

# TAX MAZE

## How the Tax Prep Industry Blocks Government from Making Tax Day Easier



**Form 1040** Department of the Treasury—Internal Revenue Service (99) **2015** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.  
For the year Jan. 1-Dec. 31, 2015, or other tax year beginning , 2015, ending , 20, See separate instructions.

Your first name and initial Last name Your social security number  
If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street), if you have a P.O. box, see instructions. Apt. no. Make sure the SSN(s) above and on line 6c are correct.  
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).  
Foreign country name Foreign province/state/country Foreign postal code

**Filing Status** 1  Single 4  Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 2  Married filing jointly (even if only one had income) 3  Married filing separately. Enter spouse's SSN above and full name here. 5  Qualifying widow(er) with dependent child

**Exemptions** 6a  Yourself. If someone can claim you as a dependent, do not check box 6a. 6b  Spouse. Boxes checked on 6a and 6b:  
No. of children on file who:  
• lived with you  
• did not live with you due to divorce or separation (see instructions)  
Dependents on file not entered above  
Add numbers on lines above

(c) Dependents: (1) First name Last name (2) Dependent's social security number (3) Relationship to you (4)  If child under age 17 qualifying for child tax credit (see instructions)

If more than four dependents, see instructions and check here

**Income** d Total number of exemptions claimed 7  
7 Wages, salaries, tips, etc. Attach Form(s) 7  
8a Taxable interest. Attach Schedule B if 8a  
8b Tax-exempt interest. Do not include 8b  
9a Ordinary dividends. Attach 9a  
9b Qualified dividends 9b  
10 Taxable refunds, credits, 10  
11 Alimony received 11  
12 Business income or (loss). 12  
13 Capital gain or (loss). Attach 13  
14 Other gains or (losses). Attach 14  
15a IRA distributions 15a  
15b Pensions and annuities 15b  
16a 16a  
17 Rental real estate, royalties, 17  
18 Farm income or (loss). Attach 18  
19 Unemployment compensation 19  
20a Social security benefits 20a  
20b 20b  
21 Other income. List type and amount 21  
22 Combine the amounts in the far right column. This is your total income 22

**Adjusted Gross Income**  
23 Educator expenses 23  
24 Certain business expenses of reservists, members of certain reserve components of the National Guard or Reserve, or qualified plan administrators. Attach 24  
25 Health savings account deduction 25  
26 Moving expenses. Attach Form 3903 26  
27 Deductible part of self-employment tax. Attach Schedule SE 27  
28 Self-employed SEP, SIMPLE, and qualified 28  
29 Self-employed health insurance deduction 29  
30 Penalty on early withdrawal of savings 30  
31a Alimony paid b Recipient's SSN 31a  
32 IRA deduction 32  
33 Student loan interest deduction 33  
34 State and local tax deduction 34  
35 Charitable contribution deduction 35  
36 Add lines 23 through 35 36  
37 Subtract line 36 from line 22. This is your adjusted gross income 37

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.  
If you did not get a W-2, see instructions.

Cat. No. 11320B Form 1040 (2015)



Prepared by the Staff of Sen. Elizabeth Warren

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# Tax Maze:

## How the Tax Prep Industry Blocks Government from Making Tax Day Easier

### EXECUTIVE SUMMARY

This tax season, Americans will spend billions of dollars and countless hours preparing and filing their annual returns. Taxpayers will spend, on average, 13 hours preparing and filing their returns, and will pay \$200 for tax preparation services—a cost equal to almost 10% of the average federal tax refund.<sup>1</sup> And no hourly or monetary value can measure the anxiety that taxpayers feel as the April filing deadline looms.<sup>2</sup>

But tax filing could work far more smoothly for millions of people. In 1998, a Republican Congress passed—and Democratic President Bill Clinton signed—the IRS Restructuring and Reform Act, which required the Treasury Department to develop, by 2008, procedures for the implementation of a “return-free” filing system that would compute an individual’s tax liability by using information already reported to the IRS each year. Such a system would save taxpayers time and money, and would result in more accurate tax returns.<sup>3</sup> For many taxpayers, it would take minutes instead of hours to complete their taxes.

But almost a decade after the law’s required 2008 implementation date, the Treasury Department has failed to fulfill its legal obligation to establish procedures for return-free filing. Sen. Warren requested that her staff determine why. This report finds that:

- ♦ **Despite its legal obligations, the IRS has surrendered to industry pressure and other efforts to block access to free and accurate return-free tax filing.** Instead of implementing the return-free filing requirements in the 1998 IRS Restructuring and Reform Act, the IRS has time and again acquiesced to industry demands that it avoid developing return-free filing options. The agency has repeatedly yielded to industry demands to administer the “Free File” Program—a public-private partnership between the IRS and the tax preparation industry that offers low-income taxpayers free, industry-prepared electronic tax preparation services. The tax preparation

industry exerts powerful influence over the design and administration of this program; year after year, the IRS has signed Free File agreements with these tax preparation companies, in which the IRS pledges to “not compete...in providing free, online tax return preparation and filing services to taxpayers”—despite the fact that current law requires the Treasury to develop programs to do exactly that.<sup>4</sup> The tax preparation industry-run Free File program has failed. It is currently used by only 3% of eligible filers and is described as a “maze of offerings” that can trick taxpayers into purchasing unnecessary products.<sup>5</sup> Furthermore, the IRS has failed to implement commonsense tax simplification programs, like the Real Time Tax Initiative, instead bowing to industry complaints that such efforts would be precursors to return-free filing, which the industry opposes.

- ♦ **The tax preparation industry has vehemently opposed return-free filing.** Rather than sift through a complex tax code on their own, the majority of Americans hire tax professionals, or use tax preparation software, to prepare their returns. The tax-filing burden is an essential part of the tax preparation industry’s business model, and the industry sees return-free filing as a fundamental threat to its operations. As a result, the industry has devised numerous ways to oppose a return-free filing system, spending millions of dollars lobbying Congress against return-free filing and mounting fake “grassroots” campaigns against return-free filing.
- ♦ **While some simplification approaches would be consistent with their goals, anti-tax groups have nevertheless also opposed return-free filing.** Anti-tax groups frequently raise concerns about the complexity of the tax code and the substantial burdens imposed by the current tax filing process: the mission of Americans for Tax Reform, for example, includes creating “a system in which taxes are

simpler,” while the National Taxpayers Union rails against the “over 6 billion hours each year for individuals and businesses to comply with the Code.”<sup>6</sup> A voluntary return-free filing program would address these concerns, simplifying filing, strengthening taxpayers’ right to know the information the IRS had received on them from third parties, and substantially enhancing taxpayer freedom to choose how to file their taxes. But the same anti-tax groups that champion a simpler tax system have worked closely with the tax preparation industry to oppose free filing.

Return-free filing offers the chance to make tax filing for Americans significantly cheaper, faster and more accurate. But this report finds that vehement and longstanding opposition by the tax preparation industry and anti-tax groups has prevented the IRS from meeting its statutory requirement to develop procedures for return-free filing and has denied American taxpayers the many benefits of this system.

