

Free File Data

FTA EF – PITTSBURGH

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Presented by

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THANKS

AL	AR	AZ	CA
CO	GA	ID	IL
KS	KY	MD	ME
MN	MO	NC	NE
NY	OR	PA	SC
UT	VT	WV	IRS

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Scope

I present my interpretation, and the presentation should not be construed to be an official position of the Free File Alliance, LLC or any other entity mentioned in or during this presentation.

The scope of this presentation and discussion are limited, and is not intend to provide answers to associated legal or political aspects of this subject matter.

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OVERVIEW

Will attempt to cover

- The nature and extent of the eFiling
- What are OnLine (self prepared) returns
- State summary
- How does Free File Work
- Free File profile for this season
- Challenges
- Some filing data analysis

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The nature and extent of OnLine

eFiling of returns, not from the EROs, and are from the following sources, are normally categorized as OnLine returns:

- Shrink-wrapped software
- Downloaded software
- The truly OnLine, transaction based, real time processing, and eFilings, using software that is resident on application servers.

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State Summary

- In the average, eFile accounted for 65% of all filed returns, whereas OnLine is 13%.
- Where reported, FFA predominantly contributed 2-4% of all eFile returns
- 10/23 States reported receiving ePayments

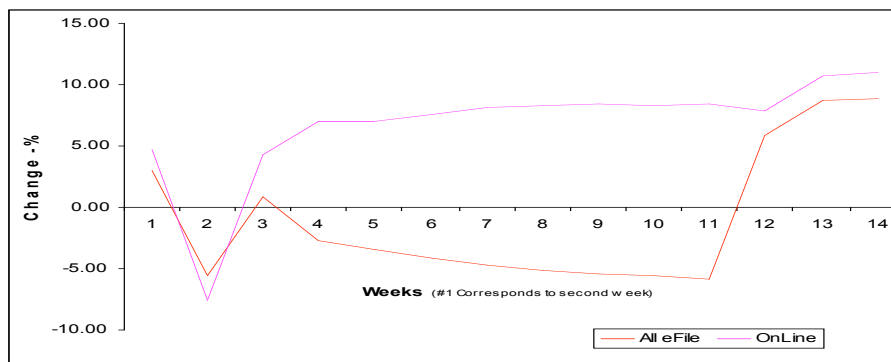
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State Summary

- 2/23 States reported receiving extensions from their own applications, others from Industry when applicable.
- Most states do not keep track of FFA return counts.
- The state eFiling has increased for all; 2/23 were lagging 2006 on 12 Feb 2007.
- Most states showed greater gains at the end of the season.

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IRS eFile Changes from Last Year



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How does Free File Work

- FFA & IRS have an agreement
- Agreement has two primary considerations
 - IRS will not compete with the Industry
<http://www.irs.gov/efile/article/0,,id=103626,00.html>
 - IRS will provide marketing resources:

A. The Parties will coordinate with each other their respective marketing of these Free Services to provide uniformity and maximize public awareness. Final decisions on the marketing campaign will remain with the IRS for IRS marketing expenditures and with the Consortium and the Consortium Participants for their marketing expenditures.

B. The IRS will not endorse specific offerings or products, but will promote the availability of the Consortium's Free Services...

<http://www.irs.gov/efile/article/0,,id=103622,00.html>

- The states can enter into separate agreements with interested Industry members

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Free File Program

- FFA returns are true OnLine returns.
- The process is available to the taxpayers throughout the tax season on 24/7 basis.
- There is no cost to the taxpayer to construct, or to eFile the return.
- Industry members voluntarily enter into agreements to provide free state returns.

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Free File Program

- Higher security and privacy standards
- High degree of response for revenue protection purposes
- Higher return and eFile quality
- Warranty of accuracy of service
- Delivers ~20% of all OnLine returns
- FFA is the third highest eFile provider
- Delivered over 20Million returns

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Free File profile for this season

