



PUBLICATION 1345N

Nebraska Handbook

For

Electronic Filers of Individual Income Tax Returns

TAX YEAR 2007

BE SURE TO GET OTHER ERO MATERIALS FROM OUR WEB SITE. Visit our Web site for up-to-date information about the Nebraska e-file program. You can download additional copies of this booklet, as well as other forms, files and publications that will assist you with e-filing Nebraska returns for your clients. Go to <http://www.revenue.ne.gov/> and look for the link to our tax preparer's page.

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Nebraska e-file **ELECTRONIC FILING CALENDAR**

For Tax Period January 1, 2007, through December 31, 2007

Begin Software Developer and Transmitter Testing(Same as IRS)

Nebraska software developers must be approved by the Internal Revenue Service before final approval with the state.

Transmitter Trading Partners must be accepted by the Internal Revenue Service prior to accessing the IRS Acknowledgment System.

Electronic Return Originators are not required to file an application or perform state acceptance testing.

Begin Transmitting Returns to IRS/Nebraska Department of Revenue January 11, 2008

Last Date for Timely Filed Returns April 15, 2008

Last Retransmission of Rejected Timely Filed Returns (Determined by IRS)

Last Date for Extended Filed Returns..... October 15, 2008

Last Retransmission of Rejected Extended Filed Returns (Determined by IRS)

NOTE: **These dates may be subject to change at any time.**

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Chapter 1

OVERVIEW

The Nebraska Department of Revenue will accept electronically transmitted, tax year 2007 returns through the Federal/State E-file program beginning **January 11, 2008**. **The department will begin accepting electronically transmitted, tax year 2007 returns through the NebFile program beginning January 2, 2008.** There is no prohibition for EROs to use NebFile to file their client's returns.

To be accepted as an originator of electronic returns for Nebraska through the Federal/State E-file program, you will need to be accepted in the IRS electronic filing program and use software that has been tested and approved by both the IRS and the Nebraska Department of Revenue. No state application is required.

What Is New for Tax Year 2007

For Major 2007 Legislative Changes, see <http://www.revenue.ne.gov/info/7-178-2007.pdf>. Below is a draft of e-file related changes.

FEDERAL PIN REQUIRED: Beginning this year, Nebraska will use the federal PIN as signature. Because of this, the federal PIN is now a required field in the state record. The only exception is when the return is a "true" State-Only return (where no federal return was filed.) Resubmitted State-Only returns that were rejected, and State-Only returns where the "piggy-back" state return was for another state, should contain the federal PIN.

EXCLUSIONS DROPPED: Nebraska will allow returns to be e-filed where previously they were rejected because supporting documentation was not available. In prior years, some lines on the Nebraska Form 1040N were rejected because the documents needed to substantiate these 1040N lines were not supported. This year, we are giving tax preparers the option of e-filing these returns however, if e-filed, then these needed documents will have to be mailed in to the department before the return will be processed. These documents include: Form 1310N Nebraska Refund for Deceased Taxpayers, Form CDN Nebraska Community Development Assistance Act Credit Computation, Form 1099NTC, Form 3800N Nebraska Employment and Investment Credit Computation, Statement for Nebraska Charitable Endowment Credit, Form NFC, Statement of Nebraska Financial Institution Tax Credit, Form 14N Statement of Nebraska Income Tax Withheld For Nonresidents, Certificate for Beginning Farmer Credit, Form 1099-MISC, and Form 4797N Special Capital Gains Election and Computation. **If you e-file a return requiring one or more of these documents, they should be mailed to the Nebraska Department of Revenue using a Form 8453N as a cover sheet. The Form 8453N has been changed for this purpose and does not need to be signed by the taxpayer. SEE CHAPTER 6 FOR MAILING INSTRUCTIONS.** These mailed documents and forms will be given priority processing and in most cases, these returns will be processed much faster than if the entire return had been submitted on paper. This is a voluntary process, so your software company may not support it. If so, you may continue to be blocked from entry into these lines. If you e-file these lines, the taxpayer's return will be held until such time as the needed documents are received by the Nebraska Department of Revenue. **IT IS THE RESPONSIBILITY OF THE ERO TO MAIL THIS DOCUMENTATION. NO NOTICE WILL BE SENT. Nebraska still restricts e-filed returns to current tax year, calendar year filers, and prohibits using e-file for amended returns.**

FORM 1040N LINES ADDED AND DELETED: A new nonrefundable credit in Line 26, named "Credit for Financial Institution Tax" has been added. This is tax on the income of an S-Corp financial institution shareholder. Former Line 24, Form 829N Credit has been eliminated.

OTHER 1040N LINE CHANGES: The percentage of the federal earned income credit that can be claimed on the Nebraska return (1040N or Schedule III) has increased from 8% to 10%.

SCHEDULE I LINES ADDED: Nebraska Schedule I Part A includes two new lines. Line 46 is a new adjustment increasing income for Financial Institution tax of a shareholder. Line 47 is a new adjustment increasing income for Long-Term Care Savings Plan recapture.

NEBRASKA STANDARD DEDUCTION CHANGES: While still referred to as "Nebraska Standard Deduction", this year the Nebraska values have been indexed and will match federal values. For tax year 2007 the new 'base' values are:

\$5,350 if single (File Status 1)
\$10,700 for married filing joint (File Status 2) and qualified widow(er) (File Status 5)
\$5,350 if married filing separate (File Status 3)
\$7,850 if head of household, (File Status 4)

For 2007, the additional standard deduction for elderly/blind is **\$1,050** for married joint and married separate, and **\$1,300** for single and head of household.

