

FREE INTERNET FILING



REQUEST FOR INFORMATION (RFI)

RESULTS AND ANALYSIS

January 10, 2001

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INTRODUCTION

For the 2000 filing season, over 35 million taxpayers filed their individual income tax returns using an IRS *e-file* option. Although the momentum is growing at a rate of about 20% per year, bold and innovative steps are necessary to achieve the IRS's goal of receiving 80% of all tax and information returns electronically by the year 2007. Per the IRS Reform and Restructuring Act of 1998, such steps include partnering and utilizing the support and participation of the tax professional and software development community within private industry. They also include identifying and eliminating barriers that preclude taxpayers from participating in the IRS *e-file* program. As historically identified by IRS market research, one such barrier is cost to the taxpayer for filing electronically.

In an effort to reduce taxpayer burden, the President included in his FY2001 Budget Request that:

“No later than Tax Year 2002, the IRS would be required to offer one or more options to the public for preparing and filing individual income tax returns over the Internet at no cost to the taxpayer. If the IRS offered such options, through contract arrangements, with Authorized IRS e-file Providers, it would be with the assurance that the taxpayer’s tax return information would not be used by the Provider without the taxpayer’s permission for any purpose other than submission to the IRS.”

Encouraged by the President’s budget request, in January 2000, IRS Commissioner, Charles O. Rossotti, challenged the IRS to find ways “to eliminate as many paper 1040 returns as possible.” He posed several questions to the IRS including the following:

“Can the IRS reduce the cost to the taxpayer for filing electronically?”

IRS met the challenge and offered the following recommendation which was subsequently approved by Commissioner Rossotti in April 2000:

Decrease the cost to taxpayers by supporting the development of industry-managed web sites that provide free Internet filing.

Remaining cognizant of the sensitive nature of the approved recommendation and of the IRS Reform and Restructuring Act of 1998 (which encourages IRS to work with private industry to ensure the success of electronic tax administration), the IRS decided to utilize the Request for Information (RFI) process to determine the feasibility and likelihood of private industry offering free Internet filing to taxpayers. Administered by the IRS Office of Electronic Tax Administration, the RFI was subsequently issued through the IRS Procurement Web Site on July 20, 2000, and was out for industry and public comment for approximately 60 days. The RFI closing date was September 22, 2000.

DESCRIPTION OF RFI RESPONSES

The IRS received 171 responses from software developers, tax preparers, tax professional organizations and taxpayers. The majority of these responses were received via e-mail and sent to the following IRS e-mail address located within the RFI: freeinternetfilingproject@irs.gov. Responses ranged from a simple sentence and/or paragraph from an individual taxpayer to multi-page documents from software developers. Although the RFI contained 14 questions related to implementation feasibility, complementary services, compensation, security measures, marketing and ideas on IRS support, most responses did not address all questions. As a group, software developers provided the most comprehensive answers and addressed all questions in the RFI. Many respondents supplied supplemental literature for review and/or consideration. Some responses were actual proposals related to potential partnerships with the IRS.

In order to facilitate and provide structure to the RFI analysis, the responses were divided into the following major IRS e-file stakeholder groups: software developers, tax professionals, tax-related professional organizations, and taxpayers. Recurring suggestions, concerns and/or issues from each group were extracted and are presented throughout this analysis accordingly. Presenting such information in a structured and comprehensive manner (for further consideration) is the primary purpose of this analysis. *Wherever possible, information considered confidential or proprietary by the submitting company or organization has been removed from this analysis.*

COMMENTS FROM THE SOFTWARE DEVELOPMENT COMMUNITY

Twenty (20) companies identified as software developers, Internet solution providers or consultants, responded to this RFI. As mentioned previously, this group provided the most comprehensive responses and addressed all 14 questions therein. The following illustrates the specific questions asked within the RFI and a synopsis of the answers provided by the respondents:

1. Discuss the possibility of offering free Internet filing for the following market segments via a secure web site: Taxpayers filing a Form 1040EZ, 1040A and 1040.