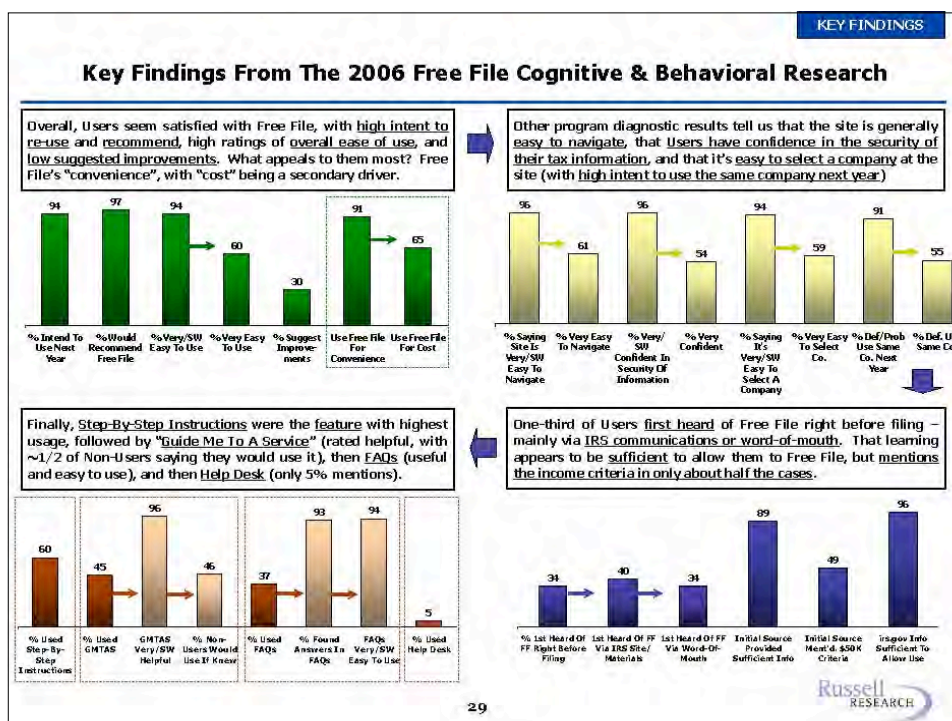
- Numbers
 - AGI limitation: \$52,000, covering 70% of T/P, Approximately 93Million potential users
 - Number of companies: 19 from original 20
 - Number of returns: approximately 4Million
- Limit on sale of ancillary products
- IRS customer service inquiries lower
 - Industry assuming greater burden, shouldering and eliminating customer concerns. (per IRS from ~1:600 to 1:2200)
- Non-English Sites became available

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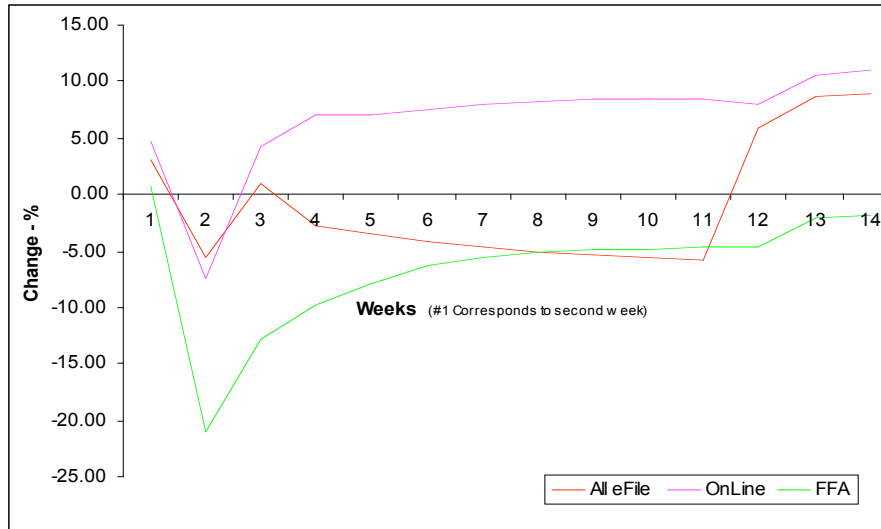
Free File profile for this season

- Average page visits per return lower
 - 3.7 down 16.74% from last year of 4.5
- Industry shoulders primary customer service burden
- Customer satisfaction very high for the Free File according to Russell research
- [IRS Publication 4556](#)
Free File Cognitive & Behavioral Research at <http://www.irs.gov/efile/article/0,,id=118376,00.html>

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Comparative FFA Filing Changes from Last Year



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Why the current rate of growth?

- Website activity* for FFA dropped over 18% at irs.gov
 - Page Visits down 18.65% (06:17,170,113; 07:13,968,372)
 - Page Views down 18.87% (06:23,609,983; 07:19,153,704)
- *Numbers as of 21 Apr 2007
- Competing “free” websites grew
 - irs.com claims to have serviced 25M+ visitors
- Greater Industry marketplace competition

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Why the current rate of growth?

