**HF2336 (S. Anderson) Individual income tax return free electronic filing system implementation required, reports required, and money appropriated.**

Good morning Chair Anderson and Members, for the record, my name is Paul Cumings and I am the Tax Policy Manager at the Minnesota Department of Revenue. Thank you for the opportunity to come before this committee today.

Tax season is upon us. It is that one annual experience people from across all slices of Minnesota share – doing your taxes. Creating an environment in which our customers voluntary reports, pays and receives the right amount is the vision that we strive to at the Department of Revenue. To meet that vision, removing any roadblocks from voluntarily complying should be our goal – and I think that is what Rep. Anderson’s bill is aimed at doing.

We have strategies at the Department of Revenue to achieve our vision and they are aligned with the goals of this bill including:

* Providing customers with information, education, and services.
* Creating operational efficiencies and leverage technology to secure customer information, and to meet customer and employee needs, and
* Listening to our customers, identify and develop improvements to the revenue system.

I think we share the same goals. When I came to the Department in 2011 - trying to remove some of the barriers from filing (like free file) was something that made me excited about taking a job at the Department of Revenue to partner with others in that work. There were other issues in 2011 that really focused my attention.

We have seen similar attempts in the past.

 In 2015, Sen. Rest and Rep. Youakim – and I have been warned about speaking about the other body while in the House – she introduced a similar bill directing the department to “develop and implement a system for the secure electronic filing of individual income tax returns and payment of individual income tax liabilities” for the next filing season.

 In the course of working with her bill she learned a lot (and so did we all) about what people expect when filing their taxes. People said they wanted a solution that:

* Does more than allow them to fill in a PDF copy of a tax return and e-mail it to us. They want a solution that has wizard like functionality that asks them questions and walks them through completing their return. They want a solution that makes it easy for them to file an accurate tax return.
* They want a solution that works for all taxpayers and not just those who have a simple return (no worksheets, schedules etc.) or those with income at certain levels or other restrictions.
* They want a solution that does not require them to go to multiple different places to file a return (one place to file a federal return and another to file a state return).

In order to successfully administer the tax system, at a minimum the department needs a solution that:

* Keeps the return filing processed linked to the IRS Modernized Electronic Filing (MEF) process.
* Maintains the security and safety of taxpayer information.
* Does not create an environment for filing of fraudulent returns.
* Keeps up with all the state and federal tax law changes so that taxpayers can file a timely and accurate tax return AND
* Is easy for taxpayers to use creating a more accurate return that reflects the tax benefits taxpayers are entitled to

If we build a solution that meets the taxpayer and the needs of the agency, it essentially makes us a software vendor (like an Intuit or H&R Block). We have worked to become one of the best Revenue Departments in the country on responding to issues as they come up in the filing season including return processing and fraud prevention and detection which is about the same time this would be rolled out. We have tried to provide our customers with online tools, forms and guidance that meet the highest standards so they can depend on that to help them voluntarily report and pay their taxes. There remain many unknowns about how this could be done, how the timeline could work and how it be managed during our busiest season.

We are motivated to find a free file solution that works best for our customers. We want to ensure that this work meets our highest standards. Taking the time needed to find out if this method is the best way to finally have a robust free file option for Minnesotans makes the most sense.

After Sen. Rest and Rep. Youakim worked with stakeholders, interested constituents and hearing many of the unknowns about the impact moving ahead quickly, she decided that it may be the best option to have a study. Although we have identified a number of elements that are important to this system, a study and report will allow us to gather information about potential solutions. It will allow us to test our internal thinking with technology experts - including companies who provide filing software- to ensure we can explore options and consideration for all stake holders.  As a part of the report we will compare what other states are doing, the relative costs and their results. We can leverage private sector expertise on this topic by issuing an RFI- request for information- to gather the most current thinking on a solution. A study could help to see if a government-built approach works best or a public/private partnership is the best approach.

Again, we appreciate Rep. Anderson bringing this forward as we certainly share the same goals. As this bill moves forward to Taxes or other stops, we look forward to continuing the conversation with Chair Anderson, interested members and staff. Thank you for the opportunity to testify.