PERSONAL EXEMPTION CREDIT CHANGE: The Nebraska Personal Exemption Credit (Form 1040N Line 19) for tax year 2007 will be \$111 (up from \$106 per exemption from tax year 2006).

ITIN/SSN MISMATCH INDICATOR: This year the IRS will supply state returns containing an indicator that identifies when there is a mismatch between the taxpayer Id on record with the SSA and what is being reported.

FORM LINES RENAMED: The field used to capture the checkboxes previously labeled as "Special Filing Status" has been renamed to **Farmer/Rancher/Active Military Indicator**. See below. Also, Line 41 (previously named Non-game and Endangered Species Fund) has been renamed to **Wildlife Conservation Fund**.

NOTICE # 1: Once again this year it is very important to caution your users to be sure to check the Farmer/Rancher/Active Military Indicator checkbox where appropriate. If 2/3 of the taxpayer's gross income is from Farming or Ranching for 2006 or 2007, then the Farmer/Rancher/Active Military Indicator checkbox must be set to '1' to avoid erroneous penalty assessments.

NOTICE # 2: Last year three errors with Schedule I Bonus Depreciation and Enhanced Section 179 subtractions last year were common. These were: 1. Add-back reported in prior year in the line for bonus depreciation; subtraction for current year reported in the line for Enhanced 179 expense, and vice-versa; 2. Claimed a subtraction in the current year when there has never been an add-back in a prior year; and 3. Reported one type of add-back in a prior year and split the deduction into 2 types of subtractions in the current year. For several reasons, it does make a difference that the amounts are reported in the right lines, even if the math comes out okay, so these amounts need to be reported accordingly on the appropriate lines of the Schedule I.

NOTICE # 3: The checkbox for e-filed returns that indicates that at Form 2210N was prepared now appears on our paper forms as Line 96. Please check this box when appropriate.

TAXPAYER TELEPHONE NUMBER: We are asking that if your software prompts for entering the taxpayer's phone number, please do so this year.

NEBRASKA REJECT CODE CHANGES:

REJECT CODE CHANGE SUMMARY		
CODE	ACTION	DESCRIPTION
0520	Add	Enforces data integrity for new 1040N line 26, Credit for Financial Institution Tax

0521	Add	Enforces data integrity for new Schedule I line 46, adjustment for Financial Institution Tax credit
0522	Add	Enforces data integrity for new Schedule I line 47, adjustment for Long Term Care Savings Plan Recapture
0524	Add	Corrects the way in which this Reject Code was previously used so that it now enforces the proper calculation of Schedule III line 76 as being line 75 multiplied by the ratio on line 68.
0525	Add	Enforces data integrity for Schedule III line 76, Nebraska Earned Income Tax refundable credit for part year residents.
0523	Add	Requires that 1040N line 12, Nebraska Adjustments increasing federal AGI must match Schedule I line 49, Total Adjustments Increasing Income.
0526	Add	Requires that if a Nebraska Earned Income Credit is claimed in either 1040N line 34 or Schedule III line 76, that a federal EIC credit amount must exist in the federal return.
0152	Change	Enforces data integrity for 1040N line 22, CDAA non-refundable credit (previously prohibited)
0153	Change	Enforces data integrity for 1040N line 23, Form 3800N non-refundable credit (previously prohibited)
0187	Change	Enforces data integrity for 1040N line 25, Charitable Endowment non-refundable tax credit (previously prohibited)
0176	Change	Enforces data integrity for 1040N line 33, Beginning Farmer refundable credit (previously prohibited)
0191	Change	Enforces data integrity for 1040N line 31, Form 3800N refundable credit (previously prohibited)
0307	Change	Enforces data integrity for Schedule I line 53, adjustment for Special Capital Gains Election (previously prohibited)
0513	Change	Enforces data integrity for Consistency Section Sequence Number 0205 (federal EIC amount) used in computing both 1040N line 34 and Schedule III line 75.
0519	Change	Requires that the value in Schedule III line 75 is correctly computed as 10% of the federal EIC amount
0154	Delete	Enforced data integrity for 2006 1040N line 24, Form 829N non-refundable credit (line has been removed)

Who is Eligible to E-file for Tax Year 2007?

The department is committed to make e-file available to as many Nebraska taxpayers as possible. **This year, restrictions previously based on unsubstantiated form lines have been removed.** Restrictions still apply for non-calendar year returns, prior year returns, and amended returns. **Your software should notify you if you file a return that requires a hardcopy form to be mailed to the state. Confirm with your software provider whether or not they support all lines in the Nebraska return. See Chapter 3 for further information.**

Be aware that some software may have limitations and exclusions that are beyond the control of the department. Be sure to check with your software provider if you have questions about exclusions.

Publications and Other E-file Information

In addition to this publication, you should also be familiar with the Internal Revenue Service (IRS) *Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns*. It identifies the procedures and requirements for this program specified by the IRS. *Nebraska Publication 1345N, Nebraska Handbook for Electronic Filers of Individual Income Tax Returns*, sets forth those items that are specific to the Nebraska Department of Revenue. Since most functions in the Federal/State E-File Program are the same, this handbook highlights the special features for Nebraska, and should be used in conjunction with IRS *Publication 1345*. All rules, regulations, and requirements governing tax preparers, transmitters, and originators of returns put forth by the IRS are in effect for the Nebraska Department of Revenue. The department recommends that all participants study IRS *Publication 1345* prior to reading the *Publication 1345N, Nebraska Handbook*. Where the IRS provides detailed instructions on hardware, transmission procedures, policies, etc., those same requirements apply to the Nebraska program.

