



Position Paper

Toward a Responsible Policy on Tax Preparation...

Families and governments alike are watching every dollar they spend.

In today’s cash-strapped economy, California legislators have a golden opportunity to save scarce budget dollars for things that matter most – education, public safety, or health care – by adopting a comprehensive program to make it easier for residents to file federal and state tax returns for free for those who need it most.

It’s a straightforward idea. Such a program already exists at the federal level and in 20 states across the nation.

It’s called IRS Free File, a public-private partnership established in 2002 between the IRS and the American software industry. It provides free electronic tax preparation and filing services to low- and middle-income families nationwide and in participating states – at no cost to the taxpayers who use it or the sponsoring governments. It’s available to Americans with an adjusted gross income of \$56,000 or less – 70 percent of the taxpaying public, or 98 million people nationwide.

7 Reasons to Support Free File

| | ReadyReturn | Free File Alliance |
|---|-------------|--------------------|
| Prepares and Files California Return for Free | ✓ | ✓ |
| Prepares and Files Federal Return for Free | | ✓ |
| Finds and Claims State Deductions | | ✓ |
| Finds and Claims Federal Deductions | | ✓ |
| Finds and Claims Earned Income Tax Credit | | ✓ |
| Available Through Nonprofit Organizations | | ✓ |
| Development Cost to Taxpayers | \$ millions | Free |

And it’s an idea that’s ripe for California. That’s why we at Intuit have supported this program for nearly a decade. We believe that the benefits of modern technology should be made available to all citizens, regardless of income, especially when it comes to preparing and filing taxes. Over the past 10 years, we’ve donated more than 20 million federal and state tax returns through TurboTax Online to those who need it most.

Free File excels in ways that California’s government-developed and operated system, ReadyReturn, cannot. States that have adopted Free File save money because they don’t have to build, operate and maintain a costly consumer software system that duplicates private industry investment. Those savings free up funds for critical public programs that only government can provide. And taxpayers get a state-of-the-art, one-stop electronic tax preparation and filing program with consumer choice that truly lives to its name: Free File. No costs to build it. No costs to operate it. No costs to maintain it. And no costs to use it. Free File is genuinely free, and available to those who need it most.

Here’s how Californians will benefit if the state joins the federal government and their counterparts in 20 other states and participates in the Free File Alliance, a proven, productive partnership with the technology industry.

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Help find more than \$1 billion for California's low-income families – By joining the Free File Alliance, California would provide free federal and state electronic tax return preparation and filing to millions of the state's low- and middle-income families – at no cost to the state or to the taxpayers who use it. The Alliance gives taxpayers access to the best commercially available software, which simultaneously prepares both state and federal returns. It's designed to help taxpayers find all their lawful deductions and credits and easily determine which critical federal and state tax programs they are eligible for and entitled to, and promptly claim them all.

The state's Franchise Tax Board estimates that more than 625,000 eligible Californians fail to claim their Earned Income Tax Credit annually, leaving \$1 billion back in Washington, D.C. – and out of the hands of our neediest families and the California economy. That's a lot of unclaimed money for people who need it most.

By providing both state and federal tax return preparation, and helping families claim all the money that's owed them, Free File succeeds where Ready Return fails.

Simplify state and federal filing; save time and worry – California Free File would let taxpayers prepare both their federal and state returns in one, easy-to-use service. Most people prepare their state and federal taxes at the same time, taking important information from the federal return and including it in the state filing. And that's what Free File does – electronically – for those in the states where it's available. It takes all the relevant material – not just the basic contact information and W-2 data – and automatically pre-populates it in the state return, unlike ReadyReturn, which leaves all this work to the taxpayer. The result: simplified preparation, increased accuracy and reduced filing time.

By combining the preparation and filing of state and federal returns, Free File succeeds where Ready Return fails.

Save money for a cash-strapped government – California faces a multi-billion dollar deficit. Replacing a government-run service with a free program immediately eliminates the state's investment to operate its own system: hardware, software, network infrastructure and staffing, to name just a few of the ongoing costs. States that operate their own tax software systems can spend between \$3 and \$4 to prepare and process tax returns, compared to less than \$1 for those returns filed electronically through private industry.

Taxpayers don't want the government to pick up the tab to build their own system. In a recent California survey, 70 percent of respondents said programs like ReadyReturn are unnecessary, and didn't like the idea of government expanding into their private lives.

By making the best technology from the industry's best tax preparation companies available to the California government at no cost whatsoever, Free File succeeds where Ready Return fails.

Put money where it's needed – In today's budget crisis, many important programs face cutbacks or elimination. Healthy Families, Medi-Cal, education, and police and fire services all face critical budget shortfalls in California. Joining Free File enables state legislators to redirect money from the duplicative Ready Return program and make those funds available for the essential services that government is best suited to provide for our citizens.

By enabling government to spend limited dollars where they're most needed, Free File succeeds where Ready Return fails.



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Participate in a proven, trusted success –Twenty states, the federal government and not-for-profit organizations across the country partner with the Free File Alliance, which operates under strict IRS rules. The Alliance is prohibited from cross-marketing or cross-selling any ancillary products or services to taxpayers in the Free File program. And the program works. IRS national surveys found that 94 percent of Free File users intend to use the service again, and 98 percent would recommend it to others.

In addition, taxpayers overwhelmingly prefer to prepare their returns themselves, rather than expect the government to prepare, provide advice, collect their taxes, and then later audit those returns and enforce compliance. In a recent survey of Californians, 86 percent said they'd rather prepare their taxes themselves than trust the government to do it for them. A federal survey had similar results: 77 percent of respondents nationwide said it's a conflict of interest for government to be both tax collector and tax preparer.

By providing proven products and gaining consumer trust without any conflict of interest, Free File succeeds where Ready Return fails.

Unprecedented times present unprecedented opportunities. California officials have the chance to make the best state and federal tax preparation products and services available for free to those who need them most – all at no cost to the citizen or the state. Adopting Free File will save the state money, make a more comprehensive service available, make tax filing easier, and put more money in state coffers and people's pockets. It's time to turn down the rhetoric and shine the light on the choice and benefits available to all Californians. The time to embrace Free File, instead of the hardly-used ReadyReturn program is now. We encourage everyone to learn more and support this worthwhile, comprehensive and cost-free program.