Of the software-related companies that responded to this RFI, the majority indicated that technically, it is feasible to provide free Internet filing to taxpayers. However, from a business perspective, most indicated that they would have to be compensated in some manner to recoup lost revenues from services they would have charged for otherwise. In addition, a few companies stressed that in a “free” environment and with proper taxpayer authorization, it will be necessary to conduct on-line target marketing to make secondary commerce efforts successful. They also mention that such on-line activity is prohibited by Internal Revenue Code (IRC) 7216, which allows for untargeted solicitation only. Regardless, approximately half of the software respondents believe that the IRS should leave pricing of tax preparation and *e-file* in the hands of the competitive marketplace. Only three (3) companies fully support the free Internet filing concept and/or business model.

2. What would you expect in return from the IRS (if anything) for offering the free Internet filing opportunity to taxpayers?

Most software companies want aggressive marketing of their partner status and of the free service they are providing to taxpayers. One company presented the idea of IRS marketing their company in a philanthropic manner. Software companies would also like to see the marketing rules associated with what they can actually do online relaxed (banner ad promotions, etc.). A few suggested that because their primary source of collecting revenue would no longer be available, they should be allowed the opportunity to disclose, sell, exchange or barter limited information collected on a tax return - provided it was authorized by the taxpayer. Others want permission to provide and/or sell secondary tax preparation services that might not normally be permissible. Examples include Refund Anticipation Loans (RALs), internal audit checks, audit insurance, etc. Regarding any type of monetary

compensation, many companies want to be compensated on a 'per return' basis for fees they would have recovered otherwise and/or be compensated for developmental, programming or processing costs associated with *e-file*. One company even provided a compensation schedule based on volume of returns. Many companies also want the IRS to facilitate their entry into the corporate employer and employee *e-file* market and/or be granted contracts to serve as the software provider of such types of employer services. A link from the IRS *e-file* Partnership Page within the IRS web site to the company's web site was also deemed desirable. Various other suggestions for compensation were provided (see Appendix A).

3. Discuss any and all services you would offer (for profit and non-profit) in concert with this free Internet filing opportunity.

It appears that those companies who are already in the business of free Internet filing are the greatest champions of providing marketing services in concert with the free service. In general, most companies are willing to offer profitable on-line financial services and/or opportunities (e.g. mortgage loans, auto loans, personal investments, on-line banking, RALs, etc.) as well as a multitude of other customer-oriented services (tax advice links, financial calculators, advisor and preparer referral services, tax FAQs, e-mail, chat rooms, etc.). Very few companies mentioned services that are non-complementary to the tax or financial arena (except one that is willing to provide personal web pages).

4. Please comment on having this implemented and fully functional by the 2001 filing season. For the 2002 filing season?

The majority of the software companies who responded to this RFI are capable of offering free Internet filing in time for the 2001 and 2002 filing season(s). Willingness and economic livelihood are the issues here. Two companies are currently developing software that will provide a free Internet filing opportunity for taxpayers.

5. Discuss any advantages for your business in being identified as an IRS *e-file* Partner on the IRS web site.

Credibility appears to be the number one advantage in being identified as an IRS *e-file* Partner. High visibility and potential for increased business volume via the IRS web site were cited as other key advantages.

Note: Given the redundancy in the responses provided for questions 6, 7 and 8, these responses have been combined. Please see Appendix A for specific responses for each question provided by each company.