## I. INTRODUCTION

Judging by national headlines, 2003 was a great year for taxpayers. “New IRS program makes filing your returns free,” proclaimed one New Jersey paper; the “Latest IRS Offering Could Make Real Cents,” read a headline from New York.<sup>7</sup> The source of this excitement was the IRS’ newly-announced Free File Program, a public-private partnership between the IRS and the tax preparation industry that allowed qualifying low-income taxpayers to file their taxes online, for free, using commercial tax preparation software. The program, argued one Arizona newspaper, promised taxpayers a year of “Many ‘happy’ returns.”<sup>8</sup>

Of little interest to the press, however, was a small portion of the agreement between the IRS and the Free File Alliance—the consortium of tax software companies offering their services through the Free File Program.<sup>9</sup> On October 30, 2002, the IRS signed its first Free File Agreement. The Agreement—heavily influenced by the tax preparation industry—included a seemingly unimportant sentence: “During the term of this agreement,” the contract read, “the IRS will not compete with the Consortium in providing free, on-line tax return preparation and filing services to

taxpayers.”<sup>10</sup> The IRS would reaffirm its pledge to avoid developing tax preparation services in the 2005, 2009, 2014, and 2015 Free File renewal agreements.<sup>11</sup>

*“During the term of this agreement, the IRS will not compete with the Consortium in providing free, on-line tax return preparation and filing services to taxpayers.”*

IRS and Free File Alliance, LLC, *Free On-Line Electronic Filing Agreement*, October 2002

Today, fewer than 3% of eligible taxpayers participate in Free File, in large part because the program’s maze of eligibility requirements and product offerings are so difficult to navigate.<sup>12</sup> The National Taxpayer Advocate, Nina Olson, has described using Free File as “a bit like living in the Wild, Wild West.”<sup>13</sup> But the IRS has continued to embrace the Free File program, even though the terms of the agreement prohibit the agency from implementing a return-free filing system—a tax simplification method that dramatically lowers the burden associated with tax filing by providing taxpayers with tax forms pre-filled with their income information.

Since the early 1980s, Republican and Democratic politicians alike have expressed interest in return-free systems. In 1986, President Ronald Reagan included return-free filing in the seminal Tax Reform Act of 1986.<sup>14</sup> In 1998, in the bipartisan IRS Restructuring and Reform Act, Congress required the Treasury Department to develop a plan for return-free filing and report annually on its progress. Congress required the IRS to develop procedures for a system so that taxpayers could file return-free no later than 2008.<sup>15</sup>

But as another tax season rolls around, taxpayers still do not have access to return-free filing. This report examines the reasons why, investigating the role of the role of tax preparers, tax software providers, anti-tax advocacy groups, and industry-serving legislators and administration officials to explain why the federal government has failed to simplify tax filing. Powerful interests that profit from a complex, burdensome tax return system have fought to prevent the federal government from providing services that would make return preparation simpler and cheaper for the average American.

## A. THE BENEFITS OF RETURN-FREE FILING

A return-free filing system is an alternative method of tax filing that makes it quicker, easier, and cheaper for taxpayers to file their taxes. The logic behind this system is simple: employers, banks, and many other third parties are already required to report to the IRS much of the information necessary to calculate individuals' tax returns. For instance, employers send a copy of each W-2 form that they send to employees to the IRS; banks and other financial institutions do the same for interest income. Rather than requiring taxpayers to figure out their own tax calculations, the government could use the information it already receives to pre-prepare returns for taxpayers, simplifying a process that causes unnecessary costs for millions of citizens.

Return-free filing works best for taxpayers with simple tax situations: single filers with no dependents and straightforward income sources such as wages.<sup>16</sup> Taxpayers with more complex tax situations—for example, those who claim itemized deductions or those with certain business income—would have to provide additional information in order to take advantage of pre-prepared returns. Alternatively, they could use the data made available by the IRS as a starting point for their returns. But return-free systems have the potential to benefit broader groups of taxpayers, including those that claim the child tax credit (CTC) and earned income tax credit (EITC). Depending on the structure of the system, experts estimate that a return-free system could completely eliminate returns for anywhere from 8 million to 60 million households.<sup>17</sup>

Return-free systems are already used in Denmark and Sweden, and have been successfully implemented in California.<sup>18</sup>

On average, taxpayers spend 13 hours and \$200 to file their tax return—a burden that return-free filing could significantly diminish.<sup>19</sup> Nearly two-thirds of taxpayers have relatively simple individual income tax situations—they do not itemize and only take the standard deduction. Many of these filers have income only from wages and have no dependents – the types of

taxpayers most easily accommodated by a return-free system. Studies have shown that a return-free system could save an estimated 40% of taxpayers nearly \$2 billion and 225 million hours of time per year.<sup>20</sup>

A return-free system would also reduce errors and minimize government waste—as a California return-free pilot program, ReadyReturn, clearly demonstrates. First implemented in 2005, ReadyReturn gave taxpayers the option of filing a return that had been pre-prepared by the California Franchise Tax Board (FTB).<sup>21</sup> While assessing the impact of ReadyReturn, the FTB found that return-free filing greatly diminished taxpayer and tax agency errors. Error rates among taxpayers that filed without Ready Return were ten times higher than those that used the system (3% vs. 0.3%). Furthermore, the FTB noted an increase in electronic filing among ReadyReturn users—minimizing the FTB's tax return processing expenses.<sup>22</sup> According to the GAO, a similar federal return-free system could save the IRS millions of dollars each year by reducing errors. A 1996 assessment of return-free tax filing found that pre-filled returns could save the IRS \$37 million annually in processing and compliance costs—and the corresponding need for audits.<sup>23</sup>

*“This is a great service from my government. I love [it] and wish the feds would do the same. Good work and thanks from this taxpayer.”*

Participant in California's ReadyReturn Pilot, 2005

Return-free filing could also cut tax fraud. Under the current system, individual returns are typically filed well in advance of the IRS receiving the third-party information necessary to verify the accuracy of those returns. The IRS pays out these refunds early and checks third-party information later. Discrepancies between third-party and taxpayer-reported information result in audits, investigations, and millions of dollars lost to fraudulent return scams. Under a return-free system, the IRS would receive third-party information well in advance of sending taxpayers their pre-prepared returns—allowing the agency to catch tax fraud before refund checks associated with fraudulent returns were mailed out.<sup>24</sup>

## B. DECADES OF BIPARTISAN SUPPORT

Because of its advantages for taxpayers and for the IRS, return-free filing has a decades-long history of bipartisan support—in spite of attempts by the tax preparation industry and anti-tax groups to derail it. President Reagan submitted a set of tax reform proposals to Congress in 1985 that included return-free filing.<sup>25</sup> In May 1985, President Reagan addressed the nation on tax reform and championed his plan for Americans to “not even have to fill out a return.” Under President Reagan’s proposal, Americans would “automatically receive your refund or a letter explaining any additional tax you owe.”<sup>26</sup> A year later, President Reagan signed the bipartisan Tax Reform Act of 1986 into law. The act included a provision requiring the IRS to examine the possibility and practicality of implementing return-free filing.<sup>27</sup>

*“We envision a system where more than half of us would not even have to fill out a return. We call it the return-free system, and it would be totally voluntary. If you decide to participate, you would automatically receive your refund or a letter explaining any additional tax you owe. Should you disagree with this figure, you would be free to fill out your taxes using the regular form. We believe most Americans would go from the long form or the short form to no form.”*

