

INFORMATION REPORTING PROGRAM ADVISORY COMMITTEE (IRPAC)

Comments to the IRS Oversight Board

On

**ACHIEVING THE GOAL FOR E-FILED RETURNS
(Panel 3)**

January 26, 2004

**Presented by
Jeff Adelstone, Chairman
IRPAC**

Madam Chairman, Members of the Oversight Board, and Guests:

On behalf of the IRPAC, I want to express our deep appreciation for the opportunity to offer comments and suggestions on Achieving the Goal for E-Filed Returns. Because Electronic Filing is the cornerstone of the entire IRS Modernization Program, the successes enjoyed in this arena are absolutely critical to achieving success with the overall objective of a modernized IRS.

The IRPAC was established in 1991 in response to an administrative recommendation contained in the final Conference Report of the Omnibus Budget Reconciliation Act of 1989. Since its inception, IRPAC has worked closely with IRS officials to provide recommendations on a broad range of issues intended to enhance the reporting program and achieve fairness to taxpayers. The IRPAC is comprised of representatives from the payer community as well as practitioners to discuss improvements to the information-reporting program.

The IRPAC wishes to publicly commend IRS Commissioner Mark Everson. Although he has only been on board for a very short nine months, he is responsible for fostering a smooth transition in the change of Commissioners, and has supervised some “giant leaps” in progress towards the overall goal of modernization. Taking over any large organization in the midst of major change presents a series of challenges, which oftentimes lead to disaster. The Commissioner proverbially “hit the ground running”, and has spearheaded many of the improvements which I will address today.

Since 1990, the number of E-Filed returns has increased from 4 million to approximately 53 million. However, RRA '98 sets a goal of achieving an 80% level for E-Filed returns by 2007. **The IRPAC believes that such a goal is unobtainable under the current circumstances!** To achieve the 80% goal, the number of E-Filed returns would have to double in the next four years. Most of the obstacles preventing the achievement of this goal appear to fall into one of three general areas: (1) Why E-Filing is Viewed as Problematic by the Public, (2) Business E-Filing, and (3) Available Resources for E-Filing.

What steps have the Service been taking to enhance the number of E-Filed returns? It has realigned its service centers (now referred to as campuses) to achieve greater efficiency. It has established a special E-Help telephone line to specifically address queries from practitioners and other interested parties with electronic filing problems. Six new forms and three new records have been added to the electronic filing form base this year, and now, even decedent returns can also be filed in this manner. It has made many changes to strengthen the Service’s ability to prevent online fraud, and earlier this year, it began accepting payments for Sub Chapter S returns and their extensions.

Perhaps one of the greatest achievements this past year was the debut of the new web site **1040 Central**, found on the IRS site at www.irs.gov. The site contains a broad variety of information, designed to allow a taxpayer to open the site, and have at hand virtually everything he or she would need to complete a tax return. The site is complete with E-File software and accommodates both individual as well as business E-Filing on a no cost basis for the user. The site is available to users 24 hours a day, seven days a week. The IRPAC believes that this site will go a long way toward encouraging taxpayers to use the E-Filing process when preparing their tax returns.

What obstacles still must be overcome in order to enhance the numbers of E-Filed returns? Based on numerous focus group discussions held over the past few years, the feedback we received indicate three primary areas into which most of these objections fall. The first objection relates to **Costs**. Practitioners indicate that they have inadequate incentives to bear the cost of purchasing electronic filing software. They further object to the rather high fees assessed in the use of both credit and debit cards, and voice a final objection over the additional time required to properly format a return for electronic filing. Put succinctly, they believe the expenses they would incur, along with a decrease in productivity due to formatting requirements outweigh the intrinsic benefits of participating in the E-File program.

