

## THE COUNCIL OF STATE GOVERNMENTS

### RESOLUTION ON GOVERNMENT TAX PREPARATION AND ELECTRONIC FILING

#### Resolution Summary

This resolution would renew the CSG Resolution on Government Tax Preparation and Electronic Filing that was originally adopted during CSG's 2006 Annual Meeting.

The Free File Program is an agreement between a consortium of American software companies and the Internal Revenue Service which enables up to 70% of all individual income taxpayers to become eligible to use free individual income tax preparation software and free electronic filing of their Federal income tax return. Free File helps the working poor and lower income taxpayers to smartly comply with both their federal and state individual income tax obligations at no cost to the eligible taxpayer or the public treasury.

Twenty-one (21) states have adopted the terms and conditions of the IRS Agreement which was extended to 2014 in order to allow their eligible state income taxpayers to use free electronic tax preparation software and file their taxes electronically for free. The eligible individual income taxpayers in those 21 states are able to file both their federal and state individual income tax return using free tax preparation software and free electronic filing.

Recently the IRS was asked to create a new federal government funded and managed tax preparation system. This new task would have the IRS completing individual income tax returns and then presenting them to individual taxpayers. If the IRS were to assume such a role the IRS would become a federal individual income tax preparer as well as the tax collector and the tax law enforcement agency. Such a role would violate the terms of the IRS Free File Agreement and thus have the effect of terminating Free File.

In addition to fundamentally changing the relationship between the individual income taxpayer and the IRS the "ready return" concept would have the effect of an unfunded mandate on the 21 states by forcing them to replace their Free File Program with another compatible service at state taxpayer expense.

Meanwhile, the Free File program has become the largest program of its kind and it continues to evolve and to adapt to meet the needs and expectations of its users. It has been recognized as a new model of collaboration amongst the public, the private and the not for profit sectors enabling the delivery of state of the art public services directly to those who are eligible.

#### Additional Resources

- IRS - Free File Program: <http://www.irs.gov/efile/article/0,,id=118986,00.html>
- U.S. Department of Treasury: <http://treas.gov/press/releases/docs/finalterm.pdf>

## **Management Directives**

- **Management Directive #1:** CSG will oppose the termination of the Free File program.
- **Management Directive #2:** CSG staff will post approved resolution on CSG's web site and make available through its regular communication venues at the state and local level to ensure its distribution to the state government and policy community.

## THE COUNCIL OF STATE GOVERNMENTS

### RESOLUTION ON GOVERNMENT TAX PREPARATION AND ELECTRONIC FILING

**WHEREAS**, a program that is important to the citizens of the United States may be in jeopardy as the result of recent decisions;

**WHEREAS**, 50% of the states that have an individual income tax have banded together to implement an innovative solution to meet the needs of the low income and working poor taxpayers;

**WHEREAS**, this innovative solution, called the state Free File, has been developed where public need and private corporate citizenship work together, and is based on the Free File policy agreement reached between the Internal Revenue Service and the tax software industry several years ago, and recently extended through 2014, whereby working poor and other lower income families and individuals are able to obtain free online tax preparation and electronic filing for their federal and state tax returns;

**WHEREAS**, the program saves state budgets the high cost of creating and maintaining an alternate tax preparation and filing service. Twenty-one states participate in the Free File public-private partnership solution by having created Free File programs in their states, ultimately providing substantial savings to state governments;

**WHEREAS**, the IRS negotiated the terms of the national Free File agreement with the software providers, and this agreement is the common basis for all the Free File programs in the twenty-one Free File states;

**WHEREAS**, the Free File program provides competitive consumer choice among service providers, and relies upon private sector innovation and invention to simplify tax compliance while preserving the independence and objectivity of private tax preparation for the citizen;

**WHEREAS**, the state Free File programs are directly tied to the national policy agreement underlying the federal Free File program. The demise of the national IRS program could force states to invest in State tax preparation systems to replace the lost free program;

**WHEREAS**, a government-provided bill presentment tax system may not have all the information necessary to accurately determine what tax credits and deductions taxpayers and their families may be eligible to receive;

**WHEREAS**, in contrast to return preparation and bill presentment by the government tax collector, the Free File program can help eligible taxpayers properly claim the Earned Income Credit, and in so doing make a real difference in helping lift

themselves and their families out of poverty. Similarly, Free File can help eligible taxpayers claim the Child and Elder Care Credits, and Retirement Savings Incentives, and minimize their lawful tax liability;

**WHEREAS,** the Free File states are not in a position to dedicate scarce state resources to develop and maintain the type of state tax preparation systems necessary to effectively replace their Free File programs; and

**WHEREAS,** the Council of State Governments is concerned of the potential costs the demise of the state Free File program could place on states.

**BE IT THEREFORE RESOLVED,** that CSG urges the Congress to support the Free File Program, assuring its stability and continuity in service to the nation as a highly cost-effective solution that protects taxpayer privacy, preserves the independence and objectivity of their tax advice and assistance, and helps ensure that taxpayers receive all the tax credits and deductions they fairly deserve; and

**BE IT THEREFORE RESOLVED,** that CSG recommends that Congress reject any proposal that would convert the current voluntary compliance tax system into a Government-provided bill presentment tax system, where the tax collector would expand its role into routinely preparing the tax returns of millions of lower and middle income citizens; and

**BE IT FINALLY RESOLVED,** that copies of this resolution be transmitted to members of the U.S. Senate and House of Representatives; and the U.S. Department of Treasury.

Adopted this \_\_\_\_ Day of May 2010 at the Economic Summit of the States in New York, New York.

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Gov. Mike Rounds, South Dakota  
2010 CSG President

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Sen. David Williams, Kentucky  
2010 CSG Chair