



AMERICAN COALITION FOR  
TAXPAYER RIGHTS

February 22, 2021

The Honorable Carla J. Nelson  
3235 Minnesota Senate Building  
St. Paul, MN 55155

Re: S.F. 488

Dear Chairwoman Nelson:

I am writing today on behalf of the American Coalition for Taxpayer Rights (ACTR), a national coalition of the leading retail tax preparation, tax software and financial services settlement companies, to follow up on my letter of February 8 regarding Ranking Member Rest's bill (S.F. 488), which would require that the Department of Revenue study and report to the Legislature on free electronic filing options for the individual income tax.

We appreciate your acknowledgement of our previous letter during the Senate Tax Committee hearing on February 9. Our understanding is that the bill has been laid over for possible inclusion in a larger bill later this session.

While no one can disagree with seeking to make tax-filing easier for Minnesotans, and while a study may sound benign, we believe this legislation if enacted would put the State on the wrong path in terms of tax administration and headed for a result that will not benefit Minnesota taxpayers. Building a state tax utility to mimic what is already widely available for free to low-income taxpayers from the private sector through the IRS Free File Program will result in substantial upfront and ongoing costs for the State of Minnesota.

As you are aware, large state software projects are challenging to develop, implement and maintain. It is likely a system integrator would need to be hired to build the system. The system costs would include the initial costs of building the software program, as well as annual costs associated with upgrading technology and addressing state law changes. In addition, there are costs related to purchasing sufficient server capacity/cloud services to meet the peak demand of taxpayers, such as the last day of the season; telephone call centers to field taxpayer inquires or problems; and other infrastructure expenses. The life-cycle cost of such a system is very high. Furthermore, the State offering could also make it a target for identity-theft activity and hacking. There also are a variety of other issues, including taxpayer privacy, that must be weighed by policymakers as they consider any effort to create such a tax-filing system.

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As counsel to ACTR since the group was formed in 2010, and as general counsel to the Free File Alliance (the private-sector partner in the IRS Free File Program) since Free File's inception in 2003, I have a good practical knowledge on the legal, cybersecurity and cost issues involved in such a system, and I would appreciate the opportunity to discuss this with you and your staff at your convenience as you consider action on S.F. 488.

The recent problems experienced by Vermont in misdirecting 1099 forms to the wrong addresses creates fuel for identity theft, and underscores the political risk a State takes as it increases competing services.

Finally, I do appreciate Senators' focus and concern over the provision of free tax filing for low- and moderate-income taxpayers. However, the multi-decade success of the Free File Program in providing free tax preparation and e-filing by the private sector deserves more analysis:

- Last year, 4.2 million federal income tax returns were prepared and filed through the Free File Program, and millions of state tax returns also were prepared and filed for free;
- Approximately 22.7 million federal income tax returns were prepared and e-filed for free through Free File members' commercial websites (that is, outside the actual IRS Free File Program) last year; and
- Nearly 8 million Americans who did not have a filing requirement last year but who were eligible to receive an Economic Impact Payment (EIP) as a result of the COVID-19 relief legislation were able to receive their EIP by filing a free form created by industry.

As you and your colleagues consider S.F. 488, I encourage you to use ACTR and its member companies, as well as the Free File Program, as resources. We would like to provide factual insight and context on this issue, and would be happy to talk with you further about such matters.

Thank you in advance for your consideration.

Sincerely,

/s/

Stephen M. Ryan

Counsel, American Coalition for Taxpayer Rights (ACTR)