Visit the department's Web site at <http://www.revenue.ne.gov> for the latest news about the department's electronic commerce programs and to download state forms, tables and publications.

Preventing Errors on the State Return

The error rate on e-filed returns is very low; however, whether due to software or human mistake, errors on state returns do occur. The department must fix all errors on e-file returns before processing them in our mainframe system. **Any error requiring human intervention will delay the processing of your client's return. Serious errors may cause a return to be rejected or converted to paper.** Here are some tips to avoid and minimize these problems:

Make sure that the ERO name and telephone number have been correctly entered into the state return. These must not be blank.

Be sure to mail in any hardcopy forms or documents needed to complete the return. See the section on eligibility above. Mail these as soon as you have received a state acknowledgment indicating the state return has been accepted.

Be sure that your software supports a particular form or form line before attempting to prepare a return with this information.

Always include the seven-digit High School District Code for resident returns and part-year resident returns when the taxpayer resides in the state as of December 31, 2007. Errors or omission of the High School District Code result in a letter mailed by the department to the taxpayer for corrected information.

If preparing schedules and worksheets, be cautious. These account for a majority of the errors found in state returns.

Developers are notified when errors are discovered, but they do not always issue fixes immediately. Be sure to know how your developer issues updates and keep your software version current. It is important that you always use the most current updates to your software as these often contain "fixes" for these types of errors.

Active duty Nebraska military filers who are Nebraska residents must file as Nebraska residents. If it is completed as a nonresident return, the Schedule III will be disallowed. The spouse of a non-Nebraska active duty military filer, who is physically present in Nebraska for 6 months or more of the year, is considered a Nebraska resident. If the non-Nebraska active duty military filer

submits a joint Nebraska return with the resident spouse, the return must be filed as a resident return.

A number of worksheets are used with the Nebraska return. Verify that all worksheets have been completed before submitting the return.

Report all problems with your software to your software provider. As users of this software, you are in the best position to recognize software-generated errors. The department will work with your software provider to correct these errors; however, it is your responsibility to provide error-free returns. **Please remind your taxpayer clients to not mail printed copies of their tax return to the department unless directed to do so by a department representative.**

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Chapter 2

APPLICATION AND PARTICIPATION

Tax Professional Participation

E-filing for Nebraska individual income tax returns is available to all interested tax professionals who have been accepted federally for participation in the Federal/State E-file program. For Nebraska purposes, there are three basic classifications of trading partners in this program, Electronic Return Originators (EROs), Transmitters, and Software Developers. An ERO enters tax returns on a computer using software that has been approved by both the IRS and the department. These returns are intended for electronic transmission to the IRS. A company may be both an ERO and a Transmitter, or an ERO may have an arrangement with a third-party Transmitter to use their communications services.

Transmitters directly transmit electronic returns to the IRS Service Center using IRS approved software, and retrieve both federal and state acknowledgments.

Software Developers create and market the software that formats the electronic returns and allows the data to be transmitted via computers. All Software Developers in the Federal/State E-file program must complete rigorous testing with the IRS. Software Developers who create software for Nebraska e-file returns must also complete testing and be approved by the state.

How Federal/State E-File Works

EROs and Transmitters file both federal return and the state returns to the IRS. When transmitted together, the IRS, after

acknowledging the acceptance of the federal return, will make the state return available for retrieval by the state. **State returns are not made available to be retrieved from the IRS until the day following the IRS acceptance. This means that your state acknowledgment will be at least one day later than the federal.** After retrieval, the state return will be subjected to preliminary editing to ensure the return can be processed. If so, the return is uploaded to the state's mainframe computer for further processing. If not, the ERO is notified with a Reject Code on the state acknowledgment, indicating it must be corrected and then re-transmitted, or converted to paper. Upon receipt from the IRS, the department posts a state acknowledgment for each return retrieved. Transmitters should be able to retrieve the state acknowledgments within 5 working days from the posting of the IRS acknowledgment. Check with the IRS to determine the last date they will accept electronically filed returns.

In order to take part in the Federal/State E-file Program, participants must file a Federal Form 8633, Application to Participate in the Electronic Filing Program, with the IRS, and meet IRS testing and suitability checks. To participate in the Nebraska e-file program, you will need to comply with the following procedures, depending on your type of participation:

Electronic Return Originators (EROs)

Nebraska EROs must meet federal acceptance standards, and be officially accepted by the IRS. **Acceptance into the federal program is automatic acceptance into the Nebraska program.** All EROs accepted in the federal program are assigned an Electronic Filing

Identification Number (EFIN) by the IRS. Your EFIN is also used by the Nebraska Department of Revenue to identify you.

Transmitters

Transmitters of Nebraska returns must register with the IRS. Nebraska does not license or require Transmitters to test with the Department. The IRS assigns an Electronic Transmitter Identification Number (ETIN) to transmitters accepted in the federal program. This ETIN is also used by the department to identify Transmitters.

Software Developers

As a software developer you must:

1. Successfully complete testing procedures with the IRS.
2. Complete, sign and submit the Nebraska Software Developer Information Sheet (available on the developer's page of our Web site).
Note: The department will assign you a Software License Number, which must be included in all test and production returns.

3. Successfully complete testing procedures with the department. To begin testing with Nebraska, you will need to receive the Nebraska Publication 1346N, Information For Software Developers; and the Nebraska E-file Test Package, Publication 1436N. State testing can run concurrently with IRS testing if the developer wishes to do so. The state test data will be retrieved from the IRS and examined by the Nebraska Department of Revenue. All Nebraska test scenarios must be correctly formatted and approved by the department before acceptance is given.