6. **What circumstances give rise to good privacy and information safeguarding protection in an on-line setting?**
7. **What do you, your business or agency see as methods to increase confidentiality, security, and improved customer services to the taxpayer in an on-line environment?**
8. **What do you, your business or agency see as elements of enforcement mechanisms necessary for maintaining effective confidentiality, security, and enhancing customer service to the taxpayer?**

A multitude of security and information safeguarding practices are already in place for these companies. Almost all companies suggest that high level bit encryption, use of SSL (Secure Socket Layers), firewalls, secure servers and control access measures are appropriate and necessary for effective privacy and information safeguarding protection. Many companies suggested that independent third party (security specialist) and IRS reviews of a company's security features, procedures and operations, are appropriate and beneficial. Others suggested that the IRS should examine and update existing security and disclosure laws and guidelines for improved adherence and enforcement (applicable to an on-line environment). Please see Appendix A for more details and/or suggestions related to privacy, security and elements of enforcement.

9. **What do you, your business or agency, identify as an appropriate consequence for any mishandling, misuse, or unauthorized disclosure of tax return information by a third party?**

Comments varied on this matter. Many respondents suggested that an appropriate consequence for any mishandling, misuse or unauthorized disclosure of tax information is expulsion from the IRS *e-file* program and/or with appropriate fines and penalties. A few companies mentioned that existing procedures are already in place for such situations.

10. Do you, your business or agency, regularly sell customer information for marketing or advertising purposes?

All companies responding to this question do not sell customer information for ANY reason. However, a few mentioned that, if given the opportunity and authority, selling or having limited use of customer information, would be a valuable compensation for offering the free Internet filing service. Some mentioned that in a free environment, this would be the only way to generate revenue.

11. What do you, your business or agency see as the main advantages and disadvantages of the free Internet filing capability?

Most advantages cited are those that pertain to taxpayer burden reduction (e.g., reduction in costs, increased access, convenience, and accuracy of returns filed) and IRS processing efficiencies. Disadvantages were more heavily cited with major comments relating to: decreased private sector participation in the *e-file* program, adverse impact on the preparer/*e-filer* community and associated revenues, increased taxes and duplicate costs for taxpayers (in general), adverse impact on ability for IRS to achieve the 80% goal, increased costs, processing and technological development redundancies for the IRS, decreased quantity of services (and quality therein) available to taxpayers due to limited service providers, and weakening of taxpayer voluntary compliance. MANY other disadvantages were randomly cited. Please see Appendix A for more details and/or examples.

12. Please indicate your industry type or if you are an individual.

The majority of companies who responded to this RFI were software developers currently participating in the IRS *e-file* program. The rest were companies related to the consulting or computer/Internet solution industry without an existing stake in the *e-file* arena but looking for *e-file*-related business opportunities. One company submitted a company description and general proposal un-related to the RFI. This company provides online forms and administrative support services to higher education and non-profit communities.

13. Discuss the best way to market this free Internet filing opportunity.

According to several respondents, target marketing appears to be the best methodology for promoting the free Internet filing opportunity to taxpayers. Satellite press tours, the development and execution of aggressive media campaigns, targeted placement of television, radio, print and Internet media and partner endorsements were repeatedly suggested. Direct mail efforts and partnerships/alliances with the IRS, other federal/state agencies and professional organizations were also mentioned. Many companies are very interested in reaching corporate employers and their employees and are looking to the IRS for assistance in penetrating this market.

14. Discuss offering *e-file* to your employees as a requirement for partnering with the IRS.

Many companies responded that they would and/or do encourage the use of *e-file* to their employees. Many already offer *e-file* for free as well. Several companies mentioned that offering *e-file* to employees should be a requirement for partnering with the IRS. Two companies suggested that the IRS should refrain from “inserting” itself in such company business decisions and/or not make it a requirement for IRS *e-file* partnership participation.

