



AMERICAN COALITION FOR
TAXPAYER RIGHTS

March 2, 2020

The Honorable Paul Marquart
Chairman, Committee on Taxes
Minnesota House of Representatives
597 Rev. Martin Luther King, Jr., Blvd.
St. Paul, MN 55155

Re: House File 3496

Dear Chairman Marquart:

I am writing today on behalf of the American Coalition for Taxpayer Rights (ACTR)¹, a national coalition of the leading retail tax preparation, tax software and financial services settlement companies in regard to House File 3496 (H.F. 3496), which I understand will be considered in Committee on Tuesday, March 3.

ACTR was established in 2011 for the purpose of representing the policy interests of taxpayers who use our products and services and engaging with federal and state policymakers and regulators on related tax administration issues. ACTR's 14 member companies assist in the preparation and filing of approximately 110 million of the more than 150 million individual federal income tax returns annually, as well as with millions of annual state returns. Our member companies also provide millions of financial products to facilitate the tax refund and savings transaction for taxpayers. Furthermore, six ACTR members participate in the IRS Free File Program, and our association has always strongly supported Free File, as well as our member companies' provision of other free tax preparation and filing options that are available, particularly for low- and moderate-income taxpayers.

ACTR does not oppose H.F. 3496 as written. While we wish to learn more about the underlying purpose and intent of the bill, we believe we can be a valuable resource for the legislature regarding tax administration issues. For example, H.F. 3496 asks the Commissioner of Revenue to conduct a survey requesting information from tax preparation software "vendors that addresses the following concerns: (1) system development, capability, security and costs for consumer-based tax filing software. . . ." It is unclear whether or not the underlying intent of this information is to support the establishment of a state paid-for and operated tax preparation and filing platform.

¹ ACTR members include Drake Software; H&R Block; Intuit; Jackson Hewitt; Liberty Tax; MetaBank; NetSpend; OnLine Taxes; Republic Bank and Trust; Tax Products Group; TaxACT; TaxSlayer; TaxHawk; and Wolters Kluwer/CCH.

Other states have from time to time established such state web tax preparation and filing platforms, directly or through outsourcing to contractors. The failure of such state-sponsored return systems has led some states to shutter such efforts, as the taxpayers made little use of the government site for a variety of reasons, and the cost to the state for each return did not justify the expenditures and risks attendant to providing such services. It is also the case that private-sector tax preparation companies such as our member companies continually innovate to improve the taxpayer's experience, helping them complete their returns more conveniently, accurately and quickly.

Additionally, the general lack of state success in establishing a state-run tax preparation and filing platform is in large part attributable to the plethora of free preparation and filing options that are currently available in the marketplace. As noted above, eight of ACTR's member companies directly participate in the IRS Free File Program. Since the Free File Program's inception, more than 56 million free federal returns have been provided through this public-private partnership, and the Program has saved taxpayers an estimated \$1.6 billion in tax preparation and filing fees that they otherwise would have spent. Millions of free state tax returns also have been provided as a direct result of the IRS Free File Program. This tax-filing season, usage of Free File is up significantly over last year, and last year's Free File volume also was up over the previous year.

While the IRS Free File Program is generally available to the lowest 70 percent of taxpayers, the Free File program also makes available "Free File Fillable Forms," which is available to taxpayers of all incomes.

Outside of the IRS Free File Program, ACTR members and other private-sector tax preparation companies assist in the preparation and filing of millions of free federal and state returns every year. In tax year 2018, for example, private-sector companies provided nearly 18 million free returns through their commercial free websites (i.e., not Free File), according to a comprehensive study of the Free File Program by the highly respected MITRE Corporation (a Federally Funded Research and Development Corporation or "FFRDC") retained by IRS. That report was publicly released on October 3, 2019.

MITRE's report stated in part:

FFA "members provided free commercial filings last tax season to nearly 18 million taxpayers. With free venues such as [Volunteer Income Tax Assistance (VITA)], military assistance, [Tax Counseling for the Elderly (TCE)] and free commercial filings, Free File is just one choice taxpayers have to file their returns for free." MITRE, Free File Assessment Final Report, p. 29.

As noted in the passage above from the MITRE report, the IRS also operates the VITA Program – which ACTR also supports – and it provides an estimated 3 million free federal income tax returns annually.

These free tax preparation and filing programs literally provide millions of free federal and state income tax returns to taxpayers each year. And while more could be done to make the public aware of these options – efforts that ACTR fully supports – there simply is no question that American taxpayers today have a wide variety of free options when it comes to filing their federal and state income tax returns.

Finally, states considering the establishment of a state-run tax preparation and filing system often do not fully account for the ongoing development and operational costs (including top-rate customer support)

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associated with creating and maintaining a secure system that can receive and protect highly confidential tax return information.

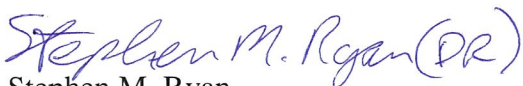
In its 2019 report on the IRS Free File Program, MITRE noted, among other things, the costs to the IRS of operating an e-filing program:

- “The benefits of engaging in the current public-private partnership (PPP) with the [Free File] Alliance appear to be substantial. ...The Agreement with the Free File Alliance allows the IRS to pass on the substantial cost of developing and implementing the e-filing program to the private sector, while at the same time providing greater consumer choice and promoting competition in the tax preparation industry.” MITRE, Final Report, Appendix A, p. 24.
- “Without the PPP [Public-Private Partnership] arrangement, IRS would sustain prohibitive costs in funding such a program itself, with added risk of competing with a highly competitive private sector.” Appendix A, Page 23.
- “The public-private partnership (PPP) with the [FFI] allows IRS to provide Free File to millions of taxpayers at a minimal cost to the agency. It does so by passing on the bulk of the cost of program development and implementation to the private sector.” Appendix A, Page 23.

We believe that the conclusions reached about the benefits associated with the IRS Free File Program apply with equal force at the state level, where policymakers may be contemplating or weighing the establishment of a state-run tax preparation and filing system. Operating and maintaining such a state-run system that meets taxpayers’ expectations can entail significant costs that should not be underestimated.

As the Minnesota legislature considers H.F. 3496 and/or other tax administration matters, I hope that you will consider ACTR and its members as a resource which can provide useful insight and context on such issues. If you or your staff have any questions or concerns about this or other legislation, we would be happy to speak or meet with you at your earliest convenience. Thank you for your consideration.

Sincerely,



Stephen M. Ryan

Executive Director and Counsel to ACTR

cc: The Honorable Greg Davids, Ranking Member, Committee on Taxes
The Honorable Cheryl Youakim, Member, Committee on Taxes