

Form 540 2EZ “Click & Send”

Introduced in 1999, Form 540 2EZ is the simplest of California personal income tax returns. However, of approximately 4.3 million Californians eligible to use the form, less than half actually file the form with FTB. The majority of those eligible to file the 2EZ use a more complex return, either because they use a tax practitioner who does not offer the 2EZ to clients, or because their income or other tax circumstances have changed. 2EZ statistics for the past two tax filing seasons are shown below, along with estimates for the current year:

	2000 filing	2001 filing	2002 filing (est)
Paper	554,853	1,143,235	1,122,000
TeleFile	260,498	265,335	236,000
Electronic filing	73,061	409,352	498,000
Total	888,412	1,817,922	1,856,000

Form 540 2EZ At *ftb.ca.gov* -- Current View

More than 21 million forms were downloaded from *ftb.ca.gov* in 2001. Of this total, about 2.2 million Form 540 2EZ/TeleFile booklets were downloaded, and an additional 571,000 downloads were of Form 540 2EZ by itself. Some of these downloaded forms were completed by hand and mailed to FTB, while others may have been used as preliminary worksheets before taxpayers TeleFiled or electronically filed with FTB.

The tax forms currently found at *ftb.ca.gov* are presented to viewers as web screens that replicate the same graphic features found on official paper forms published by FTB. In addition, these electronic forms are “fillable,” meaning that online users may type into the blank spaces on the electronic form. However, the online tax forms currently available at *ftb.ca.gov* do not include any calculation capabilities. Taxpayers must do their own math and determine their tax due before printing completed returns to mail to FTB.

Form 540 2EZ: Proposed “Click & Send” Option

At the request of the Chair of the Franchise Tax Board, FTB staff has undertaken the development of a “click & send” option that will enable taxpayers to electronically file their 2EZ returns directly to FTB at no charge by completing an online form available at *ftb.ca.gov*. The objectives of this effort are to increase electronic filing of 2EZ tax returns for those who want to simply enter data into an electronic form and submit it to FTB. From a taxpayer perspective, the following steps are involved in completing the “click & send” form:

Step 1 - Download Form: Using their own Internet Service Provider to access *ftb.ca.gov*, taxpayers will download a 2EZ worksheet. The worksheet will be available in a PDF file format and taxpayers will use Adobe Acrobat Reader Version 4.0 or higher to download, view, and print the worksheet. The worksheet is not fillable while online. For those who have obtained a 2EZ booklet and form, the paper 2EZ can serve as the worksheet.

Step 2 – Prepare Return Manually: Taxpayers will prepare their own return by completing the worksheet or paper 2EZ form off-line. Taxpayers will do their own calculations and determine their own liability.

Step 3 – Submit Return: Taxpayers will log on to FTB's web site, enter their return data from their worksheet to a blank 2EZ web-enabled form, and transmit their 2EZ to FTB. The blank online form will be a data entry screen that will accept only numeric data in a numeric field and alpha data in an alpha field. Returns submitted with errors will not be corrected by FTB at the time of taxpayer submittal, but instead will be resolved after the fact. In these cases, taxpayers will be notified with a paper notice, as is current practice.

Scheduled for deployment in late March 2002, subject to final action by the Franchise Tax Board, the 2EZ program will use 128-bit secure socket layer encryption to protect the submission of taxpayer data to FTB. This is the same level of protection now used by commercial online tax preparation companies to receive information from their customers. For additional privacy and security purposes, FTB will require authentication of the electronic submission of 2EZ data by using a Customer Service Number (PIN), as is used with the current e-file program offered through commercial electronic filing companies.

Form 540 2EZ “Click & Send” Market Acceptance, Benefits and Costs

FTB estimates that nearly 640,000 2EZ returns will be filed by taxpayers between March 29 and April 15, 2002. Of these, nearly 500,000 will be paper 2EZ returns, and the remaining will be TeleFiled or e-filed via third parties. If five percent of those taxpayers filing paper returns were to file instead via the 2EZ “click and send” service, that would produce nearly 25,000 new electronic filings. In subsequent years, when the service is expected to be available for an entire filing season, if five percent of all paper 2EZ returns were instead submitted using “click & send,” it is estimated that 90,000 – 100,000 returns would be diverted from the paper mailing and processing system. This percentage could increase in subsequent years as has occurred with current electronic filing options.

