Remarks before the IRS Oversight Board by the
Electronic Tax Administration Advisory Committee (ETAAC)
February 1, 2005

Streamlining Tax Administration – How can the IRS help taxpayers and its own
enforcement efforts through administrative simplification

Chairman Wagner, Members of the Oversight Board, and distinguished guests.

The Electronic Tax Administration Advisory Committee (ETAAC) appreciates this opportunity to present our views on streamlining tax administration. The ETAAC was established as part of the Restructuring and Reform Act of 1998 (RRA 98). Our responsibilities include reporting to Congress annually on the progress of IRS in meeting the goal of IRS receiving 80 percent of tax and information returns electronically, the status of the IRS strategic plan, the legislative changes necessary to assist IRS in accomplishing this goal, and the effects on businesses of electronically filing tax and information returns.

The ETAAC membership includes representatives from a wide variety of IRS stakeholders, partners, and taxpayers, each of whom represents an important component of the overall plan for electronic tax filing goals.

Reaching and Then Exceeding the 80 Percent Goal

Increased levels of participation in e-filing will make it easier for IRS to administer the tax system. The IRS continues to make progress toward the 80 percent e-filing goal (by 2007) established in the RRA 1998. In 2005, IRS projects more than half of all individual returns will be filed electronically. While this is encouraging, it is unlikely IRS will reach the 2007 target. We do not consider the IRS Strategic Plan (FY 2005-2009) to go far enough to encourage accelerated growth of e-filing. The ETAAC believes more dramatic steps will be required.

The current modernization plan calls for a single standard for filing electronic returns with the IRS. The ETAAC supports this approach. For a variety of reasons, IRS is bringing certain business return types (e.g., corporation and exempt organizations) to the modernized platform well in advance of the individual, Form 1040 tax returns. The 1040 forms are not expected to be available for e-filing on the modernized platform until approximately 2010. The ETAAC strongly believes the modernized e-file platform for Forms 1040 will significantly streamline tax administration and result in greater levels of participation by practitioners in IRS e-file. We encourage IRS to investigate ways in which to bring individual tax return e-filing to the modernized platform as quickly as possible.

In our 2004 Annual Report to Congress, we recommended that e-filing by paid practitioners be mandated. We understand that movement toward a federal e-file mandate must proceed with caution but we believe it to be the proper solution. Many states are implementing e-file mandates. Practitioners, transmitters, and software developers face a complex set of rules and procedures as each state enacts unique mandate requirements. Though problematic for industry, the results in these states clearly demonstrate the very positive impact a mandate can have on e-filing growth and on taxpayer satisfaction with tax administration. Therefore, the ETAAC would encourage the Board to consider what role it might play, along with other interested parties, to help set the stage for the introduction of a federal e-filing mandate.

E-Services

Making it easy to transact business with the IRS is essential to a modernized IRS and decreasing taxpayer burden. We are pleased that the IRS Strategic Plan includes a goal to modernize the IRS through its people processes and technology. In our annual reports to Congress and in our previous testimony before the Board, the ETAAC has made it clear that technology based solutions at both the IRS and in the private sector will bring our vision of an end-to-end electronic tax administration to life. Newly released products within the e-Services suite and those contemplated for the future have the potential to fundamentally alter the way in which business with the IRS is transacted. If properly marketed and with sufficient educational outreach (we cannot emphasize this point enough), these services will also encourage higher levels of participation in e-filing. IRS restricts access to certain of these e-Services to only those practitioners who have e-filed 100 returns. The ETAAC believes e-Services should be available to all practitioners and not just those who have e-filed 100 returns.

Some of the recently released applications have not performed well and have actually caused some practitioners to abandon efforts to become e-filers. It is unclear to us why applications that are not working properly at the time would be released to the public. We believe it is fundamental to good e-Government that adequate planning and testing, including usability testing, be completed prior to deployment and that this should be a strategic priority. Given the limited resources available to IRS, it is essential that projects be prioritized and that those without sufficient return on investment have allocated funds redirected to more meaningful programs such as e-Services and the modernized e-file platform for Form 1040.

The Tax Ecosystem

Tax administration continues to be a complex and challenging space in which to operate. Improving service to tax customers (individuals, businesses of a variety of sizes and industries, and the tax practitioners who represent them) can enhance voluntary compliance and create a sense of partnership. The recently appointed Director of Electronic Tax Administration is to be commended for the work he has undertaken to define what he refers to as the Tax Ecosystem. It is quite clear that the IRS and its external stakeholders who assist, support, or directly participate in tax administration are

tightly linked and highly dependent upon each other. A better understanding of these relationships is essential and the Tax Ecosystem seeks to define these relationships. The ETAAC looks forward to the continued evolvement of this project and to participating in its development.

The Role of Online Filing in Reducing Taxpayer Burden and Improving Tax Administration

When we appeared before this Board three years ago, we discussed the then declining availability of no-fee online filing options. The picture has certainly changed since 2002 with the creation of the Free File Alliance (FFA). We applaud the extraordinary work of the IRS in establishing the model of public-private partnership in the FFA. Potentially millions of taxpayers will enjoy the very best industry has to offer in tax preparation and e-filing products absolutely free of any charges thanks to the FFA. The continuation of the FFA should be confirmed as should continued stakeholder-IRS relations as an alternative to a government only model. We believe this is a better use of resources than the expenditure of taxpayer dollars to build systems or services that compete with the private sector. This year, several participating companies in the FFA are offering free tax preparation and e-filing to all taxpayers without regard to income or other limitations. These offers far exceed the original concept of the FFA to provide services to low-income taxpayers. It is unclear to the ETAAC what long-term consequences these offers will have on either the individual companies or the FFA. Some analysts predict cannibalization of the for-fee services of these and other companies. While the magnitude of such financial dislocations may not be known for some time, the ETAAC believes this is a serious enough issue to warrant further analysis.

This concludes our remarks to the Oversight Board. The ETAAC would like to thank you for the opportunity to offer our comments on these important issues.