President Ronald Reagan, May 1985

The subsequent feasibility study, published in 1987, ultimately concluded that that IRS lacked sufficient resources to immediately adopt a return-free system. The major obstacle to this shift was the short time frame between the IRS’ receipt of wage information from employers and other third-party reporters and the April filing deadline. Using technology existing at the time, the IRS did not have enough time to check third-party reports for accuracy, generate pre-filled returns, and send them to taxpayers in advance of April 15<sup>th</sup>. Yet the IRS remained optimistic about the possibility of implementing a return-free system in the future, particularly in light of its efforts to encourage the electronic filing (e-filing) of tax returns. The report concluded that electronic filing, by making it easier and cheaper for the IRS to save and process taxpayer information, would “enhance the future feasibility of [return-free] systems.”<sup>28</sup>

In 1996, the Republican-controlled House Appropriations Committee asked the GAO to prepare a report on alternative tax filing systems. The GAO report identified significant benefits from return-free filing, finding that it would allow over 51 million Americans to avoid preparing returns, saving taxpayers 155 million hours and millions of dollars annually. The system would also save the IRS \$37 million annually in reduced processing and compliance expenditures.<sup>29</sup>

A year later, the bipartisan National Commission on Restructuring the Internal Revenue Service, co-chaired by then-Representative Rob Portman (R-OH) and Senator Bob Kerrey (D-NE), published a report arguing that effort to “establish the foundation for return-free filing” warranted “serious consideration” by Congress.<sup>30</sup> The Republican-controlled House and Senate quickly introduced bills following the Commission’s recommendations, culminating in the IRS Restructuring and Reform Act of 1998, which included a mandate that the Treasury Department develop “procedures for the implementation of a return-free tax system ... for taxable years beginning after 2007.” In addition, it asked Treasury to submit annual reports to Congress on its progress towards developing those procedures.<sup>31</sup>

*“The Secretary of the Treasury or the Secretary’s delegate shall develop procedures for the implementation of a return-free filing system... for taxable years beginning after 2007.”*

Sec. 2004, Internal Revenue Service Restructuring and Reform Act, 1998

In 2007, soon-to-be President Barack Obama cited the millions of dollars that Americans spent on tax preparation services and asserted there was “no reason the IRS can’t send Americans pre-filled tax forms to verify.”<sup>32</sup> In 2010, the President’s Economic Recovery Advisory Board (PERAB) included the “Simple Return,” modeled after California’s ReadyReturn pilot, in its report on tax simplification.<sup>33</sup>

Since 2007, eight bills have been introduced in Congress urging the IRS to electronically pre-fill simple returns for taxpayers, including the Bipartisan Tax Fairness and Simplification Acts of 2010 and 2011, which had both Republican and Democratic support. In the current Congress, two bills call on the IRS to establish return-free filing: the Simpler Tax Filing Act

of 2015 (S. 940), introduced by Senator Jeanne Shaheen (D-NH), and the Autofill Act of 2015 (H.R. 1750), introduced by Representatives Bill Foster (D-IL), Mike Quigley (D-IL), and Lloyd Doggett (D-TX).<sup>34</sup>

## II. FINDINGS

### I. The IRS has surrendered to industry pressure and efforts to block access to free and accurate return-free tax filing.

In 1998, bipartisan support for the IRS Restructuring and Reform Act – passed by a Republican Congress and signed by President Clinton – produced a clear mandate for the IRS to develop procedures to implement return-free filing within a decade. Yet the IRS failed to meet its 2008 deadline – and, in fact, has not implemented a return-free system to date. The Treasury Department also failed to complete required annual reports to Congress on return-free filing—with the exception of one report published in 2003.<sup>35</sup>

Instead, the IRS has acquiesced to tax preparation industry demands that it avoid developing a return-free filing system, ignoring the law and failing to serve a vast majority of taxpayers.

#### a. The IRS has repeatedly agreed to industry demands to administer the failed Free File program.

The IRS has entered into a series of agreements with the tax preparation industry to run the Free File Program. Established in 2002, the Free File Program provides qualifying taxpayers the option of preparing and filing their tax returns online for free, through software provided by the tax preparation industry firms participating in the program. The free tax preparation services are provided through the IRS’ partnership with a consortium of tax preparation software companies called the Free File Alliance. The program allows participants with adjusted gross incomes below \$62,000 to electronically file their federal tax returns for free using commercially available online software.<sup>36</sup>

One of the primary arguments made by opponents of return-free filing is that it is unnecessary

because of the existence of the Free File program. Intuit, a tax software company in the Free File Alliance, has claimed the benefits of return-free filing are “provided by the private sector” through Free File, allowing taxpayers to “file their taxes for free with the best-known, most trusted and innovative software programs available.”<sup>37</sup> Conservative anti-tax advocate Grover Norquist, in an analysis opposing return-free filing, stated that “poorer Americans and those with simple tax situations already have access to totally-free tax preparation ... All taxpayers have to do is go to IRS.gov, click on the “Free File Program” link, and they are on their way to getting their taxes done for free.”<sup>38</sup>

The tax preparation industry has been granted a leading advisory and service provider role in the Free File program, and has used its influence to limit the IRS’ ability to establish return-free filing options and comply with the IRS Restructuring and Reform Act of 1998. The first “Free On-line Electronic Filing Agreement” was signed in 2002, and included the following concession to industry: “During the terms of this Agreement, the IRS will not compete with the Consortium in providing free, online tax return preparation and filing services to taxpayers.”<sup>39</sup> Since 2002, the IRS and industry have renewed the Free File agreement four times, and have published seven “memorandums of understanding” on the program. The memorandums all include identical language preventing return-free filing: “In recognition of [industry] commitment, the federal government has pledged to not enter the tax preparation software and e-filing services marketplace.”<sup>40</sup> The IRS most recently renewed the Free File Agreement in March 2015, and the current agreement is effective through October of 2020.

*“[Free File, Inc.] Members shall work in concert with the IRS to increase electronic filing of tax returns, which includes extending the benefits of online federal tax preparation and electronic filing to economically disadvantaged and underserved populations at no cost to the federal government. . . . In recognition of this commitment, the federal government has pledged not to enter the tax preparation software and e-filing services marketplace.”*

Internal Revenue Service and Free File, Incorporated,  
*Seventh Memorandum of Understanding on  
Service Standards and Disputes, 2015*

Not only does Free File limit the Treasury Department's ability to comply with federal law—it also sells taxpayers short. The Free File Program went live in 2003, and initially proved successful, growing rapidly and serving 5.1 million taxpayers by 2005. Free File's early success stemmed from the near-universal access to free filing software it offered taxpayers. In 2005, multiple companies chose to make their programs free to all taxpayers. Yet some members of the Free File Alliance were furious that others had offered universal free filing services—and pressed for changes in the next Free File agreement.<sup>41</sup> These changes eliminated almost 40 million taxpayers from program eligibility.<sup>42</sup>

*“One of the IRS’ principal purposes for establishing the Program was to add another avenue of electronic filing, with the intent of increasing electronic filing overall. However, the Alliance members are businesses that incur a cost to provide free services. According to representatives of Alliance member companies we interviewed, their primary goal is to keep the Federal Government from entering the tax preparation business.”*