To begin processing "live" data, software developers must successfully complete the IRS PATS (Participants Acceptance Testing System) testing and Nebraska Department of Revenue testing. **Your Software License Number will not be activated until you have completed testing and received approval. Returns received with invalid Software License Numbers will be rejected.**

Chapter 3

CONTENTS OF THE E-RETURN

The Electronic Return

TRANSMITTED AS PART OF THE STATE ELECTRONIC RETURN

The Nebraska portion of an electronic return will consist of state return data transmitted electronically and supporting IRS electronic forms, schedules, and documents. The Nebraska electronic return consists of:

Form 1040N - Nebraska Individual Income Tax Return, *with or without*:

Nebraska Schedule I - Nebraska Adjustments to Income,

Nebraska Schedule II - Credit for Tax Paid to Another State,

Nebraska Schedule III - Computation of Nebraska Tax for Nonresidents and Partial-year Residents,

Nebraska Minimum or Other Tax Worksheet,

Schedule I, Line 58 Other Adjustments Worksheet,

Form 2441N – Nebraska Child and Dependent Care Expenses;

Form 1040NS - Nebraska Resident Income Tax Return for Single and Joint Filers with no dependents;

The attached federal return, including federal forms and schedules, and all forms W-2 and 1099 documents showing Nebraska withholding.

The Non-electronic Return

RETAINED BY THE ERO

Non-electronic portions of the Nebraska return that must be retained for a period of three years from the due date by the ERO include the following.

State copies of all withholding documentation (except Form 14N which must be mailed).

Nebraska Form 2441N (if 1040N Line 32 is reported).

Nebraska Form 2210N (if 1040N Line 36 penalty is reported).

Nebraska Form NOL (if included in Line 58, Other Adjustments Decreasing AGI).

All federal forms and schedules; and other states' returns needed to substantiate the Nebraska return. These consist of any federal forms or other states' forms normally attached to a paper Nebraska return, including Forms 6251, 4972, and 5329 when used to substantiate Form 1040N, Line 16, and Form 2441 or Schedule 2 when the state Form 2441N is not used. Please refer to the Nebraska Tax Booklet instructions when determining which forms must be retained. These consist of any (non-electronic) federal or other state forms normally attached to a paper Nebraska return.

The department may require that the ERO provide copies or originals of this documentation upon demand. If an ERO ceases business operations, they still have the obligation to retain and make available the records for three (3) years or provide all records to the Nebraska Department of Revenue. If the business is sold, the records must be passed on and retained by the new owner(s). If an ERO

ceases business operations, they still have the obligation to retain and make available the records for three (3) years or provide all records to the Nebraska Department of Revenue.

EROs must retain the original documents unless they are exempted based on these conditions:

1. The 8453N is prepared at a military base, VITA or TCE site; or
2. The 8453N is for an ERO filing his or her own return.

If either of the two conditions above is true, the ERO has the option of either retaining these documents, or mailing the 8453N to the Nebraska Department of Revenue with these documents attached to it. **Note that if the site is a for-profit business also submitting returns for the general public, the three-year retention rule remains in force.**

MAILED TO THE NEBRASKA DEPARTMENT OF REVENUE

In prior years, several lines on the Nebraska Form 1040N were restricted from e-file. This is because the documents and forms needed to substantiate these 1040N lines were not supported in our electronic records. This year, we are giving tax preparers the option of e-filing these returns, however, if e-filed, then the needed documents will have to be mailed in to the department before the return will be processed. These documents include:

- Form 1099-MISC (only if it shows Nebraska withholding)
- Form 1310N Nebraska Refund for Deceased Taxpayers
- Form CDN Nebraska Community Development Assistance Act Credit Computation
- Form 1099NTC
- Form 3800N Nebraska Employment and Investment Credit Computation
- Statement for Nebraska Charitable Endowment Credit
- Form NFC Statement of Nebraska Financial Institution Tax Credit
- Form 14N Statement of Nebraska Income Tax Withheld For Nonresidents
- Certificate for Beginning Farmer Credit
- Form 4797N Special Capital Gains Election and Computation

Forms 1310N, CDN, 3800N, and 4797N are available as fill-in PDFs on the department's Web site at: <http://www.revenue.ne.gov/tax/current/current.htm>

These forms and documents must be mailed to the Nebraska Department of Revenue using Form 8453N as a cover sheet. Form 8453N will contain checkboxes to identify which forms are attached, similar to the federal Form 8453. **See Chapter 6 for more information about using Form 8453N.** Mail Form 8453N with attachments to:

**Nebraska Department of Revenue
P.O. Box 98911
Lincoln, NE 68509-8911**

Chapter 4

ACKNOWLEDGMENTS

Overview

The IRS, posts Nebraska acknowledgments in the federal acknowledgment system. Transmitters should be able to pick up their state acknowledgments at the same time they get their federal acknowledgments. NOTE: the state acknowledgments picked up will be for different transmission dates than the federal acknowledgments. Your Nebraska acknowledgments are normally posted on the second state business day following IRS acceptance of the federal return. If the IRS acceptance date is on a weekend or holiday, the Nebraska acknowledgment will be posted on the following business day.

Do not assume that a federal acknowledgment by itself is a guarantee of receipt of the state return by the Nebraska Department of Revenue. It is very important that you get your state acknowledgments in order to be certain your state returns were received.

Role of the Transmitter Trading Partner

Since the Federal/State E-file program is essentially an IRS program, Transmitters must follow all IRS-required deadlines, transmitting procedures, communication requirements, and technical specifications.

