

The Federal Free File Program – What Is It? Where Is It Going? What Should States Do About It?

Remarks Before FTA, May 21, 2007

Free File Alliance Leadership:

- Tim Hugo, Executive Director
- Stephen M. Ryan, Counsel

June 25, 2007

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Thanks To The Free File States:

- Alabama
- Arkansas
- Arizona
- Georgia
- Idaho
- Iowa
- Kentucky
- Massachusetts
- Michigan
- Minnesota
- Missouri
- Mississippi
- North Carolina
- North Dakota
- New York
- Oklahoma
- Oregon
- Rhode Island
- Vermont
- West Virginia

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Federal Free File Program Facts

- 25 million free returns to taxpayers, a very large number of whom are poor.
- At imputed, very conservative cost of \$30 a return, the Alliance has provided \$750 million free services to taxpayers.
- The Alliance has saved the IRS tens of millions of dollars in avoided development costs and system risk.
- Core issue of returns being focused on poor, disadvantaged and less well-to-do is a key component of program DNA and deserves continued political recognition and support.

Free File is an outstanding public private partnership!

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Federal Free File Program: Bringing New Taxpayers into the System

- According to the IRS:
 - about 17% of FFA users were first-time filers in 2005
 - and of the prior filers that year, 29% were first-time e-filers
 - about 34% of FFA users were first-time e-filers in 2006
- So there are measurable gains, not just cannibalization of existing filers.

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Free File Program: The Program Is Clean And Happy

- Ancillary sales to taxpayers by Member companies during preparation are now limited to a sale of state return.
- Some companies provide free returns to state taxpayers.
- Free really is free!

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Free File Program: 100% Coverage Is Not Good Policy

- 100% coverage of taxpayer population by FFA is *not* consistent with the laudable principle of providing services to *those who need it most, at no cost to taxpayers*, while still allowing the free market (which generates the *means* for Free File) to continue to innovate and thrive.

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Free File Program: A Government Marketing Plan Is Needed

- The IRS needs to reinvigorate its efforts to drive taxpayer awareness of program and take up role.
- IRS efforts have reduced its expenditure from \$16 million on marketing several years ago to \$1 million last year.
 - Note that the FTB advertises its “competing” product substantially on Government websites and the media, as PSAs, and on CA.gov.
- You get what you pay for!

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Free File Program: The Challenge

So why is Free File always being ignored or denigrated by the IRS Taxpayer Advocate, the California FTB, and others?

- Some policymakers simply believe government should provide this service and Free File's success stands in the way of this objective.
- No matter what we do, someone always seems to want “more.”
- We need to engage the FTA in this debate, to ensure the Free File “golden goose” doesn't get choked to death by needs it cannot meet, and ensure that there will always be may more eggs to share with the states.
- Otherwise, the heavy customer service burdern now shouldered by industry will shift to the state, substantially and negatively impacting the proper balance of budgetary allocations.

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Free File Program: If Government Becomes A Competitor, It Changes The Process

- FTA members accept high technology and economic risks to create their own tax software.
- IRS and Free File states would risk missing a full season where Free File is no longer available but IRS program is not ready.
- FFA Member cooperation creates a public-private model where those in need can obtain free services, with all still reaping the benefits of free market innovation and choice. Government competition alters & threatens this model.

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GAO Report: “State Experiences Indicate IRS Would Face Challenges Developing An Internet Filing System With net Benefits”

Report Conclusion:

- “For the systems profiled, both reported benefits and costs were relatively modest, and it is unclear whether benefits were greater than costs”
- “However, the benefits were limited by low usage ... ”

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GAO Examples of Program “Take Up Rate”

	<u>% of Total Filers</u>
• California Competing Program	0.76%
• South Carolina	1.43%
• Utah	2.51%
• IRS Free File	4-5%*

*eligible taxpayers

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What Does A State Competing Product Cost Per Return?

“No state could give us complete cost
information ...”

California’s Estimate \$2.30 cost per return

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Three States Quit

Why?

- “...benefits were less than costs”
- “The system was not providing a good return on their investment”
- “One agency official reported experiencing low usage and high costs”

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Going Forward

- Is there an FTA-FFA working group of the Free File states?
- How can we work better together to achieve mutual goals of high-level customer service/products, increased filing rates, serving those in need?

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