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Computer & Communications Industry Association

June 17, 2009

The Honorable Jose Serrano
Chairman,
Subcommittee on Financial Services
House Committee on Appropriations
2227 Rayburn House Office Building
Washington, DC 20515

The Honorable Jo Ann Emerson
Ranking Member,
Subcommittee on Financial Services
House Committee on Appropriations
2440 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Serrano and Congresswoman Emerson:

The Computer & Communications Industry Association (CCIA) is writing to strongly support the continuation of the IRS Free File Program, which is under the jurisdiction of the Financial Services Subcommittee of the House Appropriations Committee. This highly innovative and uniquely cost-effective program has completed seven years of success in serving the American taxpayer, and is currently up for renewal and extension by the IRS. We are writing to urge you to support the continuation of the Free File Program for many years to come, and to continue, as well, the rigor and discipline of IRS governance and management of the program to achieve continued excellence in public service.

CCIA is an international, nonprofit association of computer and communications industry firms, representing a broad cross section of the industry. CCIA is dedicated to preserving full, fair and open competition throughout our industry. Our members employ more than 600,000 workers and generate annual revenues in excess of \$200 billion.

CCIA was an original participant in the dialogue between government and industry, which led to the 2002 Negotiated Public Rulemaking by the IRS creating the Free File Program, and the foundation upon which the program is still based today. Those original policy discussions were conducted between the IRS, Treasury Department and the American software industry under the auspices of the Electronic Tax Federal Advisory Committee (ETAAC), with complete sunshine under the Federal Advisory Committee Act. The resulting rulemaking was published in the Federal Register in the Summer of 2002 for full public comment and review, and received more than 700 submissions for the record, which supported the policy proposal by a margin of 6-1. The e-government initiative created in that rulemaking was innovative and cost-effective because the model was entirely non-monetary in nature, and yet created a national program whereby 70% of all U.S. taxpayers were to be offered electronic tax preparation and e-filing at no cost to either the public treasury or the end-using taxpayer. In consideration of this industry-wide commitment, the IRS, on behalf of the U.S. Government, committed to *not* develop or deploy its own consumer electronic financial services that would compete with or replace the role of the private sector.

As a result of this Agreement, the IRS Free File Program was implemented in January 2003. With almost 20 companies participating in the program through the IRS website, Free File has now operated and provided consumer choice in free electronic financial services for the preparation and filing of personal income tax returns, and, in the seven tax seasons since it began, Free File has donated more than 30 Million free electronic tax returns and filings for the American people. Today anyone earning \$ 56,000 a year or less is eligible for Free File, which equates to 70% of all taxpayers, or 98 Million eligible citizens. Equally importantly, under strict IRS program governance, no cross-selling or cross-marketing of other products and services is allowed under the Program.

The thoughtful policy balance embodied in this unique initiative triggered the natural competitive forces of the marketplace, producing continued private sector investment and innovation, and creating a revolution in public adoption of electronic filing of their annual income tax returns. Indeed, the benefits wrought from the Free File Program are so far-reaching that we refer to this as *The Free File Revolution*. Today, well more than 60% of US taxpayers file their returns electronically, which represents a huge change in consumer behavior. The cost-effectiveness of this model is extraordinary. The U.S. Government does not have to pay for those electronic filings, and neither does the taxpayer who uses the service. In fact, the continued competitive transformation of the electronic financial services and software industry has resulted in the cost of electronic transmission/filing of tax returns to now be free for Federal tax returns throughout the United States – not only through the Free File Program *but outside of Free File as well* in the general commercial marketplace. And the benefits go further. In the last several years the electronic tax preparation industry has moved ahead aggressively with the new Internet business models that transformed other industries, and today there are multiple competitive alternatives available to American consumers where they can get not only

free electronic filing, but free electronic preparation of their tax return in the general commercial marketplace *outside* of the Free File Program. And the economic benefits triggered by this Free File Revolution go even further. The internal operating costs of the IRS have dropped significantly, because the cost of processing today's electronically submitted return is approximately 1/3 the cost of handling and processing the traditional paper returns of the past. Electronic returns are also dramatically more accurate than paper returns; paper returns have an error rate of 20% on average, while electronic returns have an error rate of only 1% or less.

