

**Testimony of David Ransom
On Behalf of
The American Coalition for Taxpayer Rights (ACTR)**

**Minnesota House of Representatives
State Government Finance Committee
Friday, March 17, 2017**

Chairwoman Anderson and Members of the State Government Finance Committee:

Good morning, and thank you for allowing me to testify today on H.F. 2336.

My name is David Ransom, and I am a partner in the law firm McDermott Will & Emery, where I both practice law and lobby in our Washington, D.C., office.

Let me add, too, that it is always nice to come back to St. Paul. I graduated from the William Mitchell College of Law (now Mitchell Hamline, as you know) in 1992, and had a great experience there and have many friends who practice law in the Twin Cities.

Today, I come before the Committee as counsel to the American Coalition for Taxpayer Rights (or “ACTR”), a 13-member national trade association of the nation’s largest tax preparers and the financial institutions that offer tax-time bank products that are chosen by millions of Americans each tax-filing season.

ACTR members are the most recognizable names in the tax preparation industry, and include companies that offer retail tax preparation services, do-it-yourself software, and professional tax preparation products. Our members include:

- H&R Block
- Jackson Hewitt
- Liberty Tax
- Intuit
- TaxACT
- TaxSlayer
- TaxHawk
- On-Line Taxes Inc.
- CCH Small Firm Services
- Metabank
- Republic Bank and Trust
- Tax Products Group. And
- NetSpend

We estimate that ACTR members assist in the preparation and filing of approximately 100 million of the 150 million federal income tax returns that are filed with the Internal Revenue Service annually, as well as millions of state income tax returns.

We are very familiar with legislation such as H.F. 2336 (and its Senate companion bill, S.F. 2108), and believe that such efforts – even while well-intentioned – are nevertheless unwarranted and potentially very expensive for the State and its taxpayers.

To be clear, H.F. 2336, if enacted, would constitute a state government decision to takeover a function – tax preparation and filing – that today is effectively and efficiently being met by private-sector companies which have decades of experience in making the tax preparation and filing experience easier for American taxpayers.

Based on our experience with similar efforts in other states, we question whether the State would want to assume the role of tax preparer, alongside its existing and appropriate role of assessing tax returns for compliance with the State law and as the tax enforcement agency.

This legislation, if enacted, would require an expensive infusion of additional monetary resources and staff time to the State Department of Revenue to allow it to build the software and systems that would be necessary. We are not aware of a cost estimate for the bill's procurement requirements. Today, these are expenditures that today are made by private-sector companies that provide services to Minnesota taxpayers in an efficient and economical manner.

There are many reasons to oppose H.F. 2336. For example –

- The current Minnesota Free File Program with industry has been very successful, and could be even more successful. Today, most Minnesotans can get their tax returns prepared for free through the Free File Program, and have their choice of tax software vendors. Since 2003, more than a dozen private-sector tax preparation companies have made their tax software available (free of charge) to taxpayers earning less than \$64,000 per year (this figure is adjusted annually so that it always covers the lowest-earning 70 percent of U.S. taxpayers). Over the last 14 years, more than 48 million Americans have filed their income taxes through the IRS Free File Program, savings those taxpayers nearly \$1.5 billion in tax preparation costs. The volume of returns prepared through the Program could – and should – be higher. If Minnesota were to enact this legislation under consideration, the Free File program rules would require the termination of the program, and Minnesotans would no longer be able to use the Free File Program.
- Other States have built government-run tax-filing systems, but have chosen to discontinue them. Several states – including South Carolina, New York, Virginia and Massachusetts – operated state-run tax-filing regimes, but have discontinued them due to low usage and relatively high expense for each return. New York and Massachusetts have begun to participate in the Free File Program again. The failure of State systems such as HF 2336 to be cost effective is a problem noted elsewhere. In 2007, the U.S. Government Accountability Office (GAO) examined California and other states' systems of preparing and processing taxpayers' returns and explored options available to the IRS

for implementing systems that would allow taxpayers to prepare and file tax returns on their Internet websites. However, the GAO concluded: “For the systems profiled, both reported benefits and costs were relatively modest and it is unclear whether benefits were greater than costs.”¹

- A state government-run tax filing system would be equally susceptible to cyber attacks and tax refund fraud schemes. Over the past two years, ACTR members have worked very closely with the IRS and state departments of revenue – including under Minnesota’s leadership – to combat and prevent stolen identity tax refund fraud. This is a burgeoning crime that is now being perpetrated by sophisticated criminal gangs. Our collaborative efforts though have started to make an impact as evidenced by IRS figures indicating a lessening of such fraud. ACTR members and other private-sector companies have years of experience in addressing such security questions. Under this legislation, the State would have to ramp up its security efforts, and take the risk of breach and all its attendant costs.
- Practical problems. Neither the IRS nor the states have the information technology systems, resources, or experience to fully and completely implement a state sponsored system. If H.F. 2336 were to be enacted, for example, the State would need to operate an 800 call center to assist taxpayers who encounter problems with their tax filings. The State also would need to build a system that is able to handle a high volume of returns that typically are processed during certain days early and late in the tax-filing season. The Department of Revenue could be forced to divert funding, employees and resources from other critical issues and activities.
- Inherent conflict of interest. Minnesota taxpayers should be aware that a state-run tax-filing system raises serious potential conflict-of-interest issues. In such a system, the State would function as a tax preparer, tax auditor, investigator and enforcer. Would the State use the key strokes of a taxpayer on a state-run system to guide audits? For example, would the State flag a return if a taxpayer changed his or her charitable deductions? The implications of having the State function as the tax preparer as well as the auditor and enforcer are profound and should be considered.

These are some of the major issues that policymakers should consider before seeking to implement a state sponsored tax-filing system as called for by H.F. 2336. Based on the experiences of other states, it is clear that a state software system is no panacea for taxpayers. Rather, it raises a host of potential problems and issues for both taxpayers and the state Department of Revenue that must be carefully considered.

On behalf of the American Coalition for Taxpayer Rights, I would urge you to weigh these potential problems and issue very carefully before moving ahead with a state system.

Thank you for your consideration.

¹ U.S. Government Accountability Office, “State Experiences Indicate IRS Would Face Challenges Developing an Internet Filing System with Net Benefits,” April 2007.

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