Another area of objection is the lack of incentives for the practitioner and the taxpayer to participate in the program. While a taxpayer expecting a refund for the year can expect to receive it in under three weeks when filing electronically, currently, there is no visible incentive for a taxpayer to file a "Balance Due" return in this manner. Other obstacles mentioned include the inability of one to file a MFS return electronically as well as the fact that many forms required are still not allowed to be filed electronically. Finally, a recurring objection which we see often from practitioners, is the fact that once a return is filed electronically, it can only be amended using a paper Form 1040X. This further reduces productivity and is a significant disincentive to electronic filing.

The third primary area of objection falls into the area of Taxpayer Confidence and Distrust of the Internal Revenue Service. Over the years, policies of the IRS have varied depending upon which commissioner was in charge, and whether he chose to take a "mild" approach to tax administration or whether he chose to use the proverbial "Big Stick." Because of this history, many taxpayers simply do not trust the IRS. Among the obstacles most often identified in this area are objections to electronic filing from many older taxpayers who are "set in their ways" and have been doing their returns on paper all of their lives. The fact is that paper returns are within their "comfort zone." Taxpayers also express concerns about the security of their personal information should they transmit their returns electronically, and perhaps most important is the fact that **taxpayers are skeptical about giving their credit card or bank account data to the IRS** in fear that the IRS will use the data for collection or other unauthorized uses.

These are the primary obstacles currently impeding progress towards the RRA '98 goal, and whether they are credible or not - is really immaterial. The Service must find a way to address these issues if it is to have any chance of being successful in reaching its 2007 goal. This is one of those situations where the old adage of "Perception is Reality" certainly applies.

What Can IRS Do to Change Behavior and Attitudes of Those Not E-Filing?

The IRPAC believes that one of the most basic steps the Service can take is to continue the expansion of forms eligible to be filed electronically as rapidly as is possible. We further believe that the Service should seriously explore ways to make software available **at no cost to practitioners who wish to participate in the program**. By doing so, the Service would end up removing one of the more significant barriers to electronic filing.

Finally, we recommend close monitoring of the results in the eight states that have mandated electronic filing for the 2003 tax return year. The IRPAC believes that this is the start of a trend that will be expanded rapidly to the other states once the results of these mandates have been properly evaluated by other state taxing authorities.

How Can IRS Better Market E-Filing?

There is consensus among IRPAC members that the first step to obtaining better marketing results for E-Filing is for the Service to request and obtain a significant increase in funding for their marketing budgets. In addition to providing some needed flexibility in marketing, larger budgets would allow for a more rapid expansion of the E-Filing program by increasing both the "Reach" and "Frequency" of its advertisements.

Among our specific recommendations, the E-File system, throughout its history, has always been targeted to individual filers. Therefore, we recommend the creation of a marketing campaign specifically targeting Business E-Filing. Further, ads should be created stressing the "Safety and Security" of the personal information of those using the E-File system.

Perhaps the boldest recommendation coming from the IRPAC is a recommendation to create a series of ads *indirectly* pointed at the practitioner community through creating a demand on the non participating practitioner to "get with the program". Such ads would posture paper returns as "Old Fashioned and Obsolete" with an overall theme of Is Your Accountant Up to Date?

Specific advertisements could be designed using themes such as:

Is the Accountant Preparing Your 2004 Tax Return Still Using 20th Century Technology?

Do You Still Wait 8-12 Weeks to Get Your Tax Refund?

Tax Cuts Offer the Largest Refunds in History—How Fast Can You Get Yours?

Regardless of the individual marketing themes chosen, the idea is to create a specific client demand for E-File services on those professionals not currently participating in the program.

How Will the Implementation of E-File Services Impact the Number of Returns Filed Electronically?

We currently believe that E-File Services will serve to assist many practitioners in transitioning into the electronic filing system. Created as a direct result of practitioner recommendations, E-File Services was established to simplify the system and remove barriers through this special service.

Through this service, practitioners can provide on-line Powers of Attorney, Transcript Delivery, and handle a bevy of tax questions or other problems that the practitioner may view as obstacles in dealing with the electronic filing system. Because the initial requirement to qualify to use E-File services requires that a practitioner file a minimum of 100 returns, we believe this program is a big step forward towards increasing the number of returns filed electronically.

