

Trends and Issues in Electronic Filing

FTA FedState E-file Symposium
Salt Lake City, Utah
May 15, 2006

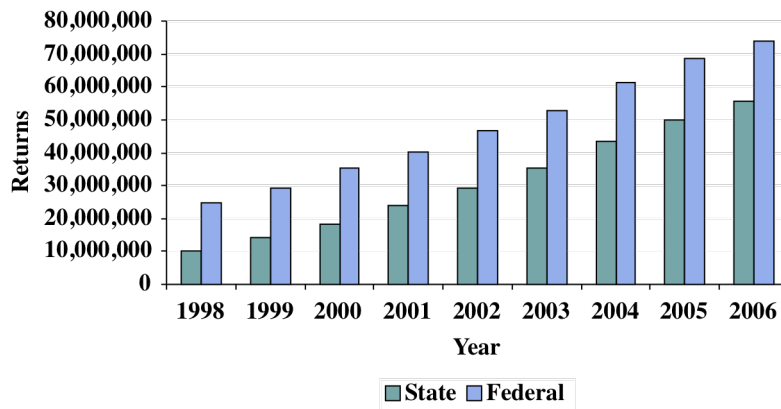


Purpose

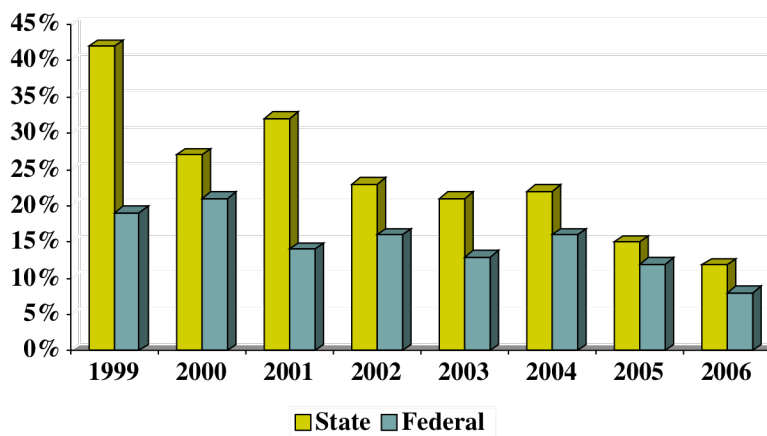
- Review preliminary data from 2006 filing season
- Draw conclusions on trends and influencing factors
- Comments on E-file Mandates, Free File Alliance and Congressional interest
- Thoughts on where to go



Total Electronic Filing Volume (1998-2006 est.)



Change in Electronic Filing 1998-2006 (est.)



Other Interesting Tidbits



- State Telefile down 42 %; federal eliminated
- Continuing Telefiles (10) down 26%; three states (MA, OH and PA) account for 85% of Telefile returns
- Federal online filing up by 17 %and now is nearly 30% of all electronic returns
- Direct I-file up 5%; about 4% of all electronic returns; greater than 10% in CO, DE, IL, ME, OH and PA
- Bar code returns about even with last year; greater than 50% of paper in AL, MA, MO, NYS and UT
- By year-end, 52-55% of all federal and state returns will be electronic

Mandates Influence



- Without new mandate states, state growth rate drops from 14 percent to 11 percent; new mandates responsible for 1.5 million of 6.3 million new returns
- Seven states had growth rates in excess of 20 percent, including CT and NY -- Also several states proximate to mandate States like NJ, MA, RI and VT.
- Influence is significant, but not as great as with California and Michigan two years.

Comments on Mandates



- 2004 - Minnesota, Wisconsin, California, Oklahoma, Michigan
- 2005 - Alabama, Massachusetts, New Jersey, Virginia
- 2006 - Connecticut, New York (or bar code), Utah (or bar code)
- Rhode Island (or bar code)

Mandates -- Implementation



- No lead time is long enough
- Consultation/education is important
- Help desk is important
- Hardship exception (practitioner) and opt-out (taxpayer) are considered necessary
- Weed out low volume forms
- Use care in defining “practitioner”



Comments on Free File

- Issues for States
 - Differences in filing thresholds continued
 - “Start here” requirement still present
 - Information improved, but not on irs.gov
- Results
 - Continued opportunity for taxpayer confusion
 - Many individuals with free federal opportunity, but no free state avenue
 - Pay or paper choice?



Free File Influence

- Free File returns are down by about 20 percent in 2006 -- to 4 million
- Largely attributable to revised contract
- Still constitutes 1 in 5 online returns
- Source of great consternation to many parties
 - Congress
 - Providers
 - IRS

Congressional Interest



- General themes of Finance hearing
 - Free File participants should not be bombarded with paid service and other offerings
 - Everyone should have ability to file free electronically
 - IRS should offer the free filing opportunity directly
 - Considerable criticism of income limit for participation
 - IRS should renegotiate to remove limitation on Free File participation

What Seems 'Right'



- Set aside issue of direct filing -- States can evaluate and choose
- Remember it is a FedState partnership as well as a public-private partnership
- State involvement in Free File discussions
- Focus on improving information availability
- Avoid gaps in federal and state e-file opportunities



Conclusion

- Growth has slowed; future “jumps” will require outside stimulants
- Mandates require careful design and thoughtful implementation
- Three-way relationships in e-file are important and could benefit from some re-examination