

OKLAHOMA TAX COMMISSION

**Modernized e-File Handbook
for Tax Practitioners, EROs, Transmitters,
and Software Developers
Corporate Income Tax (Form 512)
Tax Year 2010**



Revised 10-2010

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Introduction

The Oklahoma Tax Commission (OTC), in conjunction with the Internal Revenue Service (IRS), began accepting Oklahoma Corporate Income Tax returns and corresponding forms for tax year 2009 by method of the Modernized e-File system (MeF). At this time Oklahoma will only accept C-corp returns (Form 512). Corporations filing as an S-corp (Form 512-S) must file by paper.

The transmission method is a Web Service using Simple Object Access Protocol (SOAP) with attachments messaging. The return data is formatted using Extensible Markup Language (XML). Authorized E-File providers, also known as Electronic Return Originators (ERO's), can submit returns to the IRS MeF system for Federal and state return processing. The State submission can be transmitted as a "linked" return (also referred to as a Fed/State return) or as an "unlinked" return (also referred to as a State Standalone return). Each return (Linked or Unlinked) must be in a separate submission. Multiple submissions may be contained in a single message payload. Software developers must test with OTC prior to submitting live Fed/State or State Standalone returns.

Oklahoma Electronic Filing Calendar

For Tax Year 2010 Corporate Income Tax Returns (Form 512)

Begin Software Testing	11/1/2010
Begin Transmitting Returns	Same Date as IRS

Publications

Use this handbook in conjunction with the following publications. The Oklahoma Tax Commission conforms to all requirements, rules and regulations set forth by the IRS. Oklahoma publications are not intended to alter or amend the IRS requirements.

IRS Publication 3112 – IRS e-file Application and Participation

IRS Publication 4162 – Modernized e-File (MeF) Test Package

IRS Publication 4163 – Modernized e-File (MeF) Information for Authorized IRS e-file Providers for Business Returns

IRS Publication 4164 – Modernized e-File (MeF) Guide for Software Developers and Transmitters

Oklahoma 512 Packet – Corporate Income Tax return and instructions

Oklahoma 2010 MeF Schemas (For Software Developers)

Oklahoma Test Package for Electronic Filing of Corporate Income Tax Returns (For Software Developers) (Tax Year 2010)

Changes to 2010 Income Tax

Taxable Income:

Captive real estate investment trust (REIT) –

- Requires the add-back of the dividends-paid deduction otherwise allowed by federal law in computing net income of a captive real estate investment trust (REIT).
- A corporation no longer has to add back rents and interest expenses paid to a captive REIT, if the captive REIT is filing an Oklahoma return and is required to add back the dividends paid deduction.

The measure prevents the misuse of the REIT structure as a means to escape corporate income tax laws, but avoids any unintended consequences.

Income from Discharge of Indebtedness Add-back – Income from discharge of indebtedness deferred under Section 108 (i)(1) of the Internal Revenue Code, as provided for in the American Recovery and Reinvestment Act of 2009, must be added back to compute Oklahoma taxable income. Such income will be deducted from Oklahoma taxable income when ratably included in Federal income over five subsequent tax years.

Credits:

Credit for Wire Transfer Fee – A credit is allowed for the electronic funds transfer fee paid pursuant to the Drug Money Laundering and Wire Transmitter Act (Title 63 O.S. Section 2-503.1j). Taxpayers will claim the credit for all fees paid during tax years 2009 and 2010 on their 2010 tax return. Any credit allowed but not used will have a five year carryover provision. Upon request you must be able to document the amount of fees paid upon which the credit is based.

Credit for Manufacturers of Electric Vehicles -

Establishes a credit for the manufacturer of low-speed electric motor vehicles, medium-speed electric motor vehicles or electric motor vehicles which are manufactured after June 30, 2010. The manufacturer must have a manufacturer exemption permit. The credit will be as follows:

- For low-speed electric motor vehicles the credit is \$500 per vehicle manufactured.
- For medium-speed electric motor vehicles the credit is \$1,000 per vehicle manufactured.
- For electric motor vehicles, which are not low-speed or medium-speed vehicles, the credit is \$2,000 per vehicle manufactured.

Any credit allowed but not used will have a five year carryover provision.