Treasury Inspector General for Tax Administration, 2006

The Free File program also became a venue for ripping off taxpayers. Some companies offered taxpayers “Refund Anticipation Loans” (RALs), which sent filers their income tax refunds immediately for a fee. Many consumers did not realize that RALs were loans charging high interest rates, not just a quicker way to get a tax refund. Companies also deceptively marketed products to free filers, tricking them into purchasing packages that were not, in fact, part of Free File.<sup>43</sup> The IRS added consumer protections attempting to address these problems, but the drop in consumer access to the program – as a result of industry demands that the program serve a smaller share of taxpayers – produced a steady decline in Free File's popularity.<sup>44</sup>

In 2014, only 2.8 million taxpayers filed returns through Free File—less than 3% of those eligible.<sup>45</sup> And the site was still rife with problems, despite IRS efforts to rein in abusive practices. One *Forbes* journalist, for example, was so confused by deceptive advertisements and programs on TurboTax's website that she spent \$118.64 to file her 2014 tax

return, “despite technically qualifying for free filing.”<sup>46</sup> Furthermore, an audit by the Online Trust Alliance found that six of thirteen Alliance members failed to adequately protect consumer's privacy.<sup>47</sup>

A decade ago, National Taxpayer Advocate Nina Olson described navigating Free File as “a bit like living in the Wild, Wild West.” “There is little justification,” she concluded, “to continue with Free File and every justification for the IRS to develop a tax preparation template and to provide free e-filing for all taxpayers.”<sup>48</sup> But today, the program lives on.

While it has not served taxpayers well, Free File has fulfilled the objectives of the tax preparation industry: though the IRS entered the Free File Agreement hoping “to provide free electronic tax preparation and filing services to all taxpayers,” Free File Alliance members always had a different motivation: “Their primary goal,” noted an investigator from the Treasury Inspector General for Tax Administration (TIGTA) in 2006, was “to keep the Federal Government from entering the tax preparation business.”<sup>49</sup>

## **b. The IRS has been unable to implement commonsense tax simplification measures, like the Real Time Tax Initiative, that industry has labeled precursors to return-free filing.**

The tax preparation and software industry has also opposed tax simplification initiatives that would allow taxpayers to more easily prepare their returns. In 2011, then-IRS Commissioner Doug Shulman spoke at the National Press Club and announced his Real Time Tax Initiative. Shulman hoped to build an “upfront, more real-time tax system” that utilized IRS data to automatically check the accuracy of filed returns. The IRS would “get all information returns from third parties (W2s, 1099s, etc.)” that “taxpayers or professional return preparers could then access... via the Web, and download it into their returns using commercial tax software.”<sup>50</sup>

Shulman's real-time tax system, in other words, was a data retrieval system enabling taxpayers to “retrieve” data from a centralized database maintained by the IRS, saving them time and dramatically reducing

errors. Yet industry refused to support the Real Time Tax Initiative. Public meetings in 2011 and 2012, raised industry’s concern that “the same functionality is a prerequisite...[for] a simple return system...and is stage one of the move to such a system.”<sup>51</sup>

Tax preparation and software companies’ Securities and Exchange Commission (SEC) filings further highlight industry’s aversion to data retrieval: it promised to simplify taxes, increase the likelihood of return-free filing, and thus minimize the need for expensive, third-party tax services. In a 2012 filing, Liberty Tax Service cited data retrieval as a “risk” to its company: “Initiatives that improve the timing and efficiency of processing tax returns could reduce the attractiveness of the financial products offered to our customers and demand for our services.”<sup>52</sup> H&R Block explicitly linked the Real Time Tax Initiative to return-free filing: “The implementation of the Real Time Tax System would provide the foundation for the IRS preparation of tax returns, and thus...makes the pre-populated return a more tangible possibility.” H&R Block saw the Real Time Tax Initiative as a “risk related to continuing operations” that could “cause our revenues or results of operations to decline.”<sup>53</sup>

*“The implementation of a Real Time Tax System would provide a foundation for the IRS preparation of tax returns, and thus, were it to come to fruition, makes the pre-populated return a more tangible possibility. ... The adoption or expansion of any measures that significantly simplify tax return preparation...could reduce demand for our services and products and could have a material adverse effect on our business...”*

H&R Block, SEC Filing (Form 10-K), 2013

Without industry support, the initiative was not implemented. During two public hearings on the initiative in 2011 and 2012, industry praised the IRS’ vision in theory, yet was unenthusiastic about actually implementing a real-time system. In 2011, for example, H&R Block’s Vice President of Government Relations claimed that H&R Block “shared” Commissioner Shulman’s desire to minimize “after the fact tax compliance,” yet cautioned that the Real Time Tax Initiative “would require significant investment.” Instead, H&R Block urged the IRS to

“foster dialogue between taxpayers, the tax preparation industry, [and] the IRS...”<sup>54</sup> In 2012, Intuit claimed to agree “in principle with the benefit of verifying information in real-time,” but expressed concern that “the government does not have unlimited resources to implement such a system.” Citing the “shadow issue” of return-free filing implicit in a real-time system, Intuit urged the IRS to pursue a “shared vision” with industry—one that allowed the private sector, not the government, to simplify and improve the accuracy of tax filing.<sup>55</sup> Following the public hearings, the IRS took no additional action to implement a real-time system and the initiative “petered out.”<sup>56</sup>

*“A wise man once said, ‘Mirror your partner’s dreams; the relationship will grow.’ While at the time these words were written the author may not have been talking about a partnership between the government and the private sector—this philosophy is nevertheless true for all partnerships.”*

Bernard McKay, Intuit Chief Public Policy Officer, on the Real Time Tax Initiative, 2012

That the IRS has succumbed to industry pressure opposing tax simplification measures is, in some ways, unsurprising, particularly given the significant funding cuts the agency has faced in recent years. Since 2010, the agency’s responsibilities have increased enormously: they must process nine million more individual tax returns, implement the Affordable Care Act, implement the Foreign Account Tax Compliance Act, and face the continued challenge of preventing identity theft. But Congress has cut funding for the agency by 17%—resulting in significant staff declines and a decreased ability to design and implement new programs.<sup>57</sup>

## **2. The tax preparation industry has vehemently opposed return-free filing.**

Rather than sift through a complex tax code without help, the majority of Americans hire tax professionals, or use tax preparation software, to prepare their returns. In 2014, 56% of the more than 147 million individual tax returns filed with the IRS were prepared by a tax professional.<sup>58</sup> Overall, eight out of every ten Americans rely on a tax preparer or use tax software to file their taxes.<sup>59</sup>

To pay for these services, the average American will spend \$200 a year—and for many, costs can quickly skyrocket.<sup>60</sup> Tax preparers often fail to provide consumers with accurate assessments of the total cost for their services—sometimes failing to give upfront cost assessments at all. Consumer groups have found preparer fees as high as \$500 during mystery shopper tests.<sup>61</sup> Compounding these high fees, tax preparers and software companies often hike their prices by up to 30% as the April filing deadline looms—the industry’s version of “surge pricing.”<sup>62</sup> The tax return filing process is so complex and expensive that many taxpayers do not file even when they are owed refunds. In March 2016, the IRS announced that over one million taxpayers had failed to file in 2012, leaving \$950 million in refunds on the table.<sup>63</sup>

The tax preparation industry claims to support efforts to ease this compliance burden. In February 2014, for example, Intuit publicly supported Rep. Dave Camp’s (R-MI) tax reform legislation, asserting that the company was “committed, like the chairman, to seeing the tax code simplified, reducing the burden on American taxpayers and small businesses.”<sup>64</sup> In March 2016, the company published a press release entitled “Tax Simplification: The Time Is Now,” highlighting the “growing urgency for a . . . sweeping overhaul that simplifies the tax system and compliance for individuals, families and small business.”<sup>65</sup>

The SEC filings of tax preparers and tax software companies, however, tell another story: the tax preparation industry relies on a complicated tax code to charge consumers high fees, and thus opposes simplification efforts—particularly those that make it easier to file returns.