Transmitters who transmit Nebraska returns for an ERO are required to supply the ERO with the Nebraska acknowledgment within 3 working days of federal acceptance. **Because the state acknowledgment could contain a state reject code, it is critical that the Transmitter deliver it in a timely manner.**

All Transmitter trading partners are required to test with the Internal Revenue Service at the appropriate

processing site. No testing is required for the state.

Role of the ERO Trading Partner

EROs must confirm that they, their software vendor, or their third-party transmitter/trading partner has the capability of transmitting Nebraska filing data along with the federal data to the appropriate IRS processing center.

EROs must confirm that they, their software vendor, or their third-party transmitter/trading partner have the capability to download and provide both federal and state acknowledgments.

The ERO must bear responsibility for verification that the Nebraska return has been properly prepared, accepted by the IRS, and accepted by the Nebraska Department of Revenue.

Information Provided in the Nebraska Acknowledgment

The purpose of the Nebraska acknowledgment is to inform the Transmitter that the state has retrieved a particular Nebraska return from the IRS, and also to indicate if errors exist on the return that causes it to be rejected by the state. The state bundles acknowledgments by Transmitter ETIN, which are imbedded in their corresponding original state returns in the Return Sequence Number (RSN).

Nebraska supports four Notification Codes. These are: "A" = Accepted, "R" = Rejected, "D" = Duplicate and "E" = Exception Return.

The "A" Acceptance acknowledgment indicates that the department has received the return and it has passed the E-filing program's initial edits. It does not indicate that the return has been completely processed. After e-filed returns have been initially edited and the "A" Acceptance acknowledgment is sent, returns are further edited in the state's mainframe processing systems for other error conditions that could delay processing of the return. An Acceptance acknowledgment does not ensure that the refund will be paid as requested.

The "R" Rejection acknowledgment indicates that the entire return has been rejected. The return must be corrected and re-transmitted as a State-Only return, or filed on paper. Each Rejection acknowledgment will include one or more ACKR records identifying error conditions. If a return is rejected by the IRS and later re-transmitted, any corrections made to the federal return must be carried over into the state return.

The "D" Rejection acknowledgment indicates that the return has been rejected because it is a duplicate SSN and a return is already on file for that taxpayer.

The "E" Acceptance acknowledgment indicates that the department has received a return marked by the IRS as "E" for Exception processing, and has passed the E-filing program's initial edits. Like the "A" code, it does not indicate that the return has been completely processed, as it will be further edited in mainframe processing and treated in the same manner.

The Nebraska acknowledgment system has the ability to report up to 96 state Reject Codes for any given return. This should allow the ERO to fix all errors in one attempt when submitting a State Only correction return.

Nebraska Reject Codes

Reject Codes can be issued with either federal or state acknowledgments. These are separate codes. Nebraska Reject Codes are available for download from our Web site.

Reject Codes issued by the IRS in the federal acknowledgment: These normally point out errors in the federal return; however, certain errors on the state return can cause Reject Codes issued by the IRS. Reject codes issued by the IRS edits and pertaining to state returns are included in IRS Publication 1345. If a federal return is rejected due to errors, the accompanying state return will also be rejected. If a state tax return is rejected by the IRS due to errors, the federal return will also be rejected. If the error is one that can be corrected and the record processed, both return records may be re-transmitted to the IRS.

Reject Codes issued by the Nebraska Department of Revenue in the state acknowledgment: The Nebraska e-file system issues state reject codes. If the software used supports this option ("state only"), a state return that has been rejected can be fixed and resent to the state. As an ERO, your software should be set up with the ability to diagnose these codes. If not, **a separate document has been posted on the preparer's page of the department's Web site, listing Nebraska reject codes with an explanation of the error.** We encourage you to download this document.

State-Only Transmissions

EROs and Transmitters typically send both the federal return and the state returns at the same time; however, if the software supports it, it is possible to send state returns without a federal return attached. Be sure to check with your software provider to see if they support this option. **Nebraska accepts State-Only returns, and encourages EROs to take advantage of this option to re-transmit state returns that have been rejected, to transmit state returns for taxpayers paying taxes in more than one state, or in any other situations where a Nebraska return can be filed by itself.** Amended returns must be filed on paper. When a state return is transmitted as State-Only, it contains a federal record, but it is not intended for the IRS.

Missing Acknowledgments

Acknowledgments are consistently created for all Nebraska returns downloaded from the IRS, and then transmitted to the IRS for delivery to the Transmitter Trading Partner's mailbox. Occasionally, a problem with this process can occur.

If you are an ERO and use a third party Transmitter, and you have not been provided a Nebraska Acknowledgment within three (3) days of receipt of your federal acknowledgment (when state and federal were transmitted together), **report this to your Transmitter Trading Partner.** The department will work with your Transmitter to resolve the problem.

If you are a Transmitter and you are experiencing a problem related to IRS connection, contact your IRS representative. When calling, have your ETIN available.

Conversions to Paper Returns

If at all possible, it is best to electronically resubmit a state return that is in error as a State Only transmission, rather than filing it on paper. If your software does not support retransmission of a rejected state return, or you prefer to file it as a paper return, the procedure for conversion to paper is as follows: Correct the portion of the return that has been indicated by the Reject Code as being in error. Obtain a printed copy of the electronic return from your software (or prepare one by hand) and have the taxpayer sign it, and attach all withholding documentation to it. Also attach all additional state and federal forms, schedules, and any other documentation needed to substantiate the state return and mail to:

Nebraska Department of Revenue
c/o Post Processing Section
P. O. Box 98903
Lincoln, NE 68509-8903

Repeated errors that generate rejects or require conversion of state returns to paper usually indicates a software problem that the ERO must resolve with their software developer. It is the responsibility of the ERO to originate error-free returns, and repeated errors could cause the Nebraska Department of Revenue to rescind the electronic filing privileges of an ERO. The department will contact and work with the ERO and their software developer to resolve problems prior to any decision to rescind electronic filing privileges.