Credit for Investment in Qualified Electric Motor Vehicle Property – Establishes a sunset date for the Credit. No credit will be allowed for investments in qualified electric motor vehicle property placed in service on or after July 1, 2010. Extends the unused carryover provision from 3 years to 5 years on qualified investments made during the period January 1, 2010 through June 30, 2010. See Form 567-B

Credit for Investment in Clean-Burning Motor Vehicle Fuel Property – Several amendments have been made to the credit, among them are:

- Hydrogen has been added as a qualified fuel, but for tax year 2010 only.
- Methanol and “M-85” are no longer considered qualifying fuels.
- The credit, for property directly related to the delivery of a qualified fuel into the fuel tank of a motor vehicle and the storage of such fuel, increased from 50% to 75% of the cost of the qualified property.
- Adds a credit for a public access recharging system for vehicles propelled by electricity equal to 75% of the cost of the qualified property.

- Adds a credit for a natural gas refueling station in a private residence equal to the lesser of 50% of the cost of the qualified property or \$2,500.
- Extends the unused carryover provision from 3 years to 5 years.

See Form 567-A

Credit for Tourism Development or Qualified Media Production Facility

- The definition of “tourism attraction” was expanded to include a destination hotel whose location and amenities, including but not limited to upscale dining, recreation and entertainment, make the hotel itself a destination for tourists.
- The amount of the credit was modified to up to 10% or up to 25% of approved costs, but will be limited to the percent of the approved costs that will result in the project being revenue neutral to the State as determined by the Oklahoma Tax Commission. Previously, the amount of such credit was 10% or 25% of approved costs. Revenue neutral means the amount by which increased tax revenues from the tourism attraction project or the film, digital media or music production and development facility will exceed the credit.
- Proof of expenditures is required prior to the Tax Commission issuing a tax credit memorandum to the approved company which may be satisfied by a report from an independent certified public account.

Tax Credit Moratorium

A Tax Credit Moratorium has been placed on many Oklahoma credits. For more information see Form 511CR and, when applicable, the specific form for a particular credit.

The following credit has been placed under a moratorium from June 1, 2010 through June 30, 2011.

- Credit for Electricity Generated by Zero-Emission Facilities*

The following credits have been placed under a moratorium from June 1, 2010 through December 31, 2011.

- Small Business Capital Credit
- Rural Small Business Capital Credit

The following credits have been placed under a moratorium from July 1, 2010, through June 30, 2012.

- Credit for Hazardous Waste Control
- Gas Used in Manufacturing Credit
- Oklahoma Investment/New Jobs Credit*
- Credit for Energy Assistance Fund Contribution
- Coal Credit
- Oklahoma Agricultural Producers Credit
- Credit for Employers Providing Child Care Programs
- Credit for Entities in the Business of Providing Child Care Services
- Small Business Guaranty Fee Credit
- Credit for Manufacturers of Small Wind Turbines
- Credit for Food Service Establishments that Pay for Hepatitis A Vaccination for their Employees
- Credit for Qualified Rehabilitation Expenditures*
- Credit for the Construction of Energy Efficient Homes

- Credit for Modification Expenses Paid for an Injured Employee
- Credit for Wages Paid to an Injured Employee
- Credit for Qualified Recycling Facility
- Credit for Qualified Ethanol Facilities
- Credit for Qualified Biodiesel Facilities
- Oklahoma Local Development and Enterprise Zone Incentive Leverage Act Credit
- Poultry Litter Credit
- Film or Music Project Credit
- Dry Fire Hydrant Credit
- Credit for Railroad Modernization
- Credit for Breeders of Specially Trained Canines
- Credits for Employers in the Aerospace Sector
- Credit for Employees in the Aerospace Sector
- Credit for Financial Institutions Making Loans Under the Rural Economic Development Loan Act
- Credit for Stafford Loan Origination Fee
- Research and Development New Jobs Credit

Carryover Provisions: Credits established before the moratorium are eligible to be claimed under normal carryover provisions, if applicable.

* These credits can be established during the moratorium but will accrue and may not be claimed until tax year 2012.

Check-offs: There are three new check-offs:

Support of Folds of Honor Scholarship Program – Corporate taxpayers may donate from a tax refund for the benefit of the Folds of Honor Scholarship Program, a nonprofit charitable organization providing academic and vocational training scholarships to dependents of military servicemen and servicewomen who were either killed or wounded in action due to military service in the war in Iraq or Afghanistan.