As with FTB's current electronic filing program in which taxpayers use the tax preparation services of third-party commercial companies, the 2EZ “click & send” option will provide a confirmation of filing, and will lead to refunds that can be processed faster than with paper returns. For FTB, the “click & send” process will reduce the volume of paper tax returns that require manual mail opening, data entry, processing and filing.

FTB estimates that approximately 1,000 hours of staff time, equivalent to about \$40,000, will be spent to design, develop and deploy the 2EZ “click & send” application. No contractor or vendor assistance is required, and no hardware or other components are required to deploy the service. About \$10,000 in staff time will be required for annual updating and maintenance. See the attached document for additional details about the “click & send” application.

Franchise Tax Board
2EZ Click & Send
Project Description
February 27, 2002

Overview

Subject to approval by the 3-member Franchise Tax Board, the department will implement a free, secure method for individuals to submit their Form 540 2EZ return data from a computer directly to the department (FTB) using the Internet. This project will be ready to implement by late March 2002.

Background

California taxpayers have responded favorably to the simplest of all California income tax forms, the Form 540 2EZ. In 2001, 1.8 million 2EZ returns were filed, more than double the amount filed in 2000. However, even with this success, only 42% of the 4.3 million eligible taxpayers used this form.

In preparing for the 2002 filing season, the department originally planned to develop a more sophisticated product than is being proposed in this document. The initial project envisioned a fillable 2EZ that the taxpayer would have completed on-line and then printed and mailed to the FTB. It would have provided arithmetic functionality to perform simple addition and subtraction required to complete the return and would have performed tax liability calculations. It also would have performed field attribute and logic edits. These functions would have helped taxpayers eliminate errors before mailing their tax returns. The service described above would have essentially replicated the functionality provided since 1996 by another FTB electronic filing service (Telefile). It was different, however, in that taxpayers would have been required to mail the printed form instead of providing the return data electronically over the telephone. This application could have been ready for deployment on February 4, 2002.

In late January 2002, the Chair of the Franchise Tax Board asked staff to modify the features of the project then under development. The request was to develop a service that would enable taxpayers to electronically submit their 2EZ tax data directly to FTB. Staff was also instructed to remove all calculation features, requiring taxpayers to do their own math and tax liability calculations offline before electronically submitting tax return data to FTB.

This new project, called 2EZ Click & Send, is outlined in the remainder of this document.

2EZ Click & Send Functionality

The Taxpayer Experience

The objectives of this effort are to increase electronic filing of 2EZ tax returns for those who want to simply enter data into an electronic form and submit it to FTB. From a taxpayer view, the following steps are involved in completing the “click & send” form:

- **Step 1 - Download Form:** Using their own Internet Service Provider to access *ftb.ca.gov*, taxpayers will download a 2EZ worksheet. The worksheet will be available in a PDF file format and taxpayers will use Adobe Acrobat Reader Version 4.0 or higher to download, view, and print the worksheet. (The Adobe Reader is available as a free download). The worksheet is not fillable while on-line. For those who have obtained a 2EZ booklet and form, the paper 2EZ can serve as the worksheet.
- **Step 2 – Prepare Return Manually:** Taxpayers will prepare their own return by completing the worksheet or paper 2EZ form off-line. Taxpayers will do their own calculations and determine their own liability.
- **Step 3 – Submit Return:** Taxpayers will log on to FTB’s web site, enter their return data from their worksheet to a blank 2EZ web-enabled form, and transmit their 2EZ to FTB. The blank online form will be a data entry screen that will accept only numeric data in a numeric field and alpha data in an alpha field. Returns submitted with errors will not be corrected by FTB at the time of taxpayer submittal, but instead will be resolved after the fact. In these cases, taxpayers will be notified with a paper notice, as is current practice.

Technical Solution

FTB’s technical environment provides sufficient capacity and functionality to deploy the 2EZ Click & Send application without the need for any additional hardware. More specifically, FTB’s existing infrastructure includes the following:

- Internet Connectivity FTB is connected to the Internet via a fractional DS-3 circuit capable of 45Mbps. It is floored at 9Mbps, and is burstable to full DS-3.
- Website Infrastructure The FTB website provides a gateway, or portal, for accessing information and services electronically. Currently, one production web server provides adequate capacity to handle all website traffic.
- Direct Filing Portal With the use of third-party tax preparation software and the taxpayer’s own Internet Service Provider (ISP), taxpayers can submit returns directly to the FTB through the portal. (Note: Some third parties do not yet enable direct filing, but transmit data “indirectly” to FTB.)
- e-file System The e-file system currently processes returns submitted through third-party transmitters, returns submitted through the DFP, and returns submitted through TeleFile.

