ALABAMA SIGNATURE DOCUMENT TO THE ALABAMA DEPARTMENT OF REVENUE!

The Alabama Form AL8453 is to be retained by the ERO for a period of three years from the due date of the return or the date it is filed, whichever is later. Again, **Do Not Mail the AL8453 to the Alabama Department of Revenue!**

EROs serving as agents of the ADOR are required to retain the original Form AL8453 for a period of three years from the due date of the return or the date the return was filed, whichever is later. Transmission of the Alabama electronic return by the ERO is an attestation by the ERO that the Form AL8453 has been properly prepared and is being retained by the ERO.

Certain occasions may arise where the original Form AL8453 is required by the ADOR. If the need arises, the ADOR will request the document in writing and the ERO will provide the original Form AL8453 within five working days of the request.

If for any reason the ERO ceases his/her business, all Form AL8453's and Wage and Tax Statements (W-2s) currently maintained by the ERO must be forwarded to the ADOR - contact the **Alabama ERO Help Desk at (334) 353-9497**. Responsibility for the Alabama Forms AL8453 can be transferred to another ERO upon receiving written approval from the Department.

The ERO, if also the paid preparer must provide the taxpayer with a copy of the Alabama return, including the Form AL8453. Otherwise, the ERO must provide the taxpayer only with a copy of the completed Form AL8453.

CORRECTION TO FORM AL8453

If the ERO makes changes to the electronic return after the taxpayer has signed Form AL8453 but before the data has been transmitted, the ERO must require the taxpayer to complete a corrected Form AL8453, if the following conditions apply:

1. Alabama taxable income changes by more than \$500.
2. State refund changes by more than \$25.

Non-substantive changes are permissible on Form AL8453, provided the ERO or the person making the correction initials the change. Non-substantive changes are limited to corrections within the above tolerances for arithmetic errors, transposition errors, misplaced entries and spelling errors.