IRS Oversight Board

Annual Report to Congress

Electronic Filing

December 2005

Table of Contents

1. Introduction

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98) requires the IRS Oversight Board to submit an annual report to Congress that addresses progress the IRS is making on meeting the electronic filing goals established by the RRA 98 and related issues.

The Electronic Tax Administration Advisory Committee (ETAAC), whose members are chosen for electronic tax administration expertise, also has the responsibility to submit a similar report. The Oversight Board regards the ETAAC as an expert resource on matters relating to electronic tax administration and does not wish to duplicate its effort.

In this report the Oversight Board has used the ETAAC report as a foundation from which to make broad strategic recommendations based on enterprise-wide business considerations.

II. The Importance of Electronic Tax Administration

Since the passage of RRA 98, which placed added emphasis on electronic filing, the IRS has used electronic tax administration to change the way it does business, to the benefit of many taxpayers. According to the Government Accountability Office:

> *Advances in the use of IT and the Internet are continuing to change the way that federal agencies communicate, use and disseminate information, deliver services and conduct business. E-government has the potential to help build better relationships between government and the public by facilitating timely and efficient interaction between citizens.*[1]

1. The Growth in Electronic Tax Administration

RRA 98 was one of the driving forces behind the dramatic growth in e-filing—and for good reason. It spelled out clear expectations and measurable goals for electronic filing: (1) paperless filing should be the preferred and most convenient means of filing federal tax and information returns; (2) it should be the goal of the IRS to have at least 80 percent of all such returns filed electronically by the year 2007; and (3) the IRS should cooperate with and encourage the private sector by encouraging competition to increase electronic filing of such returns.

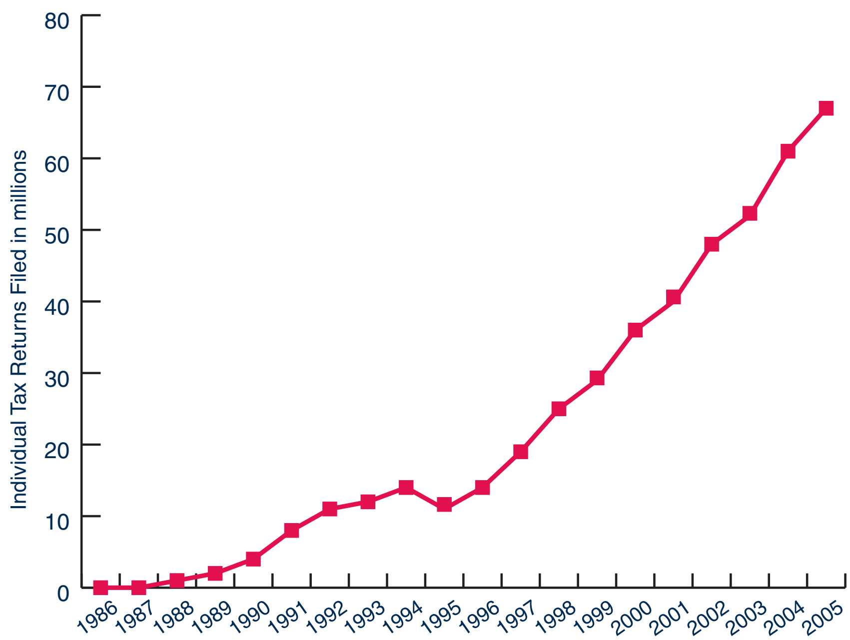
The Congressional goal has had a strong, energizing effect on the IRS, its Electronic Tax Administration (ETA) program, taxpayers, tax practitioners, and software developers. The goal has promoted focused attention and collaboration by all members of the tax administration community and has changed behavior to align with goal achievement.

Taxpayers and tax practitioners have responded positively to the goal and value the benefits they receive from e-filing, such as faster refunds, positive acknowledgement of receipt, and fewer errors. Indeed, the Board's 2004 Taxpayer Attitude Survey found that 59 percent of respondents thought e-filing was "very important" to them.[2]

Since the imposition of the e-filing goal in 1998, the growth of electronic filing has been remarkable, as shown in Figure 1. Since the inception of the e-filing program in 1986, over 450 million individual tax returns have been filed electronically.