COMMENTS FROM TAX-RELATED PROFESSIONAL ORGANIZATIONS

Several tax professional organizations submitted responses to the RFI. In general, none appear to be favor of the free Internet filing concept and agree that such an effort is not only in direct competition with private industry but contrary to advisement by the Electronic Tax Administration Advisory Council (ETAAC) and other directives. One organization, extremely concerned with protecting the rights of individual taxpayers, felt that taxpayers should be aware and be able to provide input on what is done with their personal information. The organization further mentions that any Request for Agreement (RFA) procedure associated with the free Internet filing concept is likely to be a violation of rule of law – particularly that of the *Administration Procedure Act*. The following illustrates general comments and issues identified from each organization:

Organization	Champion	Comments and/or Concerns
1	No	<ul style="list-style-type: none"> ▪ Free Internet filing services are in direct competition with the private sector of tax practitioners. ▪ Practitioners must change the type of return work that keeps them in business, including changing marketing strategies that will ward off the threat of “free.” ▪ If the free Internet filing service does not support state filing capabilities, the taxpayer will still have to purchase software or services that will allow for the transmission of the state data. They mention that this defeats the purpose of obtaining the federal portion for free. ▪ The percentage of tax practitioners who do not charge for <i>e-file</i> is one of the reasons why the volumes are so positive. Practitioners see it as a value-added service. If the IRS offers <i>e-file</i> for free, the value-added service is diminished in the eyes of the taxpayer. The practitioner may then decide to discontinue participation (no business reason to do it anymore). This will hurt volumes.
2	No	<ul style="list-style-type: none"> ▪ Whether IRS offers free Internet filing directly or indirectly (aligning itself with a select few from industry) – this goes directly against ETAAC recommendations and is in direct competition with industry. ▪ The market has already provided a no-cost or low-cost <i>e-filing</i> option for individual taxpayers. The RFI and any planned subsequent solicitation represent unwarranted and unneeded interference with the private sector. Forcing the zero price point will be counterproductive. ▪ IRS’ claim that taxpayers want free Internet filing is unwarranted and non-justifiable. ▪ “Free” doesn’t convert paper filers to <i>e-file</i>. State programs have proved this. Also, “Free” is not free. Someone has to pay for it.

Organization	Champion	Comments and/or Concerns
3 (Joint Response representing three organizations)	No	<ul style="list-style-type: none"> • Goes against Presidential e-commerce directive of allowing Industry to lead e-commerce. • Presidential policy has long declared that the Government shall not start or carry on any activity to provide a commercial product or service if such services are available from the private sector. OMB Circular A-76 makes this clear. • Government is not a price setter and should not make determinations about business models.
4	No	<ul style="list-style-type: none"> • The associated procedure does not protect the rights of individual taxpayers and what is being done with their personal information. • The individual taxpayer should be able to decide when use of his or her information is allowed and what they should receive in return for such use. • IRS is providing easy access to individual tax return data for other government agencies without taxpayer knowledge or consent. • IRS is bargaining away personal tax return data to third parties. • By utilizing a procurement process rather than conducting a public rulemaking, the IRS risks losing vital public input in updating and modernizing the application of its <i>Use of Data</i> regulations governing tax return information. • Electronic tax administration is an inappropriate role for the IRS.

COMMENTS FROM THE TAX PREPARATION COMMUNITY

Of the 171 responses received for this RFI, sixty-one (61) were submitted from those identified as members of the tax preparation community. This includes tax preparers and Certified Public Accountants (CPAs) – participating and not participating in the IRS *e-file* program. Most comments submitted were simple paragraphs and generally did not address all 14 questions in the RFI.

Given the responses, the tax preparation industry, particularly at the small business level, is non-supportive of the free Internet filing concept. Many feel that such an opportunity will not only put them out of business but will hurt the taxpayers as well. According to many respondents in this group, taxpayers in general, do not fully understand the tax laws, will likely misinterpret them and will subsequently submit erroneous returns to the IRS. As a result, taxpayers will unknowingly pay too much tax and will incur penalties and interest. This will lead to increased workload for the IRS and an increase in

error rates and government costs. Many feel that for the taxpayer's sake, it is important to keep the tax professional in business.