Because this program was specifically geared to the requests of practitioners, as well as the fact that it addresses many of the needs and concerns expressed by them, and most importantly, **practitioners indicated that were such a service offered, they would most likely participate in the E-File program**, we anticipate an increase in the number of E-Filed returns to be the direct result.

How Will State Mandated E-File Programs Impact the Federal Program?

For the current filing year, eight states have **mandated** E-Filing for practitioners filing a minimum number of returns. (Some states require those filing 50 or more returns use E-File, while others, 100 or more.) **Therein may lie the only real “ray of hope” that the Service may actually be able to achieve it’s 80% goal by 2007.**

The move is a direct result of very tight state budgets—a problem confronting all but one or two states this year. We anticipate that those participating states will enjoy

significant cost savings resulting from these mandates, and as a result, these mandates will be expanded rapidly to other state taxing authorities.

Further, as a result of a fairly rapid expansion of states mandating E-Filing, another of the barriers previously identified - can eventually be eliminated. I refer to the barrier of Lost Productivity in formatting a return for E-Filing. Since most computer systems will format the federal return at the same time it formats a state return, if the state mandates E-Filing, **both returns are essentially formatted for E-File at the same time—without any additional time required from the practitioner to format for federal purposes.**

The IRPAC believes that we will see a substantial increase in the number of returns filed electronically on the federal level as an indirect result of these state mandates. To further support this conclusion, we point out the fact that many states are not internally structured to receive E-Filed returns on a direct basis; rather, the return is filed electronically to the IRS who then transmits returns in bulk to the appropriate state authorities. Therefore, for those states mandating E-File, we believe that necessarily, the number of returns filed electronically to the federal government from those states must increase.

No discussion regarding mandated state sponsored E-Filing and it's impact on the federal system would be complete without mentioning the possibility of the IRS also mandating E-Filing at some date in the future through a change in regulations and procedures. While the current political climate may not allow for such a mandate, the IRPAC envisions a rapid expansion of mandatory E-File programs among the states. As that occurs, IRPAC believes, political resistance will eventually be broken down so that the Service will then be able to issue its own E-File mandate applicable to federal return requirements. **Unfortunately, under current circumstances, the IRPAC believes that this is the only realistic way for the Service to reach its RRA '98 goal.**

What Legislative Changes Would Encourage More E-Filing?

The IRPAC suggests two legislative items that we believe would result in increased participation in the E-Filing program. First, we recommend an **E-File Tax Credit**. A credit of \$10 per individual return and perhaps \$25 to \$50 for a business entity return would likely meet this need. Once passed into law, the new credit should be heavily marketed. This would be of great help in overcoming two of the barriers previously identified. Specifically, since there currently is no incentive for taxpayers to file "Balance Due" returns electronically, that barrier would be removed. Additionally, such a tax credit would create pressure on non participating practitioners to join the program rather than to have to explain to each client why he or she was not receiving that "heavily advertised E-File credit" to which he or she would otherwise be entitled.

Our second recommendation for legislative change is geared to overcoming the obstacle of taxpayers' distrust of the IRS. **We recommend that Congress enact**

legislation prohibiting the IRS from using personal credit card or bank account information it receives as part of the E-File process for the purpose of Collection Activities. Again, I remind you that Perception is Reality, and even though the Service can obtain the same information from other sources, we believe that Congressional action of this nature will go far to ease the fears of the American taxpayer of a possible “IRS Raid” upon their accounts.

In closing, I again want to express our thanks to the Board for the opportunity you have given us today. However, I would be remiss in my responsibility if I were to fail to express our deep appreciation and thanks to the entire staff of the IRS office of National Public Liaison, IRS senior officials and to Commissioner Everson for the splendid cooperation and eagerness displayed in working with us to achieve our common goal.

Together, we will continue to strive to achieve a tax system which is both fair to the American taxpayer, and an administration of that system which operates as efficiently as possible.

Respectfully Submitted,

Jeff Adelstone, Chairman
IRPAC