

THOMSON REUTERS®

1120 STATE E-FILE GUIDE

FOR TAX YEAR 2021

Last Updated: November 22, 2021

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CHAPTER 1: 1120 STATE E-FILE

In partnership with many of the states, the IRS has developed the Fed-State Modernized E-file (MeF) program. This program uses existing IRS communication methods to allow participating states to receive submissions and send acknowledgments on e-filed tax returns

Advantages of filing through the MeF program over the paper-filing method:

- Minimal to no human intervention. Results in decreased processing time and reduction in errors.
- The MeF system is a real-time, transactional system, rather than batch-based. Results in more frequent communication between the IRS and state, and more timely receipt of transmitted returns by the state.
- MeF is completely paperless in many cases. Information not defined by the IRS and state schemas can be included generally with the e-filed return as PDF attachments.

Submissions are received electronically and processed by the IRS, and then made available to the states. States, in turn, receive the returns from the IRS servers and provide acknowledgments.

CHAPTER 2: FEDERAL ATTACHMENT REQUIREMENTS

Most e-filed state business tax returns must have a federal return attachment. Each state has potentially differing standards as to what is required and/or acceptable for this requirement.

The following are the three types of federal return attachments that states might be required to accompany an e-filed state business tax return:

- Federal return in XML format.
- Proforma federal return in XML format (1120 only)
- Federal return as a PDF (Acrobat) attachment

Federal Return in XML Format The IRS has developed full e-filing capabilities (in XML format) for the following business return-types: 1065, 1120, 1120S, and 1120-F. As such, state returns which are filed as one of these types AND have a filing status as either a single entity or a top consolidation might be required to include an XML copy of the federal return.

“Proforma” Federal Return in XML Format Corporate entities filing as a member of a consolidated federal Form 1120, but having a separate entity state filing requirement, would include a “proforma” federal return with their state filing. This federal return is created using the consolidated member's separate company tax numbers, and results in an XML copy of the basic federal return computed on that basis.

Federal Return as a PDF Attachment This type of federal return attachment is available in cases where an XML copy of the federal return does not exist. Federal filers of return-types outside of the basic set comprising 1065, 1120, 1120S and 1120-F might be required to attach the federal return filing as a PDF attachment.

CHAPTER 3: SUBMISSION METHODS

There are two separate submission methods that can be used to file business tax returns:

- Linked
- Unlinked

A state submission can be **linked** to the federal IRS submission.

If the state submission is linked to the federal submission (referred to as a Fed-State return), the IRS checks to ensure that there is an accepted IRS submission already in their system. If there is an accepted federal return, MeF performs a limited validation of the state submission before forwarding to the state. If there is not an accepted federal return for that tax type (such as 1120 or 1065), then the IRS rejects the state submission and sends an acknowledgment back to the transmitter.

In contrast, **unlinked** (or **State Standalone**) filings do not require the corresponding federal return to have been previously filed with and accepted by the IRS. In this type of transmission, the client would submit the applicable state return for filing, which would similarly be received by the IRS. Upon completing very limited validation checks, the IRS would then make the return available to the state for receipt and acknowledgment of the filing.



If a Fed-State submission is rejected by the IRS, the state will have no knowledge of the filing.

SUBMITTING RETURNS AS LINKED OR UNLINKED

When a state return is submitted, it is designated as linked or unlinked by selecting options on the **Create E-file Batches** screen. Selecting the *Federal ready to send* option in addition to the *States/City ready to send* designates a **linked** filing. Clearing the *Federal ready to send* check box denotes the submission is an **unlinked** filing.

The screenshot displays the 'Create E-file Batches' interface with the following elements:

- Account:** 8321 (dropdown)
- Year:** (dropdown)
- Type:** Radio buttons for 1040, 1041, 1120 (selected), 1065, All, 5500, 990, 706, 709.
- Limit List size to:** 100 (dropdown)
- Sort List by:** Radio buttons for Name (selected), Client Code, Locator.
- And Match These First Characters of Sort Column:** Galaxy (text input)
- Support Firm:** FT (dropdown)
- Assigned To:** Radio buttons for Preparer (selected), Partner, Reviewer, Group, Manager.
- Location:** (All) (dropdown)
- Login ID/Group Name:** (All) (dropdown)
- Select Return/Extension:** Display Type: Regular Display (dropdown); e-File Type: Return (dropdown).
- Find State/City:** Find State/City button.
- Ready to Send Options:** Federal ready to send; States/Cities ready to send; All States/Cities (dropdown).
- Buttons:** Continue, Cancel, Help.
- Instructions:** Select Federal or States ready to send check box to enable Continue button.
- Disclaimer:** This process will initiate electronic filing with the appropriate taxing authority. If you need to download the actual electronic file (certain return types only), please select "Download" from the left hand menu.