Y.M.C.A. Youth and Government program - Corporate taxpayers may donate up to \$25 from a tax refund for the benefit of the Oklahoma chapter of the Y.M.C.A. Youth and Government program. Monies donated will be expended by the State Department of Education for the purpose of providing grants to the Program so young people may be educated regarding government and the legislative process.

Multiple Sclerosis Society Fund - Corporate taxpayers will be provided the opportunity to donate up to \$25 from a tax refund for the benefit of the Multiple Sclerosis Society. Monies donated may be expended by the State Department of Health to provide grants to the Multiple Sclerosis Society for the purpose of mobilizing people and resources to drive research for a cure and to address the challenges of everyone affected by multiple sclerosis.

Please see the 2010 Legislative Update located on our website for a complete list of all changes.

Contact Information

For question or inquiries please contact:

E-File issues or Forms development

Joan Korthanke, E-File Coordinator

Ph. (405) 521-3637

Fax (405) 522-1711

E-Mail jkorthanke@tax.ok.gov

Mail Oklahoma Tax Commission

Joan Korthanke – Communications Division

PO Box 269060

Oklahoma City OK 73126-9060

General Corporate Income Tax questions

Corporate Income Tax Section

Ph. (405) 521-3126

Fax (405) 522-3283

E-Mail otcmaster@tax.ok.gov

Mail Oklahoma Tax Commission

Compliance Division – Corporate Income Tax

PO Box 269054

Oklahoma City OK 73126-9054

Other Information:

Oklahoma's website – www.tax.ok.gov

Taxpayer Assistance Division – (405) 521-3160

In-State Toll-free number – (800) 522-8165, plus 5 digit extension

Physical address: Oklahoma Tax Commission

2501 N Lincoln Blvd.

Oklahoma City OK 73194

Acceptance and Participation

EROs and transmitters must be approved with the IRS in order to submit Fed/State or State Standalone returns. You do not need to register with the Oklahoma Tax Commission. Upon IRS approval for electronic filing, you are automatically approved for Oklahoma.

Software Developers must register by completing Form D-104 "Software Developer Information Sheet For Electronic Filing of Corporate Income Tax Returns (Form 512)". You will receive a confirmation that we have received your information. Once you have received the confirmation you may then transmit your test returns. You may download test returns from our website www.tax.ok.gov under the Developer/Preparer Info link.

Types of Returns Accepted

- **Linked (Fed/State)**

The Federal and state submissions do not have to be transmitted to MeF together. A state submission can be linked to the Federal submission by including the Submission ID of the Federal return in the state manifest. If the state submission is linked to a Federal submission (also referred to as a Fed/State return), the IRS will check to see if there is an accepted Federal submission under that Submission ID.

If there is not an accepted Federal return, the IRS will deny the state submission and an acknowledgement will be sent. Oklahoma will have no knowledge that the state return was denied (rejected) by the IRS.

If there is an accepted Federal return under that Submission ID, then the IRS will do minimal validation on the state submission and pass along to the state what the ERO/Transmitter sends in the State submission. Oklahoma will generate the acknowledgement for the Oklahoma return and send it to the MeF system for the transmitter to retrieve.

- **Unlinked (State Standalone)**

If the ERO/Transmitter does not link the state return to a previously-accepted Federal return (also referred to as State Standalone), the IRS will perform minimal validation and will pass along to the state the entire state submission that was sent in by the ERO/taxpayer. The state return is made up of the Oklahoma return and applicable Federal return; the taxpayer is required to provide both components. Oklahoma will generate the acknowledgement for the Oklahoma return and send it to the MeF system for the transmitter to retrieve.

What Can be Transmitted Electronically

The Oklahoma electronic return will consist of data transmitted as well as supporting PDFs. In total, an electronic return contains the same information as a comparable return filed entirely on paper.

The following is a list of all of the XML forms that Oklahoma accepts electronically. Software Developers are not required to support all of the supplemental forms that Oklahoma accepts electronically.

Income Tax Return

- Form 512 - Oklahoma Corporate Income Tax Return

Supplemental Forms

- Form 512-TI – Computation of Oklahoma Consolidated Taxable Income
- Form 511CR – Other Credits Form
- Form 561C – Oklahoma Capital Gain Deduction for Corporations Filing Form 512
- Form 506 – Investment/New Jobs Credit

Note: Any of the above supplemental forms that a Developer does not support as XML data should be attached as pdf documents.