- Mainframe Systems

Internal mainframe systems are the final destination for data from all accepted tax returns, regardless of source media. Primary business functions provided by these systems include accounting information, and tax return display & print processes.

Authentication and Security

To assure the security and confidentiality of taxpayer information, the new on-line 2EZ program will use the same high level 128-bit secure socket layer encryption now used in e-commerce to receive information from customers. In addition, FTB will require authentication of the electronic submission of the 2EZ data by using a personal identification number (Customer Service Number – CSN), in the same manner as if a taxpayer used commercial electronic filing software. In completing the 2EZ, taxpayers will utilize secure Hypertext Transfer Protocol (HTTPS).

Taxpayer Data Entry

FTB will provide a single active server page that resembles the paper Form 540 2EZ. The taxpayer will be required to access a logon screen from FTB’s website where authentication will take place. Once authentication is complete, the taxpayer will be directed to the 540 2EZ online form. The SSN(s) provided by the taxpayer on the logon screen will appear as text on the single active server page. As the taxpayer enters data, field attribute edits will be invoked (alpha, numeric, or alphanumeric with designated lengths). Taxpayers will enter their previously calculated data and tax liability. “Log-Off”, “Reset Form”, and “Send” buttons will be provided. Upon selecting the “Send” button, a message box will ask, “Are you ready to submit now?” and provide “yes” or “no” buttons to continue. If “yes” is selected, a confirmation screen will appear containing a Declaration Control Number (DCN) instructing the taxpayer to record their DCN on their 2EZ worksheet or paper Form 540 2EZ. The DCN serves as proof that the taxpayers return was filed.

Receiving and Storing the Submitted Information

Return data sent via this 2EZ web-based application will not be stored in a separate system or database, but will be passed to FTB’s e-file system along with all other electronically filed returns. At this point, the data is stored for use by FTB’s return processing systems. Prior to this point, FTB will not monitor, use, process or view return data.

Electronic Refunds/Balance Due Payments

Taxpayers will be provided the option of receiving their refund by a Direct Deposit Request (DDR). This program has been in existence since the 1998 process year (1997 tax returns). Due to the short timeframe to deploy this service, taxpayers will not be provided an option of an Electronic Funds Withdrawal (e-pay) for balance due returns. Instead they will be directed to information regarding payment options.

Return Processing

Returns that fail to process successfully in the electronic filing system will be manually processed. To facilitate manual processing, a new batch-processing component will be developed to gather rejected returns and submit them for printing within FTB. The component that performs the printing of tax returns is an existing e-filing utility. These printed returns will be processed in the same manner as paper returns.

Project Costs

FTB estimates it will take approximately 1,000 hours to design, develop and deploy this application. That equates to a total one-time development cost of less than \$40,000. Ongoing costs are estimated at less than \$10,000 annually.

Project hours include the following:

- Develop web content; design and load screens; test web pages; apply revisions as necessary – 120 hours
- Program, test, and migrate application to production – 300 hours
- Design and load database; set up permissions and support; migrate to production – 80 hours
- Design, develop and test the e-Gateway's ability to receive transmitted data and post to appropriate databases and to handle rejected data – 400 hours
- Develop requirements and test plans; develop test cases; perform system and acceptance testing; other miscellaneous activities – 100 hours.

2002 Deployment

In the two weeks this service will be available prior to April 15th, FTB estimates that nearly 640,000 2EZ returns will be filed by taxpayers. Of these, nearly 500,000 will be paper 2EZ returns, and the remaining will be TeleFiled or e-filed via third parties. If five percent of those taxpayers filing paper returns were to be submitted instead via the 2EZ "click and send" service, that would produce nearly 25,000 new electronic filings. In subsequent years, when the service is expected to be available for an entire filing season, if five percent of all paper 2EZ returns were instead submitted using 2EZ Click & Send, it is estimated that 90,000 – 100,000 returns would be diverted from the paper mailing and manual processing system.

Future Deployment

Given the short development cycle for this project, the initial deployment lacks several features such as e-pay for balance due returns and error messages (in cases where taxpayers have erred) which would be displayed to the taxpayer when they submit the return. Both of these features would make this service consistent with the e-filing experience on all other applications. Other "click & send" forms could also be deployed. Consistent with the scope of this project, new features would not include arithmetic or tax liability calculations.