The 2005 filing season followed the trend established in previous years. In the 2005 Filing Season (see Appendix), the number of individual tax returns filed electronically exceeded 50 percent of the total returns filed for the first

Figure 1: E-Filed Individual Tax Returns by Year



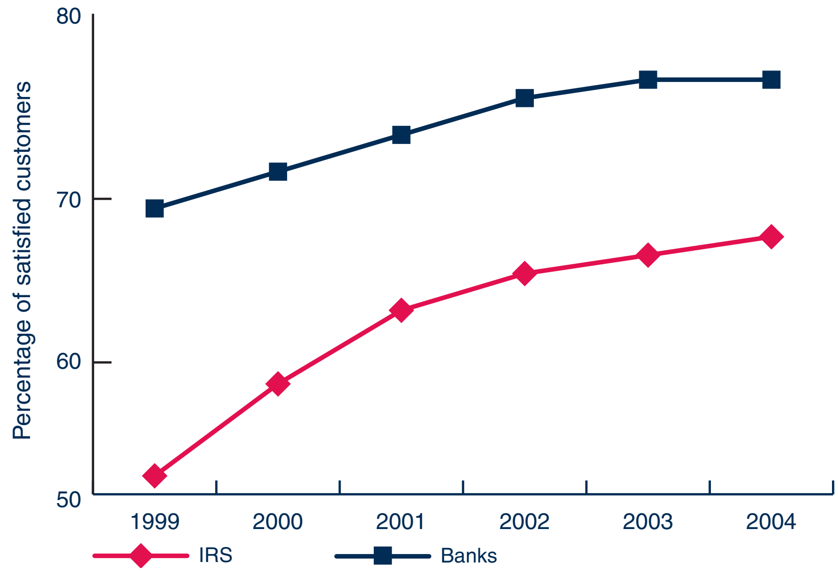
Source: IRS

With over 68 percent of all American adults using the Internet[3], many of these taxpayers already conduct business over the Internet on a regular basis, such as on-line shopping or banking. Electronic transactions have become an important part of their day-to-day lives, and paying taxes is no exception. Taxpayers have also come to expect more, faster, and better electronic services from the IRS that will allow them to carry out a broad range of tax transactions in a secure and trusted environment.

Indeed, the commentary accompanying the American Customer Service Index (ACSI) 2004 score for the IRS spelled out the positive influence of e-filing on how taxpayers view the agency's performance:

> *Since 1999, IRS' overall ACSI score has surged by 26%. While the rate of improvement has slowed recently, it is clear that a good deal of this increase is attributable to electronic filing. Filers find it convenient, accurate and refunds are delivered quickly. The satisfaction score for electronic filing stands at a remarkable 78, compared with paper filing at 52. The more tax filers the IRS manages to move from paper to electronic filing, the more customer satisfaction can be expected to grow.*[4]

Figure 2: ACSI Scores 1999-2004



The growth of electronic tax administration and e-filing has enabled the IRS to move from an operation driven by paper to one where electronic transactions are commonplace. Paper-intensive operations were not only more costly than electronic operations, but were more burdensome to taxpayers as well. The IRS has been able to start closing some of its paper processing facilities, such as the Brookhaven center in 2003, and apply savings to hiring front-line enforcement personnel.[5] As the number of paper returns continues to decrease, additional closings and savings will be realized. In fact, the IRS has reduced the staff devoted to processing paper returns between 1999 and 2004 by just over 1,100 staff years.

Electronic tax administration's efficiencies and benefits extend far beyond the simple act of filing a paperless return or getting a fast refund. At its 2005 public meeting, the Board heard from a number of stakeholders that extolled the rewards of "e-services" that the IRS has begun to offer. The National Payroll Reporting Consortium provided this assessment:

> *Expanding IRS electronic services is a prime example of the E-Government mandate expressed in the President's Management Agenda. E-services will cut operating costs by allowing authorized self-service, reduce the expense and difficulty of doing business with the government, and provide customers with readier access to high quality government services.*[6]

These sentiments were echoed by the National Association of Enrolled Agents, which also saw burden reduction and cost savings for the government, tax practitioners and taxpayers in ways not often imagined:

> *Another example of front-loaded investment with tens of millions of dollars of return has been the e-Services program. By allowing practitioners to go online to resolve taxpayer problems, it has freed up thousands of staff hours at the agency and saved taxpayers millions of dollars worth of practitioner costs.*[7]

