Chapter IX

E-Taxation:
An Introduction to the Use of TaxXML for Corporate Tax Reporting

Vikramaditya Pant, Villanova University, USA

M. Susan Stiner, Villanova University, USA

William P. Wagner, Villanova University, USA

Abstract

Online tax systems are rapidly replacing paper-based tax reporting systems. Promising many advantages over the traditional method of hard copy tax filing, these systems promise faster process, lower costs and increased efficiency. Using a specific language from the Extensible Markup Language family called TaxXML, TIGERS, a government subcommittee for the establishment of electronic taxation standards is looking to revolutionize the way government administers taxation. TaxXML draws upon the concepts and constructs of basic XML and utilizes tax-related vocabularies to create a standardized and systematized framework of electronic tax preparation and reporting. Having said that electronic tax reporting is advantageous over traditional paper-based reporting, there are further advantages of using a TaxXML-based electronic system than one that is engineered using non-standard proprietary technologies. While it is still in its early stages of
development, it is unclear how hard the government will impose this technology onto the industry and also how the industry will react to this new technology. This paper will provide some background for the study of TaxXML and will suggest why TaxXML is a very significant development in the realm of online tax systems.

Introduction

The Internal Revenue Service (IRS) is the federal government agency charged with collection of taxes for the nation. Under the U.S. Constitution, the power to impose and collect taxes is given to Congress\(^1\). Congress delegated power to the IRS. The IRS is most often associated with the collection of income tax levied on individuals, corporations, estates and trusts. In addition, the IRS collects excise tax, estate tax\(^2\), gift tax\(^3\), and generation-skipping transfer tax\(^4\). The IRS also collects social security and Medicare taxes on behalf of the Social Security Administration\(^5\).

In fiscal 2001, the latest year for which figures are available, the IRS collected $2,128,831,182,000 in gross revenue. According to the IRS, it cost 41 cents for every $100 of revenue collected. The IRS continually strives to reduce the costs of revenue collection, eliminate the paper on which records are kept and diminish the storage space necessary to handle the business of taxes in the U.S. Simultaneously, the IRS constantly tries to improve the quality of data it processes. One new initiative involves the use of TaxXML for online filing of taxes. This paper will examine this new initiative as it applies to corporate tax reporting.

There are two types of corporations for federal tax reporting purposes: C, or regular, corporations and S corporations. They have different tax characteristics that are declared in the respective subchapters of the Internal Revenue Code (Code) that contains the tax rules for these business entities. These are summarized in Table 1.

In addition to one of the two varieties of the Form 1120, corporations use forms such as Form 941 (Employer’s Quarterly Federal Tax Return) and Form 940 (Employer’s Annual Federal Unemployment (FUTA) Tax Return), among others, to declare federal taxes.

Limited Liability Corporations, or the LLCs, can choose to file their taxes as a regular corporation or as a partnership. They don’t have a dedicated tax area because they can fit in existing tax structures.