As early as 1998, Intuit’s annual SEC filings expressed concern over simplification of the tax filing process or the tax code. In a section on “Competition,” Intuit noted that “legislative simplification of federal or state income tax laws could reduce demand for tax preparation software.”<sup>66</sup> In 2002, Intuit described the “intense competitive pressures” related to the government offering “electronic tax preparation and filing services, at no cost to individual taxpayers.”<sup>67</sup> Intuit consistently cites tax return simplification as a risk to its business model. In its most recent SEC filings, Intuit claims that “the risk of federal and state

taxing authorities developing software or other systems to facilitate tax return preparation . . . may cause us to lose customers and revenue.”<sup>68</sup>

Intuit is not alone in its opposition to income tax simplification. Liberty Tax Service, a tax preparation franchise, explicitly acknowledged in its 2015 filings that because “demand for our products is related to the complexity of tax return preparation . . . government initiatives that simplify tax return preparation [or] reduce the need for a third-party return preparer . . . may decrease demand for our services and financial products.”<sup>69</sup> Jackson Hewitt, a company that provides both tax software and preparation services, cites “government initiatives that simplify tax return preparation,” “initiatives that improve the . . . efficiency of processing tax returns,” and “changes in the tax law that result in a decreased number of tax returns filed” as fundamental threats to their business model.<sup>70</sup> Since 1998, H&R Block has expressed similar concerns in its filings.<sup>71</sup>

*“Because demand for our products is related to the complexity of tax return preparation and the frequency of tax law changes, government initiatives that simplify tax return preparation, reduce the need for a third-party tax return preparer, or lower the number of returns required to be filed may decrease demand for our services and financial products.”*

Liberty Tax Service, SEC Filing, 2015

The tax preparation and software industry has no incentive to reduce American’s tax filing burden—in fact, the tax filing burden is an essential part of its business model. With its profits at stake, the tax preparation industry has deployed its financial clout to exploit the political system to its advantage, working to eliminate common sense initiatives—like return-free filing—that could save taxpayers billions of dollars.

**a. The tax preparation industry has spent millions lobbying Congress against return-free filing.**

The tax preparation industry spends millions of dollars lobbying Congress to combat return-free filing systems and promote industry-sponsored filing

services. According to a 2013 analysis by the Sunlight Foundation, “Companies that prepare taxes are throwing millions at Congress to oppose making tax filing easier. Since 1998, major tax preparers have spent almost \$28 million lobbying Congress. ... Professional tax preparers like Intuit, H&R Block and others have opposed programs that would allow taxpayers to pay their taxes without filing a return for years.”<sup>72</sup> Expenditures have increased since Sunlight’s analysis: as of 2016, just three large tax preparation companies, Intuit, H&R Block, and Jackson Hewitt, have spent nearly \$41 million since 1998 on federal lobbying.<sup>73</sup>

Intuit has “[led] the charge against return-free filing.”<sup>74</sup> Since 1998, Intuit has spent over \$24 million on federal lobbying efforts.<sup>75</sup> Intuit’s lobbying disclosures reveal intense efforts to combat return-free filing. Thirty-six of Intuit’s 41 lobbying disclosures related to taxes from 2015 show the company’s efforts to “support the IRS Free File Program,” while its 2008 to 2012 disclosures consistently “oppose IRS government tax preparation.”<sup>76</sup>

One of Intuit’s most vehement attacks on return-free filing came in 2005, as the California FTB sought funding for its ReadyReturn pilot. Intuit spent over \$3 million to try to kill the program, and donated \$1 million in 2006 to an interest group backing a ReadyReturn opponent in an election for state controller. ReadyReturn survived Intuit’s attacks, but did not emerge unscathed—without a marketing budget, the FTB had trouble getting word out to taxpayers about ReadyReturn.<sup>77</sup> A former state senator described the situation bluntly in a 2006 *Los Angeles Times* editorial: “I never saw as clear a case of lobbying power putting private interests first over public benefit.”<sup>78</sup>

*“I’m a Republican. My two colleagues on the board were Democrats. We unanimously supported continuing and extending the [ReadyReturn] program... In all my years as a state senator, a U.S. congressman and state finance director, I never saw as clear a case of lobbying power putting private interests first over public benefit.”*

Former California State Senator Tom Campbell, *Los Angeles Times*, 2006

Since 1998, tax preparer and software provider H&R Block has spent almost \$16 million lobbying the federal government, primarily focusing on tax issues. Its lobbying disclosures from 2006 to 2015 reveal the company’s interest in “issues impacting...tax preparers” and “matters relating to personal income taxation,” including “tax simplification” and “return-free filing.” The disclosures are also peppered with references to the Free File Alliance.<sup>79</sup> Jackson Hewitt Tax Service, another tax preparer, has spent over \$660,000 since 1998 lobbying the federal government on tax issues, including “return-free processing.”<sup>80</sup>

Other organizations lobby Congress extensively on behalf of the tax preparation industry. In 2011, ten of “the nation’s leading retail tax preparation and tax software companies and financial institutions” formed the American Coalition for Taxpayer Rights (ACTR), a nonprofit group devoted to preserving a “voluntary tax compliance system” and opposing “a presentment system, where taxpayers are presented with a bill by the taxing agency.” Membership includes Intuit, H&R Block, Jackson Hewitt, Liberty Tax Services, TaxACT, and TaxSlayer.<sup>81</sup> Since 2011, the ACTR has spent \$765,000 to lobby the government on several issues related to “legislation and regulation related to the provision or facilitation of tax services” and “simple filing.”<sup>82</sup>

The Computer & Communications Industry Association (CCIA) is a “tech advocacy” group whose members include Intuit and TaxSlayer.<sup>83</sup> Since 1998, the company has spent over \$8 million on lobbying. Although the organization does not advocate solely – or even primarily – on tax-related issues, in 2008 and 2009, the CCIA’s highest-spending lobbying years, disclosures show the group’s support for the Free File Alliance.<sup>84</sup>

The tax preparation industry continues to lobby against return-free filing legislation. In 2013, Senator Jeanne Shaheen (D-NH) introduced the Simpler Tax Filing Act of 2013, while Representatives Bill Foster (D-IL), and Mike Quigley (D-IL) introduced the Autofill Act of 2013. Both bills would have required the Treasury to offer pre-prepared returns to taxpayers. Disclosures show that Intuit and the American Coalition for Taxpayer Rights lobbied against both.<sup>85</sup>

