



**ELECTRONIC TAX FILING**

**APRIL 2014**

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**Background:** Electronic commerce and the Internet promise new opportunities for businesses and services. Unfortunately, Federal and State governments sometimes view the Internet and electronic commerce as a new platform for government-provided products and services for consumers in direct competition with private sector market participants. One prominent example is the federal government's repeated attempts to involve itself as a provider in electronic tax preparation.

**CCIA's Positions:** CCIA believes that the government interjecting itself into the competitive software industry market with the goal of replacing private financial services will have new and far-reaching impacts, such as destabilizing competition, private investment and innovation. The important goals of tax simplification and tax reform can be achieved without unnecessarily inserting the federal government into a new economic role currently played by the private technology sector. Reduction of taxpayer burden can be achieved by non-monetary partnering with the private sector without reducing the essential citizen-centric and decentralized character of the U.S. voluntary compliance tax system. In the case of electronic tax filing, which involves the most sensitive personal financial information consumers have, taxpayer trust in the integrity of the filing system is critical. Anything that undermines that trust, whether it be concerns about IRS conflict of interest or fake websites, must not be allowed to stand.

**Current Issues:**

**Free File Alliance**

CCIA continues to support the Free File Alliance, a consortium of private tax preparers in partnership with the Internal Revenue Service, which offers online tax preparation services free to 70% of taxpayers (Adjusted Gross Income (AGI) of \$58,000 or less for 2013). Free File leverages the reach of government with the innovative and efficient expertise of industry, and is precisely the kind of alternative to government competition that CCIA advocates. The Alliance has shown private sector responsiveness and flexibility by voluntarily eliminating from the program such ancillary offerings as the Refund Anticipation Loan, in the face of complaints and

criticism. The Alliance remains the most effective instrument in promoting electronic filing of tax returns. According to an IRS survey, 95% found Free File easy to use, and 98% would recommend the program to others. Despite this, there are some in Congress who continue to call for the IRS to develop its own free online tax software. In order to prevent such a flagrant intrusion of government into a commercial market, CCIA strongly supports S. 669 / H.R. 495 (the Free File Program Act), which would make the Free File Program permanent.

The Free File Alliance also partners with 22 states and the District of Columbia to provide free state tax filings with the same AGI requirement of \$58,000 or less. CCIA will continue to push for expansion of the program to other states.

### **“Return-Free” Filing**

“Return-Free Filing” is a proposal being considered by the federal government as a way of simplifying the tax filing process. Rather than the taxpayer personally filling in the required information, the IRS would use the information it receives from employers and financial institutions to fill out the returns and send them to the taxpayer for approval. CCIA commissioned a study, “The Benefits and Costs of Implementing ‘Return-Free’ Tax Filing in the U.S.”, which provides an economic analysis of the costs and benefits of such a system. The study found that eligibility and participation rates would be lower than what proponents had estimated, that implementation costs (including the cost for the IRS to gather and process information to generate returns) would be significant, and that there is no evidence it would reduce under-reporting or the tax gap. Therefore, the study found that the cost of “Return-Free” would exceed the benefits by a significant margin and would harm, not help, taxpayers.

“Return-Free” is also problematic in that it erodes the tradition of Voluntary Compliance and lessens the degree of citizens’ engagement in the tax system, as taxpayers would merely have a prepared return presented to them by the government rather than confronting their finances on a yearly basis. There is also an inherent conflict of interest in having the tax collector (who seeks to maximize tax revenue) also acting as the tax preparer (who should seek to minimize tax liability). For these reasons, CCIA has strongly supported legislation that would prohibit development of a return-free system. In addition, we have opposed efforts to propose a Return-Free system under the guise of tax reform and simplification, as well as efforts to obtain funding for a Return-Free system or for enabling capabilities for one without explicit congressional approval.

### **Fake IRS Websites**

As we approach the home stretch of the tax filing season, there exists an ongoing problem of nongovernmental private entity websites masquerading as official sites of the United States Government. CCIA is aware of three websites operating under similar web addresses as the official IRS website: IRS.com, IRS.net and IRS.org. Additionally, three other websites (FreeFile.com, FreeFile.net and FreeFile.org) use URLs and formal names deceptively similar to the official IRS Free File program, a service that offers taxpayers free federal tax preparation and electronic filing options. Such websites mislead the public and are a serious consumer threat in that consumers may be falsely led to believe the websites are sponsored by or affiliated with

government agencies. A national survey commissioned by CCIA in March found a significant number of respondents believed a fake website was the IRS website and ¾ of respondents did not notice a disclaimer on the fake sites. CCIA continues efforts to raise awareness of this problem, which severely undermines the trust needed by taxpayers to file their taxes electronically.