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Chapter 5

ELECTRONIC REFUNDS AND PAYMENTS

General Rules About Electronic Banking

The term “electronic banking” refers to tax refunds by direct deposit and tax payments by electronic funds withdrawal (EFW). Rules and procedures for credit card payments are covered under the heading “Credit Card Instructions” below. The Nebraska Department of Revenue will attempt to honor all electronic banking requests, but incorrect or missing banking information is a frequent problem. To assure that the direct deposit or EFW works correctly, please follow these rules:

Information within the Nebraska electronic return including, taxpayer bank Routing Transit Number, Account Number, Type of Account, (and Debit Date and Debit Amount if EFW is used), must be present and valid. Confirm this with the taxpayer.

The taxpayer should not change or close bank accounts between the time they file their tax return and the date their electronic banking request is processed. Invalid or missing Direct Deposit or Electronic Funds Withdrawal information will cause the request to be canceled.

Before authorizing a Direct Deposit or Electronic Funds Withdrawal, the ERO should confirm that the taxpayer’s financial institution is able to process ACH (Automated Clearing House) transactions.

EROs must stress to their clients the importance of supplying correct banking information because the information submitted within the state return cannot be changed once a return has been received by the Nebraska Department of Revenue.

The Nebraska acknowledgment only indicates receipt of the return at the Nebraska Department of Revenue. It does not indicate proof that a refund check will be issued, a Direct Deposit or Electronic Funds Withdrawal will be honored, or the expected refund amount will be the actual refund amount. The Nebraska Acknowledgment *does* indicate whether a Direct Deposit, Electronic Funds Withdrawal, or a refund warrant *was requested* on the state electronic return.

Refund Options

Taxpayers can expect to receive their refund warrant within approximately seven (7) to twenty-one (21) days from receipt of the acknowledgment **if the tax return is electronically filed without errors and it does not require forms or documents to be mailed.** Taxpayers using the Direct Deposit option on an electronic return can expect to have their refund deposited into their bank account within approximately seven (7) to ten (10) days from the date of the state acknowledgment **if the tax return is electronically filed without errors and it does not require forms or documents to be mailed.** Be aware that certain conditions may exist when processing a refund return that require the department to hold and review the return to ensure its accuracy and validity. This may result in a delay in issuing the refund.

Taxpayers may elect to have their tax year 2007 refund credited in one of the following ways:

Deposited electronically into their financial institution account (Direct Deposit);

Applied as an estimated payment to next year's tax liability;

Donate all or a portion of the overpayment to the Wildlife Conservation Fund or to the Nebraska Campaign Finance Limitation Cash Fund or;

Sent as a paper warrant (refund check);

Balance Due Options

If the taxpayer's return is a balance due return, they may elect to remit their tax in one of the following ways. Options are:

Mail in a check or money order attached to a Nebraska 1040N-V Payment Voucher;

Request through the electronic return that funds be debited electronically from their financial institution account (Electronic Funds Withdrawal); or

Initiate a payment by Credit Card.

Direct Deposit Instructions

State refunds by Direct Deposit are electronically transferred to a **single** financial institution account as indicated on the electronic filing state record. The financial institution accounts into which the Nebraska refund and the IRS refund are deposited may be different. Therefore, the state and federal Routing Transit Numbers and Deposit Account Numbers could be different.

IRS Publication 1345 sets forth detailed eligibility requirements, responsibilities, and instructions governing trading partners who offer taxpayers the option of Direct Deposit. Those same rules, policies, and procedures apply when offering Direct Deposit on the state return as well.

The Nebraska Department of Revenue may deem that certain conditions require conversion of a direct deposit to a paper warrant.

The Nebraska Department of Revenue neither supports nor prohibits *Refund Anticipation Loans*, (RALs). The State of Nebraska is not liable for any loss suffered by any party as a result of the Nebraska Department of Revenue's denial of all or a portion of a refund claim request.

Form 1040N-V Payment Voucher Instructions

Taxpayers who file electronically may remit their tax liability by check or money order using a Nebraska Payment Voucher, Form 1040N-V. An ERO who files a balance due electronic return for a client taxpayer *must* provide the taxpayer with the Nebraska Form 1040N-V **unless payment is made by Electronic Funds Withdrawal or Credit Card.** EROs must inform their taxpayer clients of the procedures to follow for payment of Nebraska balance due returns, and that the full amount due must be paid by **April 15, 2008** to avoid penalty and interest. **Form 2210N Penalty for Underpayment of Estimated Tax may still apply.** Procedures are:

Attach check or money order to the Nebraska Form 1040N-V, and mail to the department by **April 15, 2008.**

Taxpayers may pay the amount due at the time of filing, or at any time through **April 15, 2008** without penalty or interest assessment.

Unpaid tax after **April 15, 2008** will incur penalty and interest.

Nebraska Balance Due Notices will not be issued until after April 15 unless a payment has been made and is less than the tax amount owed, or the electronic return incorrectly indicates a refund when the department calculates a balance due.