Attachments to the Electronic Return

The tax return may also include non-XML documents, known as “binary attachments”, submitted in PDF format. These attachments include items from the following sources:

- Form/Schedule not supported – any Oklahoma forms or schedules which are required to be filed with the return, but not supported in XML format.
- Supporting documentation – any supporting documentation required to be submitted with a form.
- Additional information – any additional information that needs to be filed with the return.

Approved MeF tax preparation software should provide the necessary instructions for creating, scanning or exporting documents in PDF format and submitting these documents as attachments that are required by Oklahoma and IRS publications, Code, and/or Regulations. Preparers will create the binary attachments as pdf documents and submit them as electronic files attached to the MeF return. Check with your software provider to see if your software will support binary attachments.

Copy of Federal Return Required

The complete Federal return and the necessary supporting schedules as submitted to the IRS are required to be submitted in XML and PDF format along with the Oklahoma return. If the taxpayer is included in the Federal return of a consolidated group, a copy of the pro-forma Federal return for the company must be included along with the first four pages of the consolidated Federal return and the consolidating income statement, balance sheet and schedule M-1/M-3 including applicable detailed schedules.

What Cannot be Transmitted Electronically

Oklahoma follows the IRS guidelines for MeF exclusions (Refer to IRS Publication 4164). In addition to the IRS guidelines, the following types of returns are excluded from electronic filing:

- Amended returns
- Subsequent return beginning in same tax year – Oklahoma will only accept one return each filing season, any subsequent filings such as an additional short year return must be filed by paper.
- Returns for a tax year prior to 2009. You must pass testing in order to e-file prior year returns.
- Filings that are a duplicate to a paper filed return.
- Returns with cent entries

Signature Document (Form EF)

The Form EF must be completed and signed by all required parties.

- The original is to be retained by the ERO, along with a copy of the e-Filed return, for 3 years and made available to the Oklahoma Tax Commission upon request. All EROs will be subject to periodic reviews by the OTC to ensure the paperwork is being retained.
- The taxpayer must be provided with a copy of the Form EF along with documentation of all completed Oklahoma forms and schedules filed for the taxpayer. This documentation may be furnished on official Oklahoma forms, on copies of official forms, or on software designed forms that have been approved by the Oklahoma Tax Commission.

Entry of the Taxpayer's Personal Identification Number (PIN) in the electronic filing process operated by the IRS shall service as an "electronic signature". Entry of the taxpayer's PIN as signature will only be allowed on a linked (Fed/State) electronically-filed return. Use of a PIN will not be allowed on an unlinked (State Standalone) return.

Acknowledgement System

Oklahoma generates an acknowledgement of acceptance for all returns received. Oklahoma does not reject e-Filed returns. If an electronic acknowledgement has not been received within 48 hours of our scheduled retrieval process for any transmitted return, the ERO should contact Oklahoma's E-File Coordinator for further instructions. **It is the responsibility of the ERO to ensure that every return filed electronically is acknowledged as accepted.**

Timeliness of Filing

All prescribed due dates for filing of returns apply to MeF returns. If any due date falls on a Saturday, Sunday or legal holiday when the Oklahoma Tax Commission's offices are closed, the return must be filed by the next business day.

The receipt of an electronic postmark will provide taxpayers with confidence that they have filed their return timely. When the date of the electronic postmark is on or before the prescribed due date but the return is received by Oklahoma after the due date, the date of the electronic postmark is considered the date of filing.

Balance Due Returns

Taxpayers who file their return electronically can elect to pay their balance due by four different methods. The taxpayer is responsible for paying the amount due to the OTC when a return is filed or no later than the original due date.

- Direct debit (electronic funds withdrawal), for a full or partial payment when filing their return and choose an effective date.

Taxpayers may have their payments directly withdrawn from their checking or savings account. The bank routing and account numbers, the amount to be withdrawn and the date the funds are to be withdrawn must be supplied as part of the e-Filed return.

The RequestedPaymentDate in the StatePayment section of the FinancialTransaction is used to indicate an ACH Debit's Effective Date. Holidays and weekends are not valid effective dates. The effective date must be at least three business days after the filing date - any effective date not satisfying this requirement is unacceptable.

For example, a taxpayer files on February 11, 2011, the earliest effective date is February 16, 2011.