Regardless, tax preparers want free *e-file* software. In addition, many are resentful to the IRS for having expended resources and continual time to set up and operate their *e-file* business only to hear that the IRS is supporting a free concept. Many suggested that IRS should provide monetary compensation (e.g., \$5, \$10 and even \$50) to tax preparers who *e-file*. One preparer offered the following strategy involving tax credits and preparers: *“Offer a tax credit for tax preparation software to paid preparers with the following requirements: For 2001: Paid preparers would be required to file a minimum of 50% of all eligible returns electronically to receive a tax credit. For 2002: Paid preparers would be required to file 70% of all eligible returns electronically to receive a tax credit. For 2003: Paid preparers would be required to file 100% of all returns electronically to receive a tax credit. For 2004: No tax credit.”* Others suggested that the compensation should go to the taxpayer in the form of a tax credit for filing electronically (\$10).

COMMENTS FROM INDIVIDUAL TAXPAYERS

Eighty-five (85) of the 171 respondents were identified as individual taxpayers; however, most comments submitted were simple sentences or paragraphs. Their comments ranged from “IRS should keep the most current forms and tax information available on their web site...” to “Misuse of data should be treated as a felony.” However, in general terms, four messages were reflected in the majority of the responses. They are as follows:

1. *e-file* should be free
2. There should be no third party charges and/or involvement
3. Free *Internet* filing is a good idea
4. Internet filing should be safe and secure

Aside from wanting *e-file* for free, this group does not want to pay for *e-file* and are opposed to going through a third party or being charged by a third party to file electronically. Whether or not *e-file* is free or free via the Internet, these taxpayers do not feel it's necessary to send their tax data through someone other than the IRS. In addition, safety and security of taxpayer data was of significant importance to the individual taxpayer respondents. A few mentioned that Internet filing should have strict disclosure and privacy rules. Please see Appendix C for many other random comments submitted by taxpayers for this RFI.

SUMMARY OF ANALYSIS

In general, the RFI on the Free Internet filing concept generated much interest and discussion. The overall and original goal of the RFI was to take a private industry and public “pulse” of the concept, feasibility and terms for private industry (not IRS) to offer the free service to taxpayers. Through its efforts, IRS achieved its goal and has a better understanding of the potential impact and expectations associated with such a concept.

From a software developer perspective, many prefer that the IRS allow the marketplace to work itself out. According to them, a competitive marketplace brings taxpayers affordable costs, various options to choose from and increased quality in service. However, the software development community quickly points out that if they had to operate in a “free” environment, they fully expect to be financially compensated for perceived lost revenues associated with the free Internet filing services. They also expect support from the IRS to be allowed to conduct on-line target marketing for the solicitation of other profitable on-line services. Nonetheless, some believe that in spite of opposing testimony from the IRS Commissioner, Charles O. Rossotti, the RFI is an initial step for the IRS to alert private industry and the public that it is about to embark on a direct filing initiative.

From the tax preparer perspective, the concept and/or opportunity is of great concern. Fears of loss of livelihood, loss of revenue generation and/or competition from the IRS are clearly evident. Concerns are high that such an opportunity will increase taxpayer burden, will increase taxpayer costs (and those of the IRS) and will subsequently decrease voluntary compliance - thus negatively impacting the *e-file* industry and associated goals. If faced with operating in a “free” environment, tax preparers also want compensation in the form of free *e-file* software and tax credits.

Regarding taxpayers, filing an individual income tax return for “free” (or at no cost) is an opportunity that is very much desired. Results of the RFI clearly show that they do not want to pay to electronically transmit their income tax returns to the IRS nor do they want to go through a third party. In addition, safety and security of taxpayer data is still very important to taxpayers.

Through the RFI, members of private industry (large and small) have indicated that the IRS should not interfere with a competitive marketplace that, accordingly, is leaning toward a “free” or very low-cost scenario. Instead, they challenge the IRS to continue partnering with private industry to ensure that taxpayers are made aware of and are subsequently provided with the best and most economical tax preparation and *e-file* opportunities possible.