2. The Need for Continued Expansion of Electronic Tax Administration

Despite the tremendous success the IRS has experienced in promoting not just the electronic filing of tax returns, but a broad array of other electronic transactions with taxpayers, there is still much more to accomplish. For example, the IRS does not yet offer products and services familiar to customers of many financial institutions, such as daily updating of accounts, electronic access by customers to account records, and a full range of electronic transactions. As the Board noted in its 2005 Annual Report, "The IRS must close this gap if it is to be perceived by taxpayers as having services on a par with financial institutions with which they deal on a regular basis."[8]

Since its inception, the Board has been a strong advocate of a robust ETA program and thought such a program was essential if the IRS is to meet its strategic goals. It is a sound investment that pays for itself many times over, and the Board has applauded the IRS for creating these efficiencies that help it work better and smarter in a time of tight budgets.

Improved electronic tax administration also figures largely in the IRS' most recent strategic plan (2005-2009) and its vision for an efficient and effective 21st century tax agency that carries out is mission with the least burden and disruption to taxpayers:

> *The Internet has revolutionized our ability to serve taxpayers and their representatives. We have used the Internet to meet taxpayer demands for quick access, user-friendly tools and better service, and we will continue to use the Internet to reduce burden. In the future, we envision the public will be able to conduct the vast majority of tax interactions electronically. We will continue to improve electronic filing, payment and communications services via the Internet.*[9]

Following RRA 98's direction, the IRS has committed itself to increasing the scope and accessibility of electronic services and vows to "create an environment where electronic interaction is the preferred option for our customers." [10] Specifically, the IRS would:

- Expand the Modernized e-File system to include corporate returns and tax exempt returns which will enable businesses and non-profits to file electronically;
- Address other types of tax returns such as partnership and employment tax returns;
- Enhance electronic payment options such as instant payment for individuals and express enrollment procedures for new businesses;

- Enable taxpayers to verify the filing, release and notification of federal tax liens; and
- Explore electronic solutions to improve enforcement activities, such as a collaborative work environment.

Notably, the IRS also recognizes in its strategic plan the need to help individual taxpayers with limited technological literacy. "For those taxpayers who are not computer-savvy, we will develop and implement specific plans to help Internet users—which may include many low-income, minority, limited-English proficient and elderly taxpayers—gain experience and comfort in accessing the IRS Web site," the plan states.[11]

However, encouraging taxpayers who are not technologically literate or lack Internet access to transact electronically with the IRS still represents a huge challenge. In her testimony before the Board's 2005 public meeting, American University Law Professor Janet Spragens stated:

> *IRS Modernization, which was designed to move the agency into the information age and toward an electronic interactive world of tax administration, was intended to reduce taxpayer burden, increase service, and make the agency more taxpayer friendly and efficient. Unfortunately, for low income taxpayers, exactly the opposite has happened. Dealing with the reorganized agency and its centralized functions has almost uniformly become more difficult, impersonal, frustrating, and costly for these taxpayers. A principal reason is that these taxpayers, many of whom have limited or no proficiency in English, are generally not part of the information age. They are not Internet connected, do not have ready access to Web sites, fax machines, email messaging—or even bank accounts. They tend to be helped better through local walk-in offices and opportunities for face-to-face meetings than with an organizational structure based on specialization of function, remote offices, mailed documents, telephone phone trees with automated selections, and electronic transfers.*[12]

Continued expansion of electronic tax administration that benefits millions of taxpayers cannot come at the expense of those who have difficulty participating in this growth. According to the Pew Internet & American Life Project's 2005 "Digital Divisions" report, 26 percent of Americans age 65 and older go online, compared with 84 percent of those ages 19-29. The reason is not technological literacy; most of these older Americans do not live with anyone who has Internet access. In fact, 31 percent of all non-users say they simply do not have Internet access.[13] While electronic transactions should be the preferred method of interacting with the IRS, it should not neglect those taxpayers who are better served though traditional legacy channels.

3. The Future of the Electronic Filing Goal

The IRS Oversight Board believes that the establishment of a clear goal for electronic filing was a major contributing factor to the growth of electronic filing. This growth has not only saved countless hours of data entry, but the much lower error rate has saved taxpayers, as well as the IRS, from innumerable telephone calls and letters to rectify mistakes that are inevitably caused by the relentless pace of the labor-intensive data entry process. The reduction in burden, to both the IRS and to taxpayers, has been immeasurable.