All taxpayers receive an official mailing label from the Nebraska Department of Revenue. If this information is still current, the taxpayer has the mailing label, and payment is remitted with the Form 1040N-V, you can attach this label to the Form 1040N-V before mailing it to the department. If not available, be sure all parts of the form including name(s), address, and social security number(s) are completed.

PLEASE REMIND YOUR CLIENTS: Do not use the Form 1040N-V Payment Voucher with paper filed returns. Use Form 1040N-V for remittance of a balance due with electronically filed returns only. When mailing Form 1040N-V, do not include a photocopy of the tax return.

Electronic Funds Withdrawal Instructions

Procedures and rules for Electronic Funds Withdrawal (EFW) include:

For Nebraska returns, EFW is available only for filers through the IRS Federal/State Electronic Filing Program.

If any EFW information on the return is missing or inaccurate, the request will be automatically canceled.

The date you want the payment withdrawn from the account (Debit Date) can be any date from the date the return is filed, to **April 15, 2008**. A Debit Date specified for April 15, 2008 will be considered timely provided the return is filed on or before **April 15, 2008**. Penalty and interest will be assessed for late payments, so allow adequate time to have the payment debited.

You must also indicate the amount to be withdrawn from the taxpayer's financial institution. Debit Amount can be more or less than the amount owed; however, if less, the taxpayer will be billed for any tax still owed, and if after the due date, penalty and interest will be applied. Any amount of \$2 or more paid over the amount due will be refunded.

It can take the department up to three (3) days from the date the federal return is transmitted to complete the debit to the specified account. Timeliness is based on the specified Debit Date, not on when the funds settle.

If the return is transmitted after the **April 15, 2008** due date, the financial institution account will be debited on the next business day following receipt of the return by the department. Accounts will not be debited prior to the requested Debit Date.

EFWs can be canceled any time up to two (2) days prior to the Debit Date. To cancel, the taxpayer or their authorized Power of Attorney must call the department's Taxpayer Assistance at 1-800-742-7474 (if calling from Nebraska or Iowa) or 1-402-471-5729. Proof of identity must be provided before an EFW can be canceled.

It is possible that your client's return could have calculation errors that would change a balance due return into a refund return. **If your client receives a refund from the department due to this, be sure to have them cancel their EFW.**

If you have questions on how the Electronic Funds Withdrawal payment option works, contact the department's E-commerce Help Line at 1-800-433-8631.

Credit Card Instructions

Procedures and rules for making tax payments by credit card include:

Credit cards can be used as a (final) payment option for all income tax filers regardless of what method they use to file their return. Paper filers can also use credit cards to pay their liability.

Payments are currently originated through Official Payments Corporation (OPC), who provides this same service to the IRS and many other states. **The department may approve other payment origination vendors subsequent to the release of this publication. See the department's Web site for updates.**

Credit cards supported include VISA, MasterCard, Discover and American Express. OPC will charge a convenience fee of 2.49% of the payment amount. Taxpayers are told the fee amount when making the transaction, and they have the option of canceling the transaction. This fee is paid to the credit card vendor and will appear on the taxpayer's credit card statement separately from the tax payment. Only the tax amount goes to the state.

Payments can be made by credit card over the Internet or via telephone. **Links to all approved credit card vendors are on the department's Web site.** If you chose to use OPC, go directly to their Web site at **www.officialpayments.com**, or call **1-800-2PAY-TAX** and enter 3700 as the Nebraska Jurisdiction Code.

The payment will be effective on the date the transaction is completed with the credit card vendor.

A Confirmation Number is given at the completion of the transaction.

Payments must be made on or before the due date of **April 15, 2008**, to avoid penalty and interest.

If your client pays by credit card, later reverses the transaction, and doesn't arrange another method of payment, they could be assessed penalty and interest for nonpayment or late payment.

No credit card information is carried on the return. This transaction is strictly between OPC and the taxpayer, or the taxpayer's representative. Any disputes specific to the card payment are strictly between the credit card vendor and the taxpayer.

Any amount paid that is \$2 or more over the amount due will be refunded.

Chapter 6

NEBRASKA FORM 8453N

Instructions for Completing Form 8453N

The Nebraska Form 8453N is only used when the ERO needs to mail state forms and other documentation for an e-filed return to the department. These are forms and documents that are required to substantiate the state return, are not included in the electronic return, and must be mailed in to the department. It is recommended that the Form 8453N be mailed as soon as the Nebraska Acknowledgment has been received indicating the return was accepted. (See Chapter 3.)

The Nebraska Form 8453N contains checkboxes to identify which forms or documents are attached to it, similar to the federal Form 8453. Form 8453N does not need to be signed by the taxpayer. These mailed documents and forms will be given priority processing, and in most cases will be processed much faster than if the entire return had been submitted on paper.

If a return requires forms or documents to be mailed:

Complete the taxpayer SSN, Name and Address: Enter the Social Security Number(s), name(s), and address information as they appear in the electronic Forms 1040N or 1040NS. The Nebraska Department of Revenue official mailing label is not required.

Complete the IRS DCN (Declaration Control Number): Enter the federal Declaration Control Number in the appropriate boxes at the top left-hand portion of Form 8453N.

Attach required forms and documents to Form 8453N, check their corresponding box(es), and attach all state copies of Forms W-2, W-2G, 1099-MISC and 1099R. Mail Form 8453N with attachments to:

**Nebraska Department of Revenue
P.O. Box 98911
Lincoln, NE 68509-8911**

If there are no required forms to be mailed, no Form 8453N is required. In this case, retain the state copies of Forms W-2, W-2G, 1099-MISC and 1099R and all other related state documentation for a period of three years from the due date.