Oklahoma does not accept International ACH Transactions (IAT) at this time. If the IAT indicator field is marked, the taxpayer should submit the balance due by another means.

- Electronic Funds Transfer (EFT) ACH Credit or Debit.

Taxpayers can choose to have their payment directly withdrawn from their checking or savings account via the OTC website at www.tax.ok.gov. The taxpayer would click on link "payment options" and then "E-Check".

- Credit Card Payment

Credit cards accepted are Discover, Master Card, Visa and American Express. Credit card payments may be made via the OTC website at www.tax.ok.gov. The taxpayer would click on link "payment options" and then "Credit Cards". Payments can also be made by calling 1 (866) 289-0455.

- Check or money order accompanied by payment Form EF-V

Checks or money orders should accompany the Form EF-V and be mailed to the OTC at the following address:

Oklahoma Tax Commission
Electronic Filing
PO Box 26890
Oklahoma City OK 73126-0890

Do not mail a copy of the tax return with the payment.

If the taxpayer is making a partial payment, a billing coupon will be sent to the taxpayer for the balance due at which time the taxpayer will have the option of paying the remaining balance in full, or making monthly payments until the balance is paid in full.

Refund Returns

Taxpayers have four options when their return shows an overpayment of tax. They may elect to have any or all of their overpayment:

- Direct deposited into a checking or savings account. The bank routing and account numbers must be supplied as part of the e-Filed return. Note: Oklahoma will only deposit into one account per tax return.
- Due to changes in the electronic banking rules, the Oklahoma Tax Commission will no longer allow direct deposits to or through foreign financial institutions or if the taxpayer has a foreign address on the tax return. The taxpayer will be issued a paper check.
- Refunded in the form of a paper refund check
- Applied to next year's estimated tax
- Donated to a variety of Oklahoma organizations. See the 512 instructions for a list of the organizations.

Taxpayers should first confirm acknowledgment of their Oklahoma return with their practitioner or transmitter. Tax preparers should wait at least 14 days from the date of acknowledgment for a paper refund or 10 days for a direct deposit before contacting the OTC about their refund.

Changes to Electronic Returns

After an electronic return is acknowledged as accepted, it cannot be recalled, intercepted or changed in any manner. If either the ERO or taxpayer wishes to change any entries on an accepted electronic return, an amended paper return must be filed.

Name, address or FEIN changes may be made by contacting the Corporate Section of our Compliance Division. Contact the Section by phone at (405) 521-3126, fax at (405) 522-3283, or by mail at Oklahoma Tax Commission, Corporate-Compliance Division, PO Box 269054, Oklahoma City OK 73126-9054. Be sure and include your name and telephone number on any correspondence.

Responsibilities of Electronic Filers

The guidelines in IRS Publications must be followed for Oklahoma Electronic Filing.

- **Penalties for Disclosure or Use of Information**

Guidelines outlined in Section 6, IRS Revenue Procedure 93-8 should be followed, as well as Title 68, Section 205 Oklahoma Statutes.

- **Penalties for Late Filing, Late Payment and Fraudulent Returns**

This provision provides due notice that all penalties, interest and criminal provisions which are applicable for paper returns, are also applicable for electronic returns. Specifically, penalty and interest on tax for late filing and/or late payment will be assessed.

Penalties will be assessed for any person filing a fraudulent or misleading return. Additionally any person who willfully subscribes or presents a fraudulent return will be subject to prosecution and the penalties.

- * Other criminal provisions will be applicable to the extent that a person attempts to commit forgery and falsify signatures on any electronic filing form or check
- * Any attempt to pass bad checks for payment of taxes will be prosecuted.

- **Advertising Standards**

Guidelines in IRS Publications and Revenue Procedure 93-8, Sec 12.01 through 03 and 05 through 09 must be followed for Oklahoma MeF, as though references to the IRS or Service were references to the OTC, State of Oklahoma, or the State and references to the FMS or Treasury Seals were references to the State of Oklahoma Seal.

- **Monitoring and Suspension of an Electronic Filer**

The OTC will monitor electronic filers for conformity to this publication. Under the MeF Program, the OTC can recommend suspension of an electronic filer for due cause through the local IRS District Office Coordinator.

Note: Warning letters, suspension and rejection from electronic filing will be administered by the local IRS District Director.