Based on the results achieved, the Oversight Board believes the e-filing goal has had very positive impacts on the IRS and taxpayers. Its visibility and clarity galvanized the IRS and its stakeholders into action and resulted in changed behavior by taxpayers, tax preparers, and tax software companies, among others. The Board knows of no other goal that has had such a profound effect on tax administration.

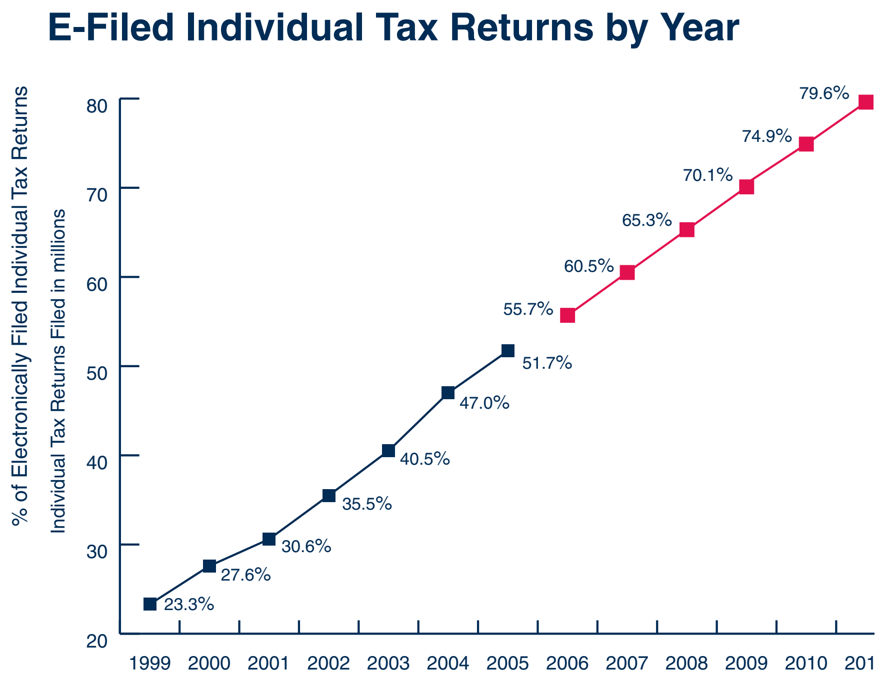
However, while a majority of taxpayers (not just individuals) now e-file, the IRS Oversight Board acknowledges, as it has in its last three annual e-filing reports to Congress, that the IRS will not meet its congressionally-mandated goal of 80 percent of all returns filed electronically by 2007. Only information returns have met the 80 percent target.[14] Other groups, such as the ETAAC, have made similar observations about the likelihood that the IRS will not meet the 2007 goal.

The Board is unaware, however, of any recommendation made by any organization about what action to take with respect to the goal. The 2006 session of Congress seems like the most appropriate time to take corrective action. The Board sees three possible actions that could be taken, but only one will allow the power of the goal to continue to be effective. They are:

1. Allow the goal to expire at the end of 2007. Congratulate the IRS and stakeholders for their efforts and continue to focus on growing electronic filing without a goal.
2. Lower the goal for 2007 to a more achievable number, such as 60 percent of returns e-filed. This action will provide an achievable but challenging goal for tax administration for the next two years until it expires in 2007.
3. Retain the goal at 80 percent, but delay the target date for its achievement by several years. This action allows the effectiveness of the goal to continue for at least several more years, at which time it could be achieved.

The Oversight Board has conducted a simple linear regression analysis of the electronic filing data using the “least squares” method to calculate a straight line that best fits existing data. Figure 3 shows the actual percent of 1040s filed electronically from 1999 to 2005 plus the estimated percentage of e-filed returns for five years into the future. The estimation technique used depends on the continued growth of electronic filing to exhibit linear characteristics, but the Board notes that the previous seven years of growth have been very linear and believes the growth rate will remain so for values under 80 percent. A recent study by the Tax Policy Center reported that in 2003 only 13 percent of returns are self-prepared by taxpayers using a paper and pencil, whereas 62 percent of returns are done by tax preparers, and the remaining 25 percent of returns are self-prepared using tax software.[15]

Figure 3:
Percent of Electronically Filed Individual Tax Returns
Actual 1999 to 2005/Estimated 2006 to 2011



Source: IRS Oversight Board analysis

Based on this data, the Oversight Board encourages Congress to extend the date for achieving the goal of 80 percent e-filing to 2011. The benefit of this approach is that it seems achievable based on historic growth rates and provides four additional years for the goal to influence taxpayer behavior. The GAO has underscored the importance of long-term goals to the IRS achieving all parts of its mission, including, but not limited to, electronic tax administration:

