

RESOLUTION REGARDING FREE ONLINE TAX PREPARATION AND ELECTRONIC FILING

Resolution Summary

The Free File Alliance is an alliance of tax software companies and the Internal Revenue Service. The Alliance was formed as a result of the Office of Management and Budget's (OMB) Quicksilver Task Force which was formed in 2001. The task force's objective was to establish numerous e-government initiatives that were designed to improve intragovernment, government to business, and government to citizen electronic capabilities. As a result of the task force, one of the initiatives formed was IRS Free File, which instructed the IRS to provide free and secure online tax return preparation and filing services to taxpayers. This resulted in a formal policy agreement between the United States Government and the American software industry, developed under the auspices of the Federal Electronic Tax Advisory Committee, an official public-private group created by the 1998 IRS Restructuring and Reform Act, and operating under the Federal Advisory Committee Act (FACA). The proposed electronic filing agreement was published in the Federal Register for public review and comment in August 2002.

On October 30, 2002, the Commissioner of the Internal Revenue Service and representatives of the American software industry signed a public-private partnership agreement creating the IRS Free File program. Free File Alliance, LLC, is a consortium of private sector software companies created to provide free electronic tax preparation and filing services under the Free File agreement with the IRS, and is currently composed of about twenty tax software companies. The Free File agreement requires the software industry to make free electronic tax preparation and filing services available to 70 percent of all taxpayers who file an individual return. The objectives of the agreement are to provide access to electronic tax preparation and e-filing to those least able to afford such financial services, and to increase growth of electronic filing in the United States.

21 States took advantage of the Federal government's negotiations with the software industry, and created parallel State Free File programs, incorporating the same terms, conditions and operating rules of the national agreement created by the Internal Revenue Service.

In 2007, according to the terms and rules of the national Free File program -- at the Federal level and in the 21 Free File States -- taxpayer participation in Free File will be available to anyone with an Adjusted Gross Income (AGI) of \$52,000 a year or less. This represents the broadest of all the federal taxpayer assistance programs in terms of taxpayer eligibility. Eligible taxpayers may electronically prepare and file their tax returns using commercial online software provided by the Free File Alliance companies.

Very recently the Free File Alliance and the IRS addressed some criticisms about identified shortcomings in the early operations of the program, and therefore adopted program management reforms to strengthen and enhance the service. Therefore, on a going forward basis, participating companies will not be permitted to market, advertise,

sell or otherwise offer any products or services within the program other than tax returns, making Free File a "consumer safety zone" as called for by Congress.

This resolution seeks to commend the IRS and Free File Alliance for the adoption of these much needed program reforms. In addition, the resolution urges the IRS to adopt a management rigor involving the careful vetting and review of each individual Free File participating company, to ensure the capability and responsibility of each such company, and the quality and commerciality of each offered product; these necessary management reforms have also been proposed by Congress. Finally, the resolution expresses concern that the IRS' program permits eligible taxpayers to pay for the filing of their state tax returns from the Federal program, when such returns should also be free, particularly for taxpayers who reside in Free File States. Specifically, the resolution seeks to address the Internal Revenue Service and educate Members of Congress about the importance of completing the task of strengthening and reforming the Free File program, and addresses the implications of the pending Federal bill S. 1321, Title III. This legislation proposes that the IRS abandon the Free File program and create its own web portal to directly provide electronic tax preparation and e-filing as a government product and service. This Resolution seeks to instead encourage the US Congress and the Internal Revenue Service to take action to improve and continue the Federal and State Free File Alliance programs, rather than replacing them with government-provided products and services at taxpayer expense.

Additional Resource Information

- U.S. Internal Revenue Service:
<http://www.irs.gov/efile/article/0,,id=118986,00.html>
- U.S. Department of Treasury Inspector General:
<http://www.ustreas.gov/tigta/auditreports/2006reports/200640171fr.html>
- Federation of Tax Administrators:
<http://www.taxadmin.org/fta/edi/default.html>

Free Online Tax Preparation Management Directives

- **Management Directive #1:** Encourage efforts to limit sales, marketing and advertising in the Free File program.
- **Management Directive #2:** Support efforts to require companies that participate in the IRS Free File Alliance program to provide free state returns for states that have their own State Free File Alliances.
- **Management Directive #3:** CSG will post approved resolution on CSG's Website and make available through its regular communication venues at the state and local level to ensure its distribution to the state government and policy community.

