

ERO Business Foundations

Master Study Guide

1. Understanding the ERO Role

What ERO Means

- ERO stands for Electronic Return Originator.
- An ERO is an IRS-authorized e-file provider that begins the process of electronically submitting tax returns to the IRS.
- The ERO may prepare the return, collect the return from the taxpayer, or work with other providers involved in the e-file process.
- The ERO begins electronic submission after the taxpayer authorizes the return to be filed through IRS e-file.

What an ERO May Do

- Collect taxpayer information
- Prepare returns
- Review returns
- Obtain taxpayer authorization
- Submit returns electronically
- Maintain required records
- Protect taxpayer data
- Follow IRS e-file rules
- Work with tax software providers
- Work with bank product providers if applicable

Key Responsibility

- If returns are submitted under your EFIN, you need to know what is happening inside the tax business.
- Even with preparers on the team, the ERO must protect the EFIN, review activity, and maintain proper office procedures.
- An ERO is not just a title. It requires systems, documentation, security, and accountability.

2. PTIN vs. EFIN

PTIN

- PTIN stands for Preparer Tax Identification Number.
- Paid tax return preparers generally need a PTIN to prepare federal tax returns for compensation.
- A PTIN identifies the individual preparer.

EFIN

- EFIN stands for Electronic Filing Identification Number.
- An EFIN identifies a firm accepted as an authorized IRS e-file provider.

Simple Difference

- A PTIN identifies the preparer; an EFIN identifies the authorized e-file provider or firm.
- A preparer can work under an ERO but should not be treated like they own or control the firm's EFIN.
- Every return should be reviewed before transmission.

3. Becoming an Authorized IRS E-file Provider

Three Main Steps

- Access the IRS e-file application.
- Submit the application.
- Pass a suitability check.

Application Information

- Business identification information
- Principal information
- Responsible Official information
- Contact information
- Provider option selection
- Professional status information if applicable

Suitability and Timing

- The suitability process may review identity, compliance history, criminal history, tax filing compliance, and other factors.
- For electronically filing client returns, the provider option is usually Electronic Return Originator.
- The lesson states that approval can take up to 45 days from submission.

4. Protecting and Maintaining the EFIN

Protection Practices

- Keep the e-file application updated
- Review EFIN activity regularly
- Use secure software access
- Do not share logins
- Use individual user accounts
- Limit access to sensitive information
- Review returns before transmission
- Monitor return volume

- Watch for unusual filing activity

Updates and Compromise

- The lesson states that e-file application information should be updated within 30 days of changes such as individuals, addresses, or telephone numbers.
- A compromised EFIN is an EFIN used by an unauthorized user.

5. Business Foundation and Professional Setup

Business Setup Checklist

- Business name
- Business entity
- EIN
- Business bank account
- Business phone number
- Professional email
- Business address or virtual office setup
- E&O; insurance
- Tax software
- Secure document system
- Website or landing page
- Client intake system

Structure and Protection

- Business structure decisions should reflect state requirements, business goals, legal needs, and tax circumstances.
- An EIN may support business banking, payroll, hiring, business credit, tax reporting, and professional setup.
- Business and personal money should not be mixed.
- E&O; means Errors and Omissions Insurance and may help protect the business from certain claims involving professional mistakes.

6. Virtual, Physical, and Hybrid Tax Offices

Virtual Office

- Potential benefits: lower overhead, wider reach, flexible scheduling, and easier remote scaling.
- Challenges: strong digital systems, secure document collection, clear communication, and organized follow-up.

Physical Office

- Potential benefits: local visibility, walk-ins, in-person trust building, and face-to-face service.
- Challenges: rent, utilities, staffing, office security, and higher operating costs.

Hybrid Office

- Combines local in-person service with virtual service.

Basic Office Tools

- Reliable computer
- Secure internet
- Printer/scanner if needed
- Tax software
- CRM or tracking system
- Secure document portal
- Business phone
- Professional email
- Calendar or scheduling tool
- Password manager
- Backup system

7. Taxpayer Data Security and WISP

WISP

- WISP stands for Written Information Security Plan.
- The lesson states that tax professionals are required by law to create a WISP to protect client data.

WISP Topics

- Employee training
- Access controls
- Password procedures
- Software security
- Data storage
- Document handling
- Breach response
- Backup procedures
- Service provider safeguards
- System monitoring

Security Best Practices

- Use strong passwords
- Enable multi-factor authentication
- Limit access by role
- Avoid sharing logins
- Secure physical files
- Use encrypted storage when possible

- Avoid unsecured channels for sensitive information
- Train staff on privacy procedures
- Review security policies regularly

8. Basic Tax Office Workflow

Ten Steps

- 1. Client Inquiry
- 2. Client Intake
- 3. Document Review
- 4. Return Preparation
- 5. Return Review
- 6. Client Review
- 7. Signature Collection, including Form 8879 and required disclosures
- 8. Transmission after proper review and authorization
- 9. Acknowledgment tracking for accepted or rejected status
- 10. Follow-Up and offboarding communication

Why It Matters

- A workflow clarifies what happens next, who is responsible, what is missing, when a return is ready for review, and when it can be transmitted.
- A strong workflow helps protect time, client experience, and the EFIN.

9. Pricing and Revenue Planning

Pricing Factors

- Return complexity
- Time required
- Software costs
- Bank product fees
- Administrative support
- Compliance review
- Client communication
- Year-round support

Common Models

- Flat rate
- Tiered pricing
- Per-form pricing

Revenue Example at a \$500 Average Fee

- 100 clients = \$50,000
- 250 clients = \$125,000
- 500 clients = \$250,000
- 1,000 clients = \$500,000

10. Preparing to Scale

Before Scaling

- Proper business structure
- Active EFIN
- Tax software
- Secure document collection
- Client intake process
- Return review process
- Data security procedures
- Written policies
- Pricing structure
- Communication system
- Basic compliance file

Common Mistakes

- Applying for software without understanding compliance
- Letting preparers transmit without review
- Not collecting signed forms
- Not keeping documentation
- Not updating IRS e-file application information
- Mixing personal and business funds
- Not having a WISP
- Not creating systems before hiring
- Underpricing services
- Focusing on loans before building compliance

Final Foundation

- A strong ERO business is built on compliance, systems, security, leadership, client experience, documentation, and professionalism.
- Do not rush the foundation. The foundation determines how strong the business can become.