> *[L]ong-term quantitative goals may help IRS consider new strategies to improve compliance, especially since these strategies could take several years to implement. For example, IRS' progress toward the goal of having 80 percent of all individual returns filed electronically has required enhancement of its technology, development of software to support electronic filing, education of taxpayers and practitioners, and other steps that could not be completed in a short time frame. Focusing on intended results can also promote strategic and disciplined management decisions that are more likely to be effective because managers who use fact-based performance analysis are better able to target areas most in need of improvement and select appropriate interventions.*[16]

Because of these very positive trends, the Board is confident that 80 percent of tax returns will be an achievable goal, but one that still elicits the same focus, dedication and resources that went into the current e-file successes.

III. Evaluation of ETAAC's Recommendations

As the Board has done in its previous e-filing reports, this report provides the Board's evaluation of the ETAAC's recommendations based on the Board's enterprise-wide perspective.

1. ETAAC's Vision

In a departure from its previous reports, the ETAAC chose this year to devote less time evaluating the many e-filing statistics and goals and more on what it sees as RRA 98's underlying objective: "improving service to taxpayers by providing them with the electronic means of conveniently interacting with the IRS." [17] The ETAAC believes that the IRS Strategic Plan does not go far enough to encourage the accelerated e-file growth and that more, dramatic steps are needed.

The ETAAC presents a vision for electronic tax administration—one where electronic tax administration acts as the primary mechanism for transforming the IRS and how it serves taxpayers. From the eyes of the individual taxpayer, this end-state contains many valuable features not currently available. For example, taxpayers would have secure access over the Internet to prior years' tax return data and it could be imported into the correct forms and lines of their tax preparation software. Relevant information could also be transferred to the state tax return. Taxpayers and preparers would sign and file returns electronically and refunds could be deposited the next day to their bank accounts or to special debit cards if they do not have an account.

The ETAAC "vision" described above is similar to what the Board has advocated and contains strong parallels to features that financial services organizations now offer their customers, such as on-line banking or securities trading. This is not just new technology for the sake of new technology, but modern technology supporting best business practices and the improved customer service and efficiencies they convey.

However, the Board cautions that this vision may not be preferable for all taxpayers. As previously noted, almost a third of taxpayers do not have Internet access and their needs must still be met. While electronic transactions should offer advantages of convenience and be the method preferred by most taxpayers, the IRS must continue to provide non-electronic transaction methods for those taxpayers who prefer to interact with the IRS using traditional methods.

2. Major Issues for Stakeholders Raised by ETAAC

The ETAAC identifies what it sees as the top three issues common to all taxpayers that must be addressed if the IRS is to build a system to meet their needs.

First, there must be easy, secure access to the system for all stakeholders. They must be assured their data is "secure and that access is limited to those authorized to view the information." The Board fully concurs. The IRS will never realize the full potential of the Internet until taxpayers are confident that their privacy and confidential information will be protected.

Second, the ETAAC believes that the IRS and each state jurisdiction must work with software providers so as to provide "a seamlessly integrated experience for each taxpayer to file, pay, store and retrieve tax information."[18] The Federation of Tax Administrators (FTA), made up of the tax agencies of the 50 states, the District of Columbia and New York City, shares this view. The FTA recommended to the Board at its 2005 public meeting that the "IRS and states need to launch a concerted effort to develop joint e-file efforts in all types of taxes."[19]

The Oversight Board has long encouraged the IRS to work more closely with the states on the shared goal of increasing the use of electronic products for tax administration. There may also be a correlation between those states mandating e-filing and the growth in federal e-filed returns. Further study is required to conclusively prove a link.

Third, the ETAAC states that "all transactions associated with filing, paying, storing and retrieving data…must be electronic…Paper transactions must be optional and the exception, not the primary means of interaction within the tax system."[20]

It is the Board's view that the IRS should evaluate this recommendation as part of a much longer evolutionary process. At the present time, some taxpayers feel more secure with paper transactions or again, may not have the computer literacy or even access to a computer that such a migration would require. These taxpayers should not be placed at a disadvantage and their needs should be accommodated.