Figure 3:1

Linked Return

There are two methods for submitting linked returns depending on whether the federal return was previously accepted and *linked* or *unlinked*

FEDERAL RETURN HAS ALREADY BEEN ACCEPTED

1. Create the qualified state e-file. Be sure that details for the federal return are complete and accurately entered in the **State E-file > Federal Copy** spreadsheet as this is necessary for the proper linking of the state and federal returns as well as the attachment of the federal return copy.
2. Close the return after creating a qualified state return.
3. On the **Create E-file Batches** screen in the **Select Return/Extension** section, select both the *Federal ready to send* and the *States/City ready to send* options.

FEDERAL RETURN HAS NOT BEEN ACCEPTED

1. Create the qualified state e-file. Be sure that details for the federal return are complete and accurately entered in the **State E-file > Federal Copy** spreadsheet as this is necessary for the linking of the state and federal returns as well as the attachment of the federal return copy.
2. Close the return after creating a qualified state return.
3. On the **Create E-file Batches** screen in the **Select Return/Extension** section, select both the *Federal ready to send* and the *States/Cities ready to send* options.
4. The state return is held until the federal return is accepted. Only then is the state return submitted as a **linked filing**. However, if the federal return is rejected, the state return is also disallowed since there is a dependency when there is a linked filing.
5. If the federal return is rejected, make necessary changes to correct the federal return, and repeat the steps above.

Unlinked Filing

Follow the steps below to submit an ***unlinked filing*** of the state return:

1. Create the qualified state e-file. Be sure that details for the federal return are complete and accurately entered in the **State E-file > Federal Copy** spreadsheet as this is necessary for attachment of the federal return copy. Close the return after creating the qualified state return.
2. On the **Create E-file Batches** screen in the **Select Return/Extension** section, select only the *States/Cities ready to send* option.

Reject Codes

Otherwise qualified state returns may be rejected if conditions exist that would cause MeF to reject the return. The following reject codes are specific to MeF filings:

Error 9501 (Applicable for both linked and unlinked submissions.) A federal file could not be located when the state e-file was submitted.

Error 9502 (Applicable for Linked submissions only.) Federal return rejected and state was dependent on federal return being accepted.

Error 9974 Error occurs when a linked file is submitted to a state that allows only unlinked filings.

CHAPTER 4: SPREADSHEETS

State spreadsheets are provided to enter state information. The following section details the headings available for each spreadsheet.

When a state is activated, the option to enable e-file for that jurisdiction is automatically selected. This triggers the e-file diagnostics, that allows the user to clear errors earlier in the return preparation process. This option can be turned off under **Organizer > States > State E-file > Enable/Create > Return tab > Enable** column.



Enabling e-file does not cause the file to be created or qualified. It only notifies the system of the intention to do so, and triggers the e-file diagnostics.

ENABLE/CREATE

Each state and city offering e-file extensions is listed when activated in **Organizer > States > State and City Activation**. The state extension should be enabled within **Organizer > States > State E-File > Enable/Create Returns**, or **Enable/Create Extensions**, or **Enable/Create Estimates**, as required.

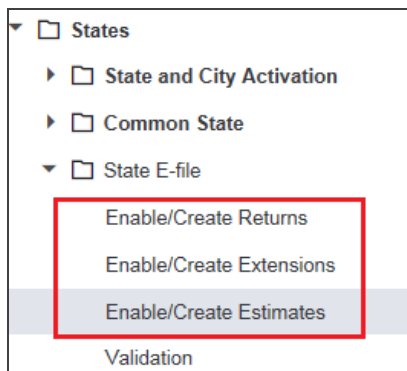


Figure 4:1

RETURN SPREADSHEET

Create Clicking this button creates the e-file and identifies if there are any reject diagnostics or validation errors. The e-file status and XML information is then displayed.

Enable Selecting this check box is mandatory to create an e-file, to generate reject diagnostics, and to identify validation issues. By default this check box is selected for each state.

EFIN The electronic filing identification number carries from the federal Organizer.

Originator Type The Originator type (ERO or Large Taxpayer) carries from the federal Organizer

Signature Option If the state or city requires a signature, the available options can be selected from the drop down list

Business Name Control Generally, the name is derived from the first four characters of the business name, and it is automatically included in the XML file. An override name control can be entered to be included in the XML file.

Signature Authorization Certification (1120 Only) For states requiring additional information regarding signature, the applicable choice should be selected

E-file Status The e-file status displays after an e-file is created, and is updated when the e-file is submitted, rejected, or submitted.

Date/Time E-file Created The time stamp of the last e-file created is displayed.

Number of Validation Errors The number of validation errors existing when the latest e-file created is displayed.

XML File Name The name of the XML file is displayed. The file name includes the locator number, preceded by an alpha character, and is followed by the tax year indicator. The file extension is unique for each state/city and file type.

XML File Size The size of the latest XML file is created.

Direct Debit Indicator With direct debit information entered and authorized in **Common State > General Information > Bank Information**, the Direct Debit Indicator shows Yes after the e-file is created.

Delete The **Delete** button deletes the existing XML file for that jurisdiction. The **E-file Status** is changed to indicate that the XML file has been deleted.

