



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

For Immediate Release

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Grassley Urges IRS to Rein in Hidden Expenses to Taxpayers in Free File Program

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, is urging the Internal Revenue Service to rein in the commercial offers and charges for basic services that besiege taxpayers using the IRS' only option for electronic tax filing. Many of the companies participating in the Free File program offer numerous commercial offers and charges to taxpayers, according to a Finance Committee analysis.

The text of Grassley's letter to the IRS commissioner follows.

April 13, 2006

The Honorable Mark Everson
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Everson:

I am writing to you to follow up on an analysis performed by the staff of the Senate Finance Committee in preparation of our April 4th hearing entitled, "Filing Your Taxes: How Much Does It Cost?". One of the issues that we looked at in that hearing was the Free File program. An underlying principle of the Free File Alliance is that no one should be forced to pay to electronically file a tax return. That principle has been and continues to be eroded.

First, the new income restriction prohibits approximately 40 million taxpayers from using the service. Under the new contract, Free File Alliance members are prohibited from offering their services to anyone with adjusted gross income over \$50,000. For the 2004 tax year, the Free File Alliance offered its services to 100 percent of taxpayers, without restriction. Certain Free File companies also have built-in restrictions on the type of income and expenses that taxpayers can have to use their Free File web sites. A taxpayer might have to pay extra for a particular tax form, or have to try another web site altogether.

It's not surprising that the use of the program has decreased more than 21 percent this year. The new income restriction is counterintuitive to the principle that no one should be forced to pay to electronically file a tax return.

Second, an analysis of the Free File companies performed by my Finance Committee staff indicates that use of the Free File programs may be anything but free. The participating companies use their Free File web sites to market a whole array of other products and services to taxpayers. These include additional fees for state return preparation and filing; resetting passwords; printing and mailing services; professional tax return review; audit protection; live chat help; telephone technical support; per-question fees for consultation with a tax professional; and vault service. Taxpayers entitled to a refund receive offers for anticipation loans; to have fees deducted from their refunds; or to get their refunds by cashier's check, prepaid visa card, or retail gift card – all with hidden costs to the taxpayer.

One Free File site even contains a link where the taxpayer can sign up for a tax preparation franchise – no experience necessary – for \$15,500. The tax preparation franchise web site tries to lure taxpayers into a "get rich quick" scheme by taking advantage of the 80 percent electronic filing goal by putting the following information on the welcome page:

“Are you aware that 40 million taxpayers currently file their annual tax returns electronically? The IRS expects that number to reach 80 million by the year 2007. That means 40 million more people will be seeking out tax preparers over the next few years who can E-File their taxes. YOU could be one the business owners they find.”

These are among the reasons why I'm looking into allowing the IRS to provide a direct filing portal to enable all taxpayers to file electronically for free using the IRS web site. I'm very concerned that the IRS' last negotiations with the Free File Alliance allowed for the income restrictions and for participating companies to offer nearly any product at any price on their web sites. I'm not confident that the IRS put taxpayers first when negotiating the latest Free File agreement. I'm also worried that the IRS isn't providing enough protection for taxpayers by the obvious lack of oversight that would allow a company to attempt to mislead taxpayers into buying a \$15,500 tax preparation franchise under the guise of helping taxpayers profit. \$15,500 is a pretty big chunk of change for a taxpayer whose AGI is \$50,000 or below.

I'm attaching a copy of the Finance Committee staff's analysis of the Free File web sites. I understand you may be planning to renegotiate the latest Free File contract. I hope you'll do that, and I urge you to consider this analysis. The IRS offers no other electronic filing option than the Free File program. It has an obligation to taxpayers to make sure "free" really means "free." I would appreciate hearing your response to these issues as soon as possible, especially prior to any renegotiation of the Free File agreement.

Sincerely,

Chuck Grassley
Chairman

Attachment