One recommendation ETAAC made strongly is expediting the implementation of 1040 Modernized e-File (MeF) by moving FY 2010 funds to FY 2008. The ETAAC reasons that if e-filing is to continue to grow, structural changes in operating systems are required now:

> *The goal is to have all tax returns filed electronically. All attachments to the 1040 should be included in this electronic filing capability, eliminating the current requirement to file a paper supplement to the electronic record.*[21]

It further believes that accelerating MeF's implementation will also stimulate e-filing use by practitioners:

> *1040 MeF addresses the needs of proving acknowledgements in minutes rather than hours and error messages in plain, easily understood language. Improving the acknowledgement process will appeal to tax practitioners who have not yet embraced e-filing.*[22]

The Board certainly does not take issue with the importance of Modernized e-File, nor the benefits it provides to taxpayers and practitioners and the efficiencies it produces. It has championed the BSM program from the start and has worked hard to see that the BSM program is funded at an adequate level and receives the proper amount of management attention.

However, the Board believes that Modernized e-File must compete with other BSM projects for funds using established BSM procedures for prioritizing projects. The BSM program, consistent with Office of Management and Budget policy, uses a business case analysis process to identify the costs and benefits of competing projects prior to allocating funds to a project. Not only does this process identify the highest priority projects, it establishes a baseline for program evaluation. The Board believes this disciplined process is essential to the well-being of the BSM program.

The Board stresses that the IRS must continue to make solid progress replacing the IRS legacy master file system and begin to move taxpayer records from it to the modern reliable database called the Customer Account Data Engine (CADE). The Board has repeatedly stated that the IRS cannot continue to operate with the antiquated and inefficient systems and processes it uses today. Over time, the existing tape-based legacy systems become more difficult to maintain, while increasing the risk of administering our nation's tax system.

3. Barriers ETAAC Sees to Increased e-Filing

The ETAAC identifies three major barriers or hurdles to greater acceptance of e-filing as the preferred way of conducting business with the IRS. First, the ETAAC states that e-File must be faster, easier and more accurate than paper filing; the initial experience must be positive. It believes that the biggest barrier to achieving this goal is maintaining both the IRS' legacy system and the XML-based (Extensible Markup Language) Modernized e-File system, which offers a number of advantages and is cheaper to maintain. The Board understands the ETAAC's findings, but for reasons previously discussed, does not wish to disrupt the BSM business case discipline to accelerate the Modernized e-File project.

Second, the ETAAC states that that "E-Pay must be faster, easier and more foolproof than paying by paper check. The first experience needs to be positive."[23] It believes that electronic payments should be considered paid in a timely fashion when they are transmitted—just as checks and paper returns sent by mail are considered paid when they are postmarked. This makes sense to the Board. The ETAAC also proposes that sign-up for the Electronic Federal Tax Payment System (EFTPS) should be instantaneous. EFTPS has been a great success. Since its inception in 1996, more than $12.5 trillion have been received[24], but ETAAC believes making taxpayers wait 14 days for a Personal Identification Number drives potential users away. Additionally, the ETAAC recommends that EFTPS should be available 24/7 with minimal down time and that the IRS should study methods of accepting withheld tax levy payments electronically. The Board supports these suggestions if they do not compromise system security and can be accommodated within existing budget limitations.

Third, the ETAAC states that "e-services must be faster, easier and more efficient than paper, telephone or fax-based communications."[25] It observes that at the present time, the phone or fax is faster for practitioners. The Board concurs with the ETAAC recommendation that the IRS should open e-services to all tax professionals with the authority to obtain tax information for their clients.

4. Mandates

In its 2004 Annual Report to Congress, the ETAAC recommended that e-filing by paid practitioners be mandated. In its 2005 report it renews the call arguing that states which have e-file mandates have demonstrated both e-file growth and increased customer satisfaction.

As the Board noted last year, although there is precedent for mandating the electronic filing of certain forms by practitioners, this move would represent a significant change from the current e-file strategy. The Board has an open mind on this recommendation but urges a full and open debate prior to making this initiative public policy to ensure that all aspects of the change are considered.

IV. Conclusions and Recommendations

The Board' s recommendations fall into three major categories:

- the future of the e-filing goal
- an evaluation of ETAAC's recommendations
- a review of last year's recommendations

1. The Future of the e-Filing Goal

The Board congratulates the IRS and taxpayers for their response to the Congressional goal of 80 percent electronic filing of tax returns by 2007. Although the goal will not likely be met, as the Board and others have previously reported, the growth of electronic filing and electronic tax administration has reduced the burdens that paper filing imposes on both the IRS and taxpayers.

