

Tax Year 2006 Processing Changes – ERC 501 and/or 504

For tax year 2005 IRS changed the way error reject codes (ERC) 501 and 504 were handled. Beginning in tax year 2005, the IRS allowed Electronic Return Originators (ERO) in states that do not participate in the Fed/State e-file program or in states without state income tax to resubmit returns to IRS for resolution if the electronic return rejected due to ERC 501 and/or 504. For tax year 2006, the IRS has updated this change to allow for returns participating in Fed/State e-file. If a federal return rejects, due to ERC 501 and/or 504, it can be resubmitted for resolution by IRS. The IRS will notify the state that the federal return is being accepted under exception processing.

What is an error reject code?

The error reject codes tell why the return rejected and the form field numbers tell which fields of the electronic return data are involved. Publication 1345A, Filing Season Supplement for Authorized IRS e-file Providers, is issued annually and contains information to help identify the cause of the reject.

What is error reject code (ERC) 501 and 504?

ERC 501 – The Social Security Number provided for the qualifying person on Schedule EIC (Earned Income Tax Credit) does not match either the information provided to IRS by the Social Security Administration or IRS Master file.

ERC 504 – The Social Security Number and Dependent Name Control does not match the IRS Master file.

How does the IRS processing changes affect electronic Volunteer Site Return Preparers?

Beginning with tax year 2006 returns IRS will allow an ERO to resubmit an “imperfect return” for IRS Error Resolution if return rejected with ERC 501 and/or 504.

In order to provide quality customer service to the taxpayers visiting a Volunteer Return Preparation Site (VITA/TCE), volunteer preparers are required to contact the taxpayer if the return results in a reject due to ERC 501 and/or 504 and attempt to resolve the error. Volunteers may contact the volunteer by phone, email, or mail.

Attached is a reject letter template that can be used to notify the taxpayer the reason for the reject. The template provides three separate scenarios.

- The first scenario notifies the taxpayer the return has rejected and allows the preparer to check the appropriate box indicating the reason for the reject. This is the scenario preparers notifying taxpayers of a ERC 501

SPEC Volunteer Guidance – Error Reject Code 501 and/or 504

- and/or 504 reject would use, marking the first box “the name, year of birth, and/or social security number listed ...”
- The second scenario notifies the taxpayer the return has rejected and cannot be electronically filed.
 - The third scenario notifies the taxpayer their return has been electronically filed but due to the error, processing could take up to 6 weeks. This is the scenario preparers would use if they are unable to resolve the ERC 501 and/or 504 reject. (See below for more information regarding resubmission of an imperfect return.)

For sites that use TaxWise software, the reject letter has been included with the desktop version for your convenience.

If the site is unable to fix the reject, rather than print the return and provide it to the taxpayer for paper submission to the IRS (as has been the practice in the past) the site can re-transmit the return to the IRS. These returns will automatically be forwarded to the IRS Error Resolution Unit for processing. This processing could take up to 6 weeks for completion.

How do I mark a return as “imperfect”?

For users of TaxWise software when re-transmitting the return as long as the “IRS Only” box is checked no other action is required for resubmission of a return. For users of other software products read the instructions provided with your software or contact your software provider for information.

Important Message: The new procedures described above apply to ERC 501 and/or 504 only. No other reject codes qualify for this special IRS processing.