Seven House or Senate bills have been introduced since 2000 that attempt to explicitly prohibit the IRS from developing or providing taxpayers with free tax filing services, seek to make the Free File Program permanent (thus indirectly blocking IRS return-free filing efforts), or both.<sup>86</sup> For example, in 2007, Representatives Zoe Lofgren (D-CA) and Eric Cantor (R-VA) introduced H.R. 3457, which would have required the IRS to “enter into an agreement with the Free File Alliance” and prohibited the Treasury Department from “implement[ing] a return free system.”<sup>87</sup> Intuit and the CCIA both lobbied on behalf of the bill.<sup>88</sup>

Most recently, Representatives Ron Kind (R-WI) and Peter Roskam (R-IL) introduced the Free File Program Act of 2013 (H.R. 495), which would have made the Free File Program permanent and prohibited the IRS from implementing return-free filing.<sup>89</sup> While introducing the bill, Rep. Roskam and Rep. Kind lauded the tax preparation industry, stating in a press release that “working together with the private sector to offer online tax preparation” represented “an important public private partnership.”<sup>90</sup> S.669, the Senate’s version of the bill, was introduced by Senators Mark Pryor (D-AR), Rob Portman (R-OH), and Johnny Isakson (R-GA). Intuit, H&R Block, and the American Coalition for Taxpayer Rights all lobbied on behalf of S.669.<sup>91</sup>

During the 110<sup>th</sup> Caucus, the House Committee on House Administration first listed the “Free File Caucus” as a Congressional Member Organization.<sup>92</sup> The Caucus promoted the interests of the Free File Alliance and is co-chaired by Representatives G. K. Butterfield (D-NC) and Mike Conaway (R-TX). Though the caucus was discontinued during the 111<sup>th</sup> and 112<sup>th</sup> Congresses, the group was reassembled during the 113<sup>th</sup> and 114<sup>th</sup>.<sup>93</sup> Today, Rep. Matt Cartwright (D-PA) is also a member.<sup>94</sup> Lobbying disclosures show that Intuit began pushing for the formation of a “free file caucus” in 2009.<sup>95</sup> In February 2016, Intuit praised Reps. Butterfield and Conaway and claimed the Free File Program “benefits from [their] leadership.”<sup>96</sup>

## **b. The tax preparation industry has mounted fake “grassroots” campaigns against return-free filing.**

In August 2010, the President’s Economic Recovery Advisory Board (PERAB) published its *Report on Tax Reform*. The report included a section on the “Simple Return,” a return-free filing option.<sup>97</sup>

The tax preparation industry immediately geared up to fight the possibility of a return-free system. One avenue for this fight was the IRS Electronic Tax Administration Advisory Committee (ETAAC), an advisory panel established to offer the IRS guidance on its electronic tax initiatives. The chair of the 2010-2011 ETAAC was a Vice President of Intuit’s consumer division.<sup>98</sup> Seven of the 13 other ETAAC members were affiliated with the tax preparation or software industry.<sup>99</sup> Rife with industry bias, the ETAAC in 2011 urged the IRS to “defer further consideration of any return free proposal, including the Simple Return concept, unless...the U.S. tax code for individual taxpayers is radically simplified.”<sup>100</sup> The ETAAC similarly advocated against the simple return in its 2012 annual report.<sup>101</sup>

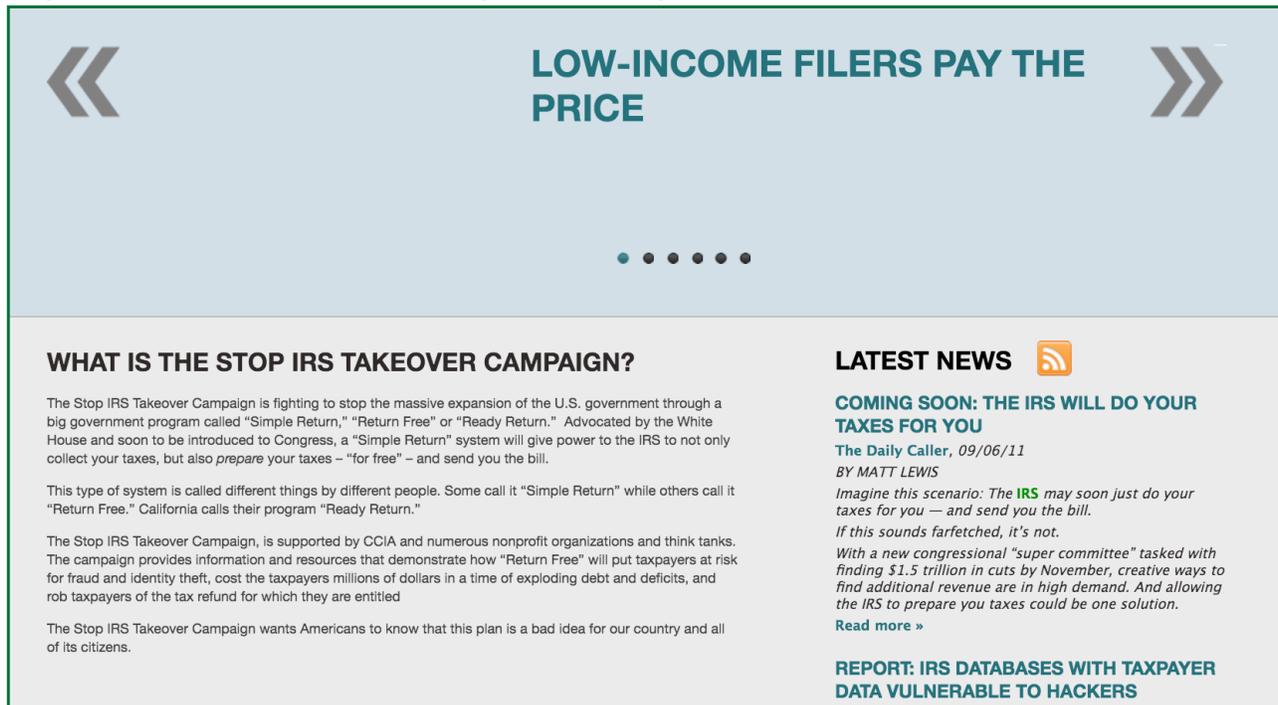
In addition, the tax preparation industry attempted to sway the American people through misleading websites that warned the public of the dangers of return-free filing. In 2011, JCI Worldwide—a consulting firm that listed both Intuit and the CCIA as its clients—created [www.StopIRSTakeover.org](http://www.StopIRSTakeover.org), a website promoting the “Stop IRS Takeover Campaign.”<sup>102</sup> The Campaign was “fighting to stop the massive expansion of the U.S. government through a big government program called ‘Simple Return,’ ‘Return Free’ or ‘Ready Return’—a program that would “rob taxpayers of the tax refund for which they are entitled.” Although the website’s home page cited the “numerous nonprofits and think tanks” supporting the campaign alongside the CCIA; it deceptively did not acknowledge the tax preparation industry’s role in the campaign.<sup>103</sup>

StopIRSTakeover.org claimed that return-free filing was “a back door tax increase,” that the IRS was “wrong 20% of the time,” and that such a system would “jeopardize taxpayer privacy and security” while costing taxpayers “millions of dollars.”<sup>104</sup> The site asserted that thousands of low-income, minority Americans would “pay the price” for the IRS’ power grab and that low-income filers—a “disproportionate number of African-Americans, Hispanics, and elderly people”—would be “guinea pigs” in a return-free system.<sup>105</sup> There was – and is – no evidence that these assertions were true. To combat this purported injustice, the site urged Americans to “get involved” in the campaign through grassroots tactics: writing letters to the editor, reaching out to Congress, and “liking” the group on Facebook. In addition to offering resources to help campaign members draft letters to Congress, the site provided two sample letters—one claiming that return-free filing would “disproportionately affect low-income Americans” and another saying it would “make the U.S. government too big.”<sup>106</sup> A later iteration of the website asked viewers to sign a petition promoting the Free File

Program Act of 2011 (H.R. 2569), which would have made the Free File Program permanent.