The electronic filing goal imposed by Congress may be the most successful goal in IRS' history. The Board believes it is imperative that thoughtful action be taken on the goal, given its success while recognizing that it is unlikely to be met.

To continue to allow the goal to produce the positive action that has already been demonstrated, the Oversight Board recommends that Congress extend to 2011 the date by which the IRS should have at least 80 percent of all tax returns filed electronically. The Board believes this goal is achievable while at the same time presenting continuing challenges to the IRS and taxpayers.

2. Evaluation of ETAAC's Recommendations

The Board generally supports the ETAAC recommendations, provided they can be implemented without compromising system security and can be accommodated within the IRS budget.

However, the Board has concerns with two ETAAC recommendations. Although the Board understands why the ETAAC recommends the acceleration of the Modernized e-File project, it does not wish to disrupt the BSM business case discipline to recommend the acceleration of funding for this project. The process used by the BSM program to allocate funding to various projects must make balanced judgments considering business needs across the entire BSM program. Without unanticipated increases in program funding, the current funding plans for the Modernized e-File project should remain as they are.

The ETAAC also recommends the imposition of e-filing mandates to some tax practitioners based on the success of similar state mandates. The Board has an open mind on this recommendation but urges a full and open debate prior to making this initiative public policy to ensure that all aspects of the change are considered.

3. Review of Last Year's Recommendations

Last year, the Board recommended that the IRS create and offer e-file incentives, such as extending the due date for electronic filers. This belief is based on taxpayer surveys taken by the IRS. This proposal has also won strong support from the Administration and the U.S. House of Representatives and was contained in the President's FY2006 budget request. Although no action was taken, the Board continues to believe that the due date change would be an effective tool in attracting additional e-filers and urges Congress to revisit and pass the proposal when it reconvenes for the Second Session of the 109th Congress.

The Board also recommended that as part of an overall e-file strategy, which must include better products and services, the IRS needs to ramp up its educational and marketing efforts to convince more taxpayers and preparers of the benefits of e-filing. This year's results show that something is working and the Board is pleased by the gains. However, the IRS must recognize that getting those still reluctant taxpayers and practitioners to embrace e-filing will require more than the present marketing effort. The IRS still must create and carry out a long-term marketing and communications strategy to effectively reach and convince this taxpayer/practitioner segment to convert to e-filing.

Appendix

2005 Filing Season Results

The IRS and its private sector partners can take great pride in the 2005 filing season results, which saw a number of e-file records. For the first time, more than half of all taxpayers (53 percent) filed their returns electronically. E-filing has now moved into new territory; it is more the rule, rather than the exception to the rule. The IRS reported the following notable ETA milestones[26]:

- It received 66 million returns through IRS e-file—up 11 percent from the same time last year
- Of this, 5.01 million were Free File returns—a 46.2 percent increase from the same period last year (3.43 million returns)
- 16.7 million taxpayers filed from a home computer—up 17 percent from the same time last year and 2 million more than for all of 2004. The IRS continued to receive returns filed from home computers until October 31st.
- Paid preparers e-filed approximately 42 million returns, up by nearly 11 percent over the previous year.

In addition, the IRS saw a big increase in tax payments with a credit card. Nearly 928,000 taxpayers paid by credit card, a 57 percent increase from the same period in 2004.

There were almost twice as many visits to the IRS Internet site this filing season than last. As of April 2005, there were 111 million visits to the IRS Web site compared to 55.7 million for the same period last year. During the filing season, the IRS Internet site is often the most visited in the nation. Almost 46 percent more taxpayers used "Where's My Refund?" on www.irs.gov this year than last. By April 24th, 17.6 million people had used "Where's My Refund?" compared to 12.1 million for the same period last year.

However, there was more than a 12 percent drop in the use of TeleFile and the IRS announced earlier this year that the service would be discontinued as of August 15th, "because of declining use and the growth of other electronic filing alternatives such as Free File."[27] TeleFile was used primarily by lower-income taxpayers filing 1040EZ returns, who, as previously noted, may not have ready access to computers and/or the Internet. Faced with limited options, these taxpayers may revert back to paper filing.

There is other progress to report on the e-file front. The Free File Alliance —a consortium of tax software companies—is a particularly successful partnership forged between the federal government and the private sector. Launched three years ago to make available additional e-filing options to taxpayers at any income level, it currently offers a valuable service to over 60 percent of taxpayers by allowing them to prepare and file their taxes for free.