**THE COUNCIL OF STATE GOVERNMENTS
RESOLUTION REGARDING FREE ONLINE TAX PREPARATION AND
ELECTRONIC FILING**

WHEREAS, a program that is important to the citizens of the United States is in jeopardy as the result of decisions being proposed in the United States Congress;

WHEREAS, twenty one of our states that have an individual income tax have implemented an innovative solution to meet the needs of the low-income, disadvantaged, underserved and working poor taxpayers many of whom are eligible for the Earned Income Tax Credit;

WHEREAS, this innovative solution, called the State Free File Alliance, has been developed over the last decade where public need, private corporate citizenship and community based organizations have worked together in an era of fiscal limits and new challenges;

WHEREAS, the State Free File online tax program is based on an agreement reached between the Internal Revenue Service and the American software industry, whereby working poor and other lower income and underserved families and individuals are able to obtain free electronic tax preparation and electronic filing for their federal and state tax returns;

WHEREAS, the program saves State budgets the very high cost of creating alternate on line government tax preparation and filing services. Twenty-one states have each decided to create a Free File Alliance public-private partnership solution, creating Free File programs in their states. This has saved state governments many hundreds of millions of dollars in expenditures, while providing free services to those who need them;

WHEREAS, the Internal Revenue Service negotiated the terms of the national Free File Agreement with the software providers, this agreement is the common basis for all the Free File programs in the twenty-one Free File states;

WHEREAS, that same Internal Revenue Service program has since developed some significant management and operational reforms to improve the Free File programs, as well as the Federal program, and these reforms need to be supported and rigorously implemented, ensuring that Free File is free of sales, marketing or advertising of any products and services other than a tax return, and affirming that no products other than tax returns should be offered or provided through this program;

BE IT THEREFORE RESOLVED, that the public and the States rely upon the Internal Revenue Service vetting these companies before holding them out for use through their website;

BE IT FURTHER RESOLVED, that The Council of State Governments strongly recommends that the new policy of prohibiting sales or marketing or advertising or offering of products other than tax returns should be encouraged and enforced, consistent with the Office of Management and Budget and General Services Administration rules governing all Federal websites;

BE IT FURTHER RESOLVED, that tax return information should not be traded, bartered, rented, shared or sold; and that the privacy of people's tax return information is strictly protected, with no other use of that data either permitted or possible;

BE IT FURTHER RESOLVED, that companies participating in Free File should be required to meet the same time-tested Federal standards for Corporate Responsibility and Commerciality that are a basic requirement for the government's own purchase of commercial services;

BE IT FURTHER RESOLVED, that while participating companies should continue to provide free Federal tax returns under the national Free File program, the Internal Revenue Service should be directed to encourage those companies to also voluntarily provide Free State returns for eligible taxpayers in those States that also have State Free File Alliances.

BE IT FURTHER RESOLVED, that copies of this Resolution be transmitted to the President of the United States; the President of the Senate of the United States; the Speaker of the US House of Representatives; the Majority Leaders and Minority Leaders of the US House of Representatives and US Senate; each member of the US House and Senate of the United States; the US Secretary of the Treasury; the Commissioner of Internal Revenue; the Chairman and Members of the US House Committee on Ways and Means; the Chairman and Members of the US Senate Finance Committee; the Chairman and Members of the US House Committee on Appropriations Subcommittee on the Treasury; the Chairman and Members of the US Senate Appropriations Subcommittee on the Treasury; the President of the Senate, the Speaker of the House and the Governors of the 21 Free File states; and

BE IT FURTHER RESOLVED, that this Body urges the United States Congress and the President of the United States to take immediate action on this resolution.

Adopted this 3rd Day of December, 2006 at the
CSG Annual Trends and Leadership Forum in Phoenix, Arizona



Governor Jim Douglas
2006 CSG President



Senate President Earl Ray Tomblin
2006 CSG Chair