- Confusion due to change in the law. The FFA filers file their own returns
- Use of FFA as a high level prototype for security, etc.
 - Redirect problems
- Loss of options for many of taxpayers
- Stronger trend to file at the last minute
- Insufficient IRS advertisement

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FFA Challenges

- The critics are still at work
- Page visits have dropped.
- Adverse publicity based on prior product sales
- Loss of options for many of taxpayers
- Insufficient IRS advertisement

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FFA Challenges

- Troublesome information
 - Incorrect heading implied that 42 states had competing products and that these products were useable by all taxpayers. GAO Report 07-570 explains the shortcomings.
- The public misconception that IRS pays the Industry for the FFA returns.
- Government subsidized competition and resistance

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Reference to GAO Report

- FFA is viewed under a favorable light
- States may not have accurate costs of their systems
- IRS development of proprietary system is not considered advantageous
 - *“and finally developing an I-File system would further stretch IRS’s capability to manage systems development, an area we have designated high risk since 1995.”*

References to report:

State Experiences Indicate IRS Would Face Challenges
Developing an Internet Filing System with Net Benefits

<http://www.gao.gov/new.items/d07570.pdf>

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Cost to states per GAO

- TeleFile is a declining usage.
- There will be costs if paper preparers will also be treated equally at the state offices.
- Proper level of customer service has to be provided. IRS costs are:
 - 800 call per incident @ ~\$19
 - Walk-in per problem @ ~\$30
- Other countries are not succeeding to the level of their expectations.

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Advantages to States from an FFA Type Program

- Costs elimination
- Benefit from the established momentum
- High degree of centralized response and communication with the Industry
- Mitigates customer service burden
- Eliminate conflict of interest concerns

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Number of FFA Originated Returns per State

FFA States

	2006	2,007	Change from 2006	
			Numbers	Percent
AL	46,176	47,248	1,072	2.32
AR	30,202	31,816	1,614	5.34
AZ	60,060	61,623	1,563	2.60
GA	106,930	110,987	4,057	3.79
IA	39,160	36,084	3,076	-7.85
ID	23,149	24,232	1,083	4.68
KY	51,398	52,921	1,523	2.96
MA	92,775	84,342	8,433	-9.09
MI	130,543	128,992	1,551	-1.19
MN	83,943	107,407	23,464	27.95
MO	77,619	78,615	996	1.28
MS	28,523	31,241	2,718	9.53
NC	94,940	96,764	1,824	1.92
ND	11,603	12,015	412	3.55
NY	139,642	142,268	2,626	1.88
OK	56,898	58,832	1,934	3.40
OR	44,832	50,079	5,247	11.70
RI	11,151	11,525	374	3.35
VT	9,647	9,293	354	-3.67
WV	30,028	30,461	433	1.44

Data based on IRS weekly reports dated 05/11/06 and 05/03/07

16 Net Gainers & 4 Net Losers

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Number of FFA Originated Returns per State

Non-FFA States

	2006	2,007	Change from 2006	
			Numbers	Percent
CA	289,459	271,547	17,912	-6.19
CO	66,199	64,367	1,832	-2.77
CT	42,372	38,874	3,498	-8.26
DC	7,504	7,585	81	1.08
DE	13,559	13,951	392	2.89
HI	13,031	13,620	589	4.52
IL	181,206	162,970	18,236	-10.06
IN	102,382	91,709	10,673	-10.42
KS	40,843	41,434	591	1.45
LA	58,780	55,566	3,214	-5.47
MD	68,245	66,319	1,926	-2.82
ME	25,520	24,477	1,043	-4.09
MT	15,257	15,810	553	3.62
NE	32,109	30,815	1,294	-4.03
NJ	68,986	63,655	5,331	-7.73
NM	29,417	28,314	1,103	-3.75
OH	237,538	224,047	13,491	-5.68
PA	212,933	192,942	19,991	-9.39
SC	48,375	48,765	390	0.81
UT	40,025	35,975	4,050	-10.12
VA	125,273	117,502	7,771	-6.20
WI	111,283	102,414	8,869	-7.97

Data based on IRS weekly reports dated 05/11/06 and 05/03/07

6 Net Gainers & 16 Net Losers

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APPENDIX

Definition of Website “Page” counts

- **A Page View** (also known as a page impression) is a measurement of the number of times that a web page is viewed from a web server. With page views, a single HTML page is counted as one page view. The number of page views provided above is based on our new “SDC” (SmartSource Data Collection) data collection methodology that uses an embedded client-side Javascript. With SDC, we now are able to provide accurate counts of page views even for those visitors who are behind firewalls and proxies, and it allows us to measure page views even if an Internet Service Provider (like AOL) has cached some of the IRS.gov web pages.
- **A Visit** is the session of activity that an Internet visitor has with a website over a specified period of time or activity. A visit begins when a visitor views their first web page from the IRS server. It ends when the visitor leaves the IRS.gov website, or remains idle beyond a fixed idle-time limit. Our default idle-time limit is 30 minutes. Hence, a single visitor can be responsible for multiple visits to our website. Similarly, during a visit to IRS.gov, any given page may be accessed (i.e., viewed) multiple times by a visitor.

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