

## Virginia Free File Program

### Fact vs. Fiction

***Fiction*** Virginians will not be able to prepare their tax returns for free anymore without the Tax Department's iFile program.

**Fact** With the Free File Program Virginia taxpayers, earning up to \$57K in adjusted gross income (not salary), will be able to choose among more than a dozen tax software programs to prepare BOTH state and federal tax returns for free.

***Fiction*** Free File charges fees for something Virginians used to get for free.

**Fact** Free File and iFile are different services. iFile is a static form. Free File uses interactive software that helps alert people to deductions in a way that the iFile system does not.

Eligible taxpayers cannot be charged fees for Federal returns under IRS Free File, and State Free File is similarly prohibited from charging fees for State returns. Also, Free File is prohibited from cross-selling or marketing any ancillary products or services of any kind.

***Fiction*** The Commonwealth Tax Department's iFile program was both popular and successful.

**Fact** After years of operation less than 10 percent of Commonwealth taxpayers were ever even willing to use it. Compare that with the tens of millions of people who have chosen to use the Free File Program offerings at the federal level and in 20 other states (98 percent of whom also say they would recommend the program to a friend according to the 2009 IRS annual Free File taxpayer survey).

***Fiction*** Something has been "taken away" from Virginians.

**Fact** For the first time ever, Virginians will have choice: Most Commonwealth taxpayers will have a half-dozen or more of the best-known, most-trusted software products that cost \$50 or more in stores made available to them for free. Moreover, they can use these products to prepare and electronically file BOTH their STATE AND FEDERAL tax returns for free – something never before available to them. Thanks to the free FEDERAL e-filing now available to them, they will get their refunds faster.

***Fiction*** Maintaining the iFile program did not cost the state a lot of money — about \$49,000 per year total according to the fiscal impact statement.

**Fact** We learned from representatives of CGI, the vendor for iFile, that they are receiving \$600,000 annually. They also bill the state for costs including upgrading, operating, updating, networking, servicing, provisioning, supporting

or managing the system, all of which the state tax agency has refused to disclose over the years.

***Fiction*** The savings by switching programs could end up costing the state more money if the 90,000 filers who no longer will be able to file for free electronically go back to paper returns, which the Taxation Department estimates would cost \$1 each to process.

**Fact** The state's percentage of electronically filed tax returns is more likely to increase than decrease. Part of the reason is more people will know about it because there will be more advertising and education surrounding this program.

***Fiction*** The government should provide tax preparation as a core service.

**Fact** There is an inherent conflict of interest in having the tax collector also act as the tax preparer. Citizens fear they might not receive every credit and deduction that might maximize their refund, when the tax preparation is done by the tax collector whose mission is to maximize revenues.

***Fiction*** The primary cost of switching will be borne by the taxpayers themselves with the revenues going to the tax-filing companies.

**Facts**

- Since its debut in the 2003 filing season, almost 27 million tax returns have been donated to taxpayers through the Free File Program. This has saved the federal government and the 20 individual state governments who participate tens of millions of dollars – a benefit Virginia will now enjoy.
- There is no cost to the state Treasury. There is no cost to the end user.
- The Free File isn't a division of government or a government product so it doesn't cost taxpayers one dime.
- iFile was created for the Commonwealth by CGI, a single, for-profit vendor under public contract, and was never "free" to the state Treasury -- or to the taxpayer. State lawmakers have no real or full accounting of how much State tax revenue was collected by iFile.
- According to the IRS, the government is partnering with private industry rather than providing its own tax preparation software free to the public because it believes...

“...private industry, given its established expertise and experience in the field of electronic tax preparation, has a proven track record in providing the best technology and services available. Additionally, Treasury has indicated it does not want the IRS to enter into the tax software business. The Government believes a partnership with private industry will: provide taxpayers with higher quality services by using the existing expertise of the private sector; maximize consumer choice; promote competition within the marketplace; and meet the objectives in the least costly manner to taxpayers.”