In 2013, JCI Consulting created a second website for CCIA: [www.FairTaxRefunds.com](http://www.FairTaxRefunds.com).<sup>107</sup> This website appears to have been created in response to three pieces of 2013 legislation related to return-free filing.<sup>108</sup> The site hid entirely the tax preparation industry’s role in its creation. It made no mention of CCIA, and instead spoke to viewers in the informal tone of a gung-ho activist: “we know that when you read the detailed and bipartisan information on this website,” it said, “you too will feel that its [sic] about time we speak out together as citizens about the potential for the IRS takeover of our tax preparation business.” Like StopIRSTakeover.org, FairTaxRefunds.com claimed that a return-free system was an IRS power grab that would cost taxpayers’ money and disadvantage low-income families and minorities. It also urged taxpayers to “get involved and activated” by making phone calls and sending letters.<sup>109</sup>

**Fig. 1: StopIRSTakeover.org Homepage (2011)**



JCI Consulting and Hilltop Public Solutions—another consulting firm representing the CCIA—began reaching out to community leaders nationwide and asking them to publish op-eds and write letters to Congress opposing return-free filing. The resulting letters and op-eds were published on FairTaxRefunds.com and used similar arguments.<sup>110</sup> Two letters—written by Elizabeth Patterson, Mayor of Benica, California, and Brian Goldberg, a Governing Board Member of the Beverly Hills Unified School District—included identical critiques of the IRS:

*The IRS is doing its best job when the most in tax dollars are collected, and with a \$300 billion tax gap from scofflaws, it's alarming and offensive that the IRS would focus on the most vulnerable Americans. As I understand the proposal, the IRS wants to take income information from employers, bank and credit unions and then use that information to calculate tax returns. Without pertinent information...the lower and middle-income taxpayer will see their liability increase and their refunds disappear.”<sup>111</sup>*

**Fig. 2: StopIRSTakeover.org “Get Involved” Page (2011)**

There are many ways you can be involved in the Stop IRS Takeover Campaign. First, sign up below to get email updates on this most important issue.

Additionally, please use the online resources listed on the right to draft and send letters to your Congressman.

**SIGN UP FOR UPDATES**

**Write a letter to the editor**

Finally, write a letter to the editor of your newspaper to tell them the truth about the “Return-Free” program: that there is too much room for error, it will make the U.S. Government too big and will affect low-income Americans disproportionately. Simply print out, sign and send one of the letters below to your local newspaper, or copy and paste it into your local newspaper’s online Letters to the Editor form.

[Return-Free Will Disproportionately Affect Low-Income Americans](#)

[Return-Free Will Make the U.S. Government too Big](#)

Thank you for your support!

**Fig. 3: StopIRSTakeover.org “Sign the Petition” Page (2012)**

HOME
ABOUT SIMPLE RETURN
GET THE FACTS
LATEST NEWS
SIGN THE PETITION

**SIGN THE PETITION**

We will add your name to our list of public supporters and send this petition to Congressional Representatives urging them to stand up to the IRS and protect the American taxpayer from a conflict of interest if the IRS becomes the tax collector and tax preparer.

**Petition**

First Name

Last Name

Email

Zip Code

I believe that the Internal Revenue Service (IRS) should not be in the business of preparing tax returns for American Taxpayers like me. The IRS and the Obama Administration are attempting to bypass Congress and grant the IRS the authority to create a new bureaucratic program to allow them to invade your personal privacy and determine your taxes for you.

Under a “Simple Return” or “Return Free” style program, the IRS would be both tax collector and tax assessor – a huge conflict of interest. This kind of program would make it very difficult for lower income taxpayers to take credits and deductions, like the Earned Income Tax Credit, for which they are eligible. In essence, it would rob taxpayers of refunds for which they are entitled.

A program like this would greatly expand the size of government and cost potentially hundreds of millions of dollars. This kind of program would also put taxpayers personal data at risk for fraud and identity theft if anyone were to ever breach the computer security of the system.

I oppose the any IRS efforts to implement a system that has the IRS preparing any parts of my tax return. There is a bill in Congress, H.R. 2589, the Free File Program Act of 2011, that would prevent the IRS from doing this and I urge you to support it.

Sincerely,

Add me to your mailing list  
[SIGN NOW](#)

**SHARE**

[Like](#) 12 [Tweet](#)

**RESOURCES**

LEARN MORE: STUDIES ON A RETURN-FREE TAX SYSTEM

- [Technology Policy Institute –Should the Government Prepare Individual Income Tax Returns?](#)
- [The Benefits and Costs of Implementing “Return Free” Tax Filing in the US](#)
- [Public Attitudes Toward the IRS and Tax Preparation Software](#)

ENSURE YOUR VOICE IS HEARD: RESOURCES FOR CONTACTING YOUR ELECTED OFFICIALS

- [Find Out Your Elected Officials' Voting Records on Tax Issues: National Taxpayers Union In-Your-State Ranks on Congress Members' Taxation Voting Record](#)
- [Contacting the Congress: Frequently Asked Questions](#)
- [U.S. House of Representatives – Find Your Representative](#)
- [U.S. Senate – Find Your Senator](#)
- [State Government Offices, Local US government and Federal Government](#)

Other documents also misleadingly implied that return-free filing would have negative effects on low-income and minority communities. The President of the Delaware NAACP, wrote to his Congressman that return-free filing was “a terrible idea” that was “a deceptive way of taking more money out of the pockets of those least able to afford it.” A rabbi wrote in the *Jewish Journal* that he “shudder[ed] at the impact this program will have on the most vulnerable people in American society.” A *Latino Times* op-ed praised the Free File Alliance while blasting the IRS for trying

to “eliminate...mom and pop businesses” in Hispanic communities.<sup>112</sup>

The community leaders that wrote to Congress and to local newspapers were unaware that the people approaching them were, in fact, hired consultants for the tax preparation industry.<sup>113</sup>

FairTaxRefunds.com and StopIRSTakeover.org are now defunct.

**Fig. 4: FairTaxRefunds.com “Legislation” Page (2013)**

**FAIR TAX REFUNDS**

home / why you should care / articles / legislation / links & resources

CATCH UP WITH US HERE    **LEGISLATION**    FOLLOW US ON TWITTER

- October 2013
- September 2013
- August 2013
- July 2013
- June 2013
- May 2013
- April 2013

Free File legislation has been introduced to the House by Reps. Peter Roskam (R-IL) and Ron Kind (D-WI) as H.R. 495: Free File Program Act of 2013. Click [here](#) for more information about the bill. H.R. 495 currently has 152 cosponsors.

Free File legislation has also been introduced in the Senate by Senators Mark Pryor (D-AR), Johnny Isakson (R-GA) and a new original co-sponsor Rob Portman (R-OH). Click [here](#) for more information about the bill.