FEDERAL COPY SPREADSHEET

Federal Copy selections are:

- Attach the federal XML file created for this return.
- Attach a federal XML created just for the state attachment (state only copy).
- Attach a federal XML file created in a different return.

Federal EIN By default, this field displays the federal EIN of the current return. If attaching the federal XML from a different return, enter the EIN of that return.

Locator Number By default, this field displays the locator number of the current return. If attaching the federal XML from a different return, enter the locator number of that return.

Account Number By default this field displays the account number of the current return. If attaching the federal XML from a different return, enter the account number of that return.

Top Consolidation EIN (Corporate Non-Taxable Entities) If the federal return is not a single or top consolidation return (that is, parent, subsidiary, etc.), but the state return is a file-able return, then a proforma of the federal 1120 or 1120S return, pages 1-5, is required in XML format. Enter EIN of the top consolidation return.

Top Consolidation Locator Number (Corporate Non-Taxable Entities) If the federal return is not a single or top consolidation return (that is, parent, subsidiary, etc.), but the state return is a file-able return, then a proforma of the federal 1120 or 1120S return, pages 1-5, is required in XML format. Enter the locator number of the top consolidation return.

Top Consolidation Account Number (Corporate Non-Taxable Entities) If the federal return is not a single or top consolidation return (that is, parent, subsidiary, etc.), but the state return is a file-able return, then a proforma of the federal 1120 or 1120S return, pages 1-5, is required in XML format. Enter account number of the top consolidation return.

Federal E-file Status The e-file status of the state only copy of the federal attachment is displayed after the state e-file is created.

Federal E-file Date/Time Created The time stamp of the of the state-only copy of the federal attachment is displayed after the state e-file is created.

Federal Number of Validation Errors The number of validation errors of the state-only copy of the federal attachment is displayed after the state e-file is created.

Federal XML File Name The XML file name of the state only copy of the federal attachment is displayed after the state e-file is created.

EXTENSION SPREADSHEET

Each state and city offering e-file extensions is listed when activated in **Organizer > States > State and City Activation**. The state extension should be enabled within **Organizer > States > State E-File > Enable/Create Extensions**.

Create Clicking this button creates the e-file, and identifies if there are any reject diagnostics are validation errors. The e-file status and XML information is then displayed.

Enable Checking this field is mandatory to create an e-file, to generate reject diagnostics, and to identify validation issues.

EFIN The electronic filing identification number carries from the federal Organizer.

Originator Type The Originator type (ERO or Large Taxpayer) carries from the federal Organizer

E-file Status The e-file status displays after an e-file is created, and is updated when the e-file is submitted, rejected or submitted.

Date/Time E-file Created The time stamp of the last created e-file is displayed.

Number of Validation Errors The number of validation errors existing when the latest created e-file is displayed.

XML File Name The name of the XML file is displayed. The file name includes the locator number, preceded by an alpha character, and followed by the tax year indicator. The file extension is unique for each state/city and file type.

Direct Debit Indicator With direct debit information entered and authorized in **Common State > General Information > Bank Information**, the Direct Debit Indicator shows Yes after the e-file is created.

ESTIMATES SPREADSHEET

Each state and city offering e-file estimates is listed when activated in **Organizer > States > State and City Activation**. The state extension should be enabled within **Organizer > States > State E-File > Enable/Create Estimates**.

Create Clicking this button creates the e-file for that quarter, and identifies if there are any reject diagnostics or validation errors. The e-file status and XML information is then displayed.

Enable Checking this field is mandatory to create an e-file, to generate reject diagnostics, and to identify validation issues.

EFIN The electronic filing identification number carries from the federal Organizer.

Originator Type The Originator type (ERO or Large Taxpayer) carries from the federal Organizer.

E-file Status The e-file status displays after an e-file is created, and is updated when the e-file is submitted, rejected, or submitted.

Date/Time E-file Created The time stamp of the last e-file created is displayed.

Number of Validation Errors The number of validation errors existing when the latest e-file created is displayed.

XML File Name The name of the XML file is displayed. The file name includes the locator number, preceded by an alpha character, and followed by the tax year indicator. The file extension is unique for each state/city and file type.

XML File Size The size of the latest XML file is created.

Direct Debit Indicator With direct debit information entered and authorized in **Common State > General Information > Bank Information**, the Direct Debit Indicator shows Yes after the e-file is created.

VALIDATION SPREADSHEET

To aid in correcting errors, a Validation File for the return can be created that includes **GoTo** functionality.

E-file Status The e-file status displays after an e-file is created. If not qualified, diagnostics and/or validation errors exist

Date/Time E-file Created The time stamp of the last validation file created is displayed.

Number of Validation Errors The number of validation errors existing with the last validation file created. This number is not updated until the next validation file is created.

XML File Name The name of the validation file is displayed. The file name includes the locator number, preceded by an alpha character, and followed by the tax year indicator. The file extension is unique for each state/city and file type.