As IRS Free File has evolved over the last seven years, it has steadily improved in its operating discipline as overseen by the IRS, making it the gold standard of the industry, operating under tight rules, standards and governance that are now a national model. Over time Free File has become bigger than the VITA program. Free File was also expanded just this past tax season to include a Fillable Forms Utility that is available through IRS Free File for use by *all* taxpayers, without regard to income or any other limitations. This Forms Utility is the electronic equivalent of paper IRS forms, but with calculating and e-file capability built in, as well as electronic cross-referencing to IRS booklets and instructions. And again, no public funds were used to develop and deploy this free service, but the service is accessible only through IRS.gov on the Web, as a part of the Free File Program.

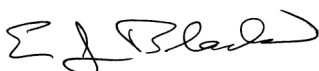
Significantly, 21 States across the United States have adopted the Free File model for the delivery of free tax services to their citizens at the State level, by leveraging the IRS-negotiated public rulemaking agreement and applying it to their States. For those States, eligible taxpayers are able to get both their Federal *and* State returns, and electronic filing, for free – and this includes both New York and Missouri, which are active Free File States. This further innovation has substantially extended the benefit of the innovative Free File model for the American people.

Finally, one of the greatest benefits of IRS Free File has been how it has enabled the IRS to focus all of its energies, resources and public investments on those unique tax administration functions, activities, systems and mission requirements which *only* Government can perform. With limited public funds available for Government systems investments and modernization, it is not just prudent but essential that the IRS and Treasury focus on mission-critical functions, rather than expanding the IRS mission and expending public funds to subsume the role of the private sector in providing electronic financial services to American consumers. Differentiation of the roles of tax collector and administrator from those of tax preparer and advisor serves the American people well. It permits the IRS to appropriately focus its energies on its central mission of maximizing revenue receipts for the public treasury, while the financial services industry continues to support American families in finding their lowest lawful tax liability. The natural tension in that system embodied in that division of labors and roles is what ensures that the U.S. tax system can be fair and objective. It is a significant part of what has delivered a Voluntary Compliance rate in the United States that is well in excess of 90%, an operating model that is the envy of the world.

2009 is the year the current Free File Agreement expires, so we want to strongly urge you to support the renewal and extension of the IRS Free File Program for many years to come. This is important not only for the continued benefit of the American people for their compliance with their Federal income tax obligations, but for the Free File States as well. In the last several years, major state government organizations -- such as the Council of State Governments (CSG), the American Legislative Exchange Council (ALEC) and the National Conference of State Legislatures (NCSL) – have petitioned Congress to support the continuation of the IRS Free File Program, because the continuity of State Free File is directly connected to the continuity of that national Free File Agreement. If IRS Free File ends, the 21 Free File States would have to find some other means of providing free taxpayer services – effectively imposing an unfunded mandate on those States, and at a time when the public funds simply are not available to be spent on trying to duplicate private sector investment in order for State Governments to try to offer their own electronic financial services to replace Free File. So even if the IRS were to somehow conclude that it has such ample public funding available that it can spare the resources to invest in the development and provision of its own direct electronic tax preparation and filing services, it is clear that the Free File States simply do not. And so, the benefits of Free File have actually rippled through the nation's tax system at both the Federal and State levels, and, in the same way, the costs of replacing Free File with Government systems would ripple throughout the U.S. tax system at both the Federal and State levels as well. Ideally, not only would IRS Free File be renewed for many years to come to provide stability and assurance of the no-cost continuity of these free services, but the IRS Free File Program should be even more directly connected and linked to the State Free File Programs in order to provide transparency and even greater benefit for American taxpayers.

We would be happy to provide additional information and assistance in any way that might be helpful to you in considering the continuation of the IRS Free File program.

Sincerely,



Edward J. Black,
President & CEO
Computer & Communications Industry Association