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Chapter 7

NEBRASKA SIGNATURE POLICY

Nebraska's signature policy for returns filed through the Federal/State E-file program is to require that the federal PIN selected for the taxpayer's federal return be included in the Nebraska electronic record. State-Only practitioner returns should contain a PIN if one is available. The only exception is when the return is a "true" State-Only return (where no federal return was filed by that software.) In these exception cases, the act of e-filing serves as signature. Resubmitted rejected State-Only returns and State-Only returns where the "piggy-back" state return was for another state, should contain the federal PIN in the state record.

Returns filed through the department's Internet-based NebFile program will require a state-assigned PIN. The taxpayer's state-assigned PIN is provided in tax booklets and postcards mailed to the taxpayer, but can otherwise be found through an online lookup service provided through the NebFile system. There is no prohibition for EROs using the NebFile system to file their client's state return.

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Chapter 8

RESPONSIBILITIES OF PARTICIPANTS

Electronic Filers (Transmitters and Electronic Return Originators) must abide by the terms set forth in this handbook and must maintain a high degree of integrity, compliance, and accuracy in order to continue to participate in the Nebraska portion of the Federal/State E-File Program, as well as abide by the following requirements.

Compliance, Monitoring and Suspension

All electronic filers must comply with the requirements and specifications set forth in Internal Revenue Service *Publications 1345 and 1346*, and in this handbook. All tax information must be kept confidential.

The Nebraska Department of Revenue may monitor an ERO for conformity with this publication. The department can immediately suspend, without notice, an ERO from the electronic filing program.

If the Internal Revenue Service suspends an ERO, they are automatically suspended from the Nebraska electronic filing program.

Monitoring will include random sampling of Form 8453N signature documents and all associated documentation for compliance.

Timeliness of Filing

Transmitters must ensure that electronic returns are filed in a timely manner. The date of the Internal Revenue Service Acknowledgment will be considered the filing date for a Nebraska return transmitted electronically.

Further, *Transmitters must provide the Nebraska Acknowledgment to the ERO in a timely manner.* The state acknowledgment should be received by the ERO before considering the state return received.

Filing Deadline

The Nebraska Department of Revenue will accept electronically filed Nebraska returns, which have been submitted to the IRS through the IRS extension period. Any returns not retransmitted and accepted before the IRS system is closed must be filed as paper documents.

ERO Responsibility to Clients

EROs have been entrusted with the task of filing a client's tax return and must assume the responsibility of ensuring that the return arrives at the Nebraska Department of Revenue. In the event that the ERO does not receive a Nebraska Acknowledgment the ERO must notify their client to file a paper return.

Changing Tax Returns

If the ERO or taxpayer wishes to make any changes after the return has been acknowledged as accepted by the state, the taxpayer must file an Amended Return, Form 1040XN, through the paper document filing process. **Amended returns cannot be submitted electronically.** Nebraska amended returns must be mailed to the following address:

Nebraska Department of Revenue
P.O. Box 98911
Lincoln, Nebraska 68509-8911

Chapter 9

DEPARTMENT CONTACTS

Nebraska Contacts

ELECTRONIC FILING COORDINATION

1-402-471-5619 or 1-402-471-5785

General Contact, State Record Layouts & Software Guidelines,
Electronic Return Error Resolution,
Direct Deposit / Electronic Funds Withdrawal Error Resolution,
Software Developer Approval

NEBRASKA TAXPAYER ASSISTANCE HELP LINE

If calling from Nebraska or Iowa
If calling from outside of Nebraska or Iowa

1-800-742-7474
1-402-471-5729

Tax Preparation Assistance, Paper Forms Ordering,
Status of Refunds

NEBRASKA DEPARTMENT OF REVENUE WEB SITE

<http://www.revenue.ne.gov>

ELECTRONIC COMMERCE SECTION MAILING ADDRESS

Nebraska Department of Revenue
c/o Electronic Commerce Section
P. O. Box 94650
Lincoln, NE 68509-4650

Using the Nebraska Web Site

Please note that the Nebraska Department of Revenue has designed our Web site to provide additional information to individual taxpayers, and to tax professionals including software developers and tax preparers. As an ERO or software developer, you should take advantage of the opportunity to find useful information about the Department in general, and about the Nebraska e-file program specifically.

If you are an ERO, go to www.revenue.ne.gov to find information about our e-file program, and to download or read useful forms, files, and publications. Also from our site software developers can download necessary files and publications, including Forms 8453N, 1040N-V, Publication 1346N (Nebraska file specifications), Nebraska Reject Code Listing, and Publication 1436N (Nebraska Test Package).

NEBRASKA ELECTRONIC FILER CHECK LIST -- DID YOU REMEMBER TO?

- ☐ Double check to see if forms needed and lines used are eligible for electronic filing. If not, prepare a Form 8453N, attach required forms and mail to the department.
- ☐ Make sure name(s), address(es), and social security number(s) are correct.
- ☐ Verify that SSN, High School District Code and Name and Address are correctly entered.
- ☐ Retain all state copies of federal and state forms, withholding and other documents for a period of three years unless otherwise instructed to mail in to the department.
- ☐ Verify the accuracy of Routing Transit Number and Account Number for Direct Deposit and Electronic Funds Withdrawal returns.
- ☐ Verify that your name (or ERO company name) and telephone number have been completely and accurately entered.
- ☐ Use only whole dollar amounts in the electronic return.
- ☐ Give the taxpayer copies of all forms that apply to them.
- ☐ Verify Internal Revenue Service Acknowledgment.
- ☐ Verify Nebraska Department of Revenue Acknowledgment.