Additionally, Representatives Bill Foster (D-IL) and Mike Quigley (D-IL) have introduced The Auto Fill Act of 2013. For more information, click [here](#).

FIND US HERE!

Share this:

**Fig. 5: FairTaxRefunds.com “Why You Should Care” Page (2013)**

**FAIR TAX REFUNDS**

/ why you should care / articles / legislation / links & resources

UP WITH US HERE    **WHY YOU SHOULD CARE**    FOLLOW US ON TWITTER

- October 2013
- September 2013
- August 2013
- July 2013
- June 2013
- May 2013
- April 2013
- 2013

We know that when you read the detailed and bipartisan information on this website, you too will feel that its about time we speak out together as citizens about the potential for the IRS takeover of our tax preparation business. The IRS's Return Free Proposal is bad for everyone, even the IRS. This is a rare issue that everyone can be equally disturbed about — and voice their concern.

Share this:

### 3. While some simplification approaches would be consistent with their goals, anti-tax groups have also opposed return-free filing.

Anti-tax groups have sided with the tax preparation industry to prevent common-sense improvements that would dramatically simplify the tax filing system.

These groups' opposition to return-free filing appears to be entirely ideological: they believe that the federal government should be smaller, and that a simple tax filing system would somehow conflict with these goals. Americans for Tax Reform and its founder and head, Grover Norquist, have been the most vocal opponents of return-free filing. Norquist's 2013 *Huffington Post* op-ed summarizes the groups' opposition:

*Every tax season, 'good government' types and a compliant media trot out their evergreen stories about how wonderful it would be if the IRS prepared people's taxes for them...Conservatives, in particular, should see this ploy for what it clearly is: a money grab by the government. Every third party that calls for IRS preparation of tax returns will readily tell you that it extracts more tax revenue for the government, and that this a feature and not a bug. That's the real reason the Left and the government class supports IRS-sponsored returns: they want the government to be bigger, and that requires higher tax revenues.<sup>114</sup>*

In addition to portraying return-free filing as a power-grab by the "government class," Norquist argues that IRS-prepared tax returns represent a conflict of interest in which "the motivation to maximize revenue would dominate both ends of the process."<sup>115</sup> Furthermore, doing so would make for a more pliant American public: return-free filing "will reduce people's understanding of what exactly they're paying and... will make it easier to raise taxes."<sup>116</sup> In other words, Norquist believes that making it easier for Americans to pay their taxes will make it harder for him and his allies to achieve their ultimate goal of reducing taxes.

Anti-tax groups have joined the tax preparation industry lobbying Congress to keep the tax filing process complicated. Americans for Tax Reform, joined on certain bills by Intuit, H&R Block, the CCA, and the American Coalition for Taxpayer Rights, lobbied in support of the Free File Program Acts of 2013 and 2011 (H.R. 495 and S. 1796), the Free File Reform Act of 2006 (H.R. 6327), and Rep. Lofgren's 2007 anti-return-free filing bill (H.R. 3457), and against the Bipartisan Tax Fairness and Simplification Act of 2010 (S. 727).<sup>117</sup> In 2011, Norquist wrote to Senators Ron Wyden and Dan Coats to oppose a bill (S. 727) that would force the IRS to develop an "Easyfile" (IRS prepared tax return) option for taxpayers—a bill that industry also opposed.<sup>118</sup>

In 2011, the National Taxpayers Union (NTU) lobbied extensively on behalf of the Taxpayer Freedom to File Protection Act of 2011, which would have prohibited the Treasury from implementing a return-free system. The NTU sent a letter of support to the bill's sponsors, Rep. Sam Johnson (R-TX) and Rep. Dave Reichert (R-WA), thanking them for "maintaining an important boundary in the federal income tax system that helps hard-working American households to keep more of their own money and helps to encourage accountability for tax policy."<sup>119</sup> In 2011, the NTU spent over \$163,000 lobbying Congress to, among other goals, "prohibit [the] IRS 'Ready Return' program."<sup>120</sup>

Other groups linked to opposition to return-free filing include Americans for Prosperity, the 60 Plus Association, the Independent Women's Forum, American Commitment, the R Street Institute, the Center for Freedom and Prosperity, Less Government, and GOProud. In 2013, these groups sent a joint letter to Congress with Americans for Tax Reform, the Council for Citizens Against Government Waste, the National Taxpayers Union, and the Taxpayer Protection Alliance. The letter said return-free filing would "socialize all tax preparation in America" and described the Free File Program as "the best hope for preventing this taxpayer nightmare."<sup>121</sup>

Yet return-free filing has the potential to make changes to the tax system that anti-tax groups should support. Anti-tax groups cite tax simplification, reducing the tax filing burden, and minimizing taxpayer

waste as major advocacy goals. The National Taxpayers' Union bemoans that "it takes over 6 billion hours each year for individuals and businesses to comply with the [tax] code."<sup>122</sup> Americans for Tax Reform states that it wants a "simpler" tax system.<sup>123</sup> Return-free filing would meet these goals, reducing individual taxpayer filing burdens by saving time, money, and stress.

Anti-tax groups also cite the need for more "visible" taxes that allow taxpayers to more fully understand the money they pay to the government.<sup>124</sup> Return-free filing could make tax filing more transparent, expanding taxpayer awareness of the data that government maintains about them. The IRS collects data from third parties and maintains that data as part of individual taxpayers' records; currently, taxpayers have no way of accessing that data, and must file their returns without being sure what the IRS knows or does not know about them.

The anti-tax groups also cite the need to minimize excessive government spending and waste. For example, the mission of Citizens Against Government Waste is to "root out government inefficiency and waste of tax dollars."<sup>125</sup> Return-free filing could reduce error rates and save the IRS \$37 million annually in processing costs—and the corresponding need for audits.<sup>126</sup>

In addition return-free filing would enhance taxpayers' freedom to choose how to file their taxes. First, under a return-free system, return-free filing would be entirely voluntary. Taxpayers could request a pre-prepared return and file that return, use that return as a starting point for their own calculations, challenge the information contained on the return, or throw the return away. Taxpayers could always use traditional filing methods—both in paper and online—to file their taxes.

Second, because the tax preparation industry currently holds a monopoly over the IRS' e-filing options, taxpayers electronically filing their taxes have no choice but to rely on a third-party provider. Today, taxpayers can e-file by paying a tax preparer, buying commercial tax preparation software, or using Free File.<sup>127</sup> A voluntary return-free filing system would give taxpayers the option of filing their taxes with the IRS without the need to share personal, private information with third parties.

### III. CONCLUSION

Despite thirty-years of bipartisan support and the multiple benefits such a system could provide taxpayers, return-free filing is no closer to becoming a reality than it was in 1998, when Congress first mandated that the IRS develop plans for a return-free system. This report examines why. It finds that the tax preparation industry has zealously fought efforts to make tax filing easier for Americans, and they have been joined by anti-tax organizations, despite the stated goals of these organizations to simplify taxes. The IRS has been required for almost 20 years to develop procedures to implement return-free filing, but has failed to do so. Instead of adopting an improved and more accurate return-free filing system that would save taxpayers time and money, the IRS has caved in to pressure from the tax preparation industry and tax advocacy groups that have a vested interest in a more complex, more expensive tax filing system.

## (Endnotes)

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