On October 25, 2005, the IRS and the Free File Alliance announced an agreement to renew their partnership, extending free tax services and electronic filing to an eligible 93 million taxpayers and providing important new consumer protections.

As part of the agreement, the IRS provides to taxpayers a listing of the Alliance members via the Free File web page, which is hosted on www.irs.gov. Although, the Free File Alliance members set their own criteria for taxpayer eligibility for free use of their software, the new agreement calls for services to be offered to 70 percent of the nation's taxpayers. Alliance members and their services will be available beginning in January 2006 on the IRS Web site. The IRS/Free File agreement includes the following provisions:

- Alliance members who offer refund anticipation loans (RALs) will provide the highest standards of consumer protection upholding greater disclosure and consent requirements related to ancillary financial products, i.e., fees and interest rates, information on other options for refunds, and full disclosure of RALs as loans rather than refunds.
- Alliance members will provide additional tax forms, such as Form 4868 that allows for extensions to file.
- Alliance members' Web sites will display whether state online tax preparation and filing services are available and the associated fees, if any.

This program will extend the benefits of on-line federal tax preparation and electronic filing to the taxpayers least able to afford e-filing their returns on their own.[28]

Endnotes

1. Government Accountability Office, Testimony Before the House Government Reform Subcommittee on Technology and Procurement Policy, “Electronic Government” (GAO-02-1083T), September 18, 2002.
2. IRS Oversight Board 2004 Taxpayer Attitude Survey, p. 12.
3. Pew Internet & American Life Project, “Digital Divisions”, October 5, 2005, p. i.
4. ASCI Commentary: Federal Government Scores, December 14, 2004, p.2.
5. Government Accountability Office, Testimony before the Annual Joint Congressional Review of the Internal Revenue Service, “IRS Modernization: Continued Progress Requires Addressing Management Challenges (GAO-05-707T), May 19, 2005, p. 6.
6. National Payroll Reporting Consortium, Testimony Before the IRS Oversight Board Public Meeting, February 1, 2005, p. 2.
7. National Association of Enrolled Agents, Testimony Before the IRS Oversight Board Public Meeting, February 1, 2005, p. 4.
8. IRS Oversight Board 2005 Annual Report, p. 23.
9. Internal Revenue Service Strategic Plan (2005-2009), p. 8.
10. Ibid, p. 13.
11. Ibid, p. 14.
12. Janet Spragens, Director, American University Federal Tax Clinic, American University, Washington College of Law, Statement Before the IRS Oversight Board Public Meeting, February 1, 2005, p. 2.
13. Pew Report, p. 4.
14. According to the IRS 1998 Data Book, in 1998 the IRS received 1.153 billion information returns, of which 37 million were received in paper format. Thus, the IRS met the goal of 80 percent paperless filing for information returns the year the legislation was enacted.
15. Changes in Tax Preparation Methods, 1993-2003, Tax Policy Center, May 9, 2005
16. General Accountability Office, op. cit Testimony before the Annual Joint Congressional Review of the Internal Revenue Service, pp. 12-13.
17. Electronic Tax Administration Advisory Committee (ETAAC), “Annual Report to Congress”, June 2005, p. 1.
18. ETAAC Report, p. 3.
19. Mary Jane Egr, President, Federation of Tax Administrators and Commissioner, Nebraska Department of Revenue, Testimony Before the IRS Oversight Board Open Meeting, February 1, 2005.
20. ETAAC Report, p.3.
21. Ibid, p. 5.
22. Ibid, p. 5.
23. Ibid, p. 9.
24. “EFTPS Marketing Executive September 2005 Summary, Fast Facts Statistics.”
25. ETAAC Report. p. 9.
26. IRS Press Release (IR-2005-53), April 28, 2005 “2005 Tax Filing Season Sets Record”.
27. IRS Press Release (IR-2005-75), July 20, 2005, “IRS E-File Available for Extension Filers through Aug. 15 and Beyond”.
28. IRS Press Release (IR-2005-126), October 25, 2005, “IRS and Free File Alliance Reach Agreement”.

Contact Information

IRS Oversight Board
1500 Pennsylvania Avenue, NW
Washington, DC 20220

www.irsoversightboard.treas.gov

Ph: 202-622-2581

Charles A. Lacijan
Staff Director