NEXT STEPS

- Share RFI analysis with the Electronic Tax Administration Advisory Council (ETAAC); Ask for recommendations and guidance;
- Investigate and subsequently conduct effective and aggressive marketing on behalf of IRS *e-file* Partners offering free Internet filing opportunities to individual taxpayers.
- Issue Hyperlink RFA

APPENDIX A:

DETAILED COMMENTS FROM THE SOFTWARE AND INTERNET SOLUTION COMMUNITY:

1. Discuss the possibility of offering free tax preparation and electronic filing for the following market segments via a secure web site: Taxpayers filing a Form 1040EZ, 1040A and 1040.

Respondent	Can Offer Free Tax Preparation/e-file via Internet?	Comments (Not All Inclusive)
(1)	Yes	We have the capability of supporting the Form 1040EZ, the 1040A and the 1040 as well as other tax forms affecting taxpayers and small businesses.
(2)	Yes with appropriate compensation and support from IRS	Currently involved in the creation of a product that provides the ability for free tax prep and e-file via secure web site. Timeframes for implementation TBD.
(3)	Yes w/ compensation to Industry for providing free service	For 2001, we will offer "Close to free" or \$14.95 per individual return (preparation and e-filing). Through strategic partnerships (and given reasonable incentives and compensations), it may be possible to offer tax preparation and e-filing entirely free of charge.
(4)	XXX	XXX
(5)	XXX	XXX
(6)	Yes – Given appropriate support from IRS	Technology already exists to do this for all segments. The market forces and trends are and have been pushing industry in that direction. Free enterprise in the private sector has proven that it can best serve taxpayers and that it is in the best interest for all concerned for the IRS to encourage competition within the private sector.
(7)	XXX	XXX
(8)	Yes - if compensated to recover fees that would normally be received from taxpayers.	We have no technical impediment to providing the service without fee to the taxpayer, anytime.
(9)	Yes – with per return compensation and support for providing free service	IRS goals associated with free tax preparation/e-file via internet are incompatible with the mission of Electronic Tax Administration.
(10)	N/A: We will continue to partner with both the professional community and the companies with consumer tax preparation offerings regardless of price (free or otherwise) charged for e-filing services.	The price for tax preparation and e-file should be market driven and set by private industry, not governed and set by the IRS. Let the providers choose the price they will charge (if any) based upon the services they offer; Let the taxpayers choose the provider and price they will pay for tax preparation and e-filing services.

Respondent	Can Offer Free Tax Preparation/e-file via Internet?	Comments (Not All Inclusive)
(11)	If we must have "free" online e-filing, either the government should enact the \$10.00 tax credit to taxpayers who e-file or the current restrictions on "use and disclosure" should be revised to allow for targeted marketing.	We believe the public's interest as a whole would be better served by leaving the matter in the hands of the marketplace and the private sector.
(12)	Yes – with compensation for providing free service	This is definitely possible; however, offering it for free is problematic (without compensation). FS2001 – 1040EZ/1040A FS2002 - 1040
(13)	Yes	We feel this is a viable project and the Administration and IRS and Administration are to be lauded for their efforts in this direction.
(14)	Yes - with compensation for providing free service	Feasible for 2001. Need compensation for programming, site improvements, marketing and customer service.
(15)	Yes – with proper subsidy and mutual partnership arrangement	It is our opinion that the competitive environment has fostered pricing and service levels that are fair and in the best interest of the consumer.
(16)	No – not a current IRS e-file participant	Not a big fan of on-line e-filing, free or not. Without a tax professional there to assist the taxpayer, there will be lots of misuse and mistakes.
(17)	Yes – provided IRS contracts with company for secure systems provision	Can securely file Forms 1040, 1040A and 1040EZ. Taxpayers must download a no cost plug-in and suitable electronic credential from SecureMethods or VeriSign. Taxpayers will be able to seamlessly complete the appropriate web form, digitally sign and encrypt and submit it. Third party filers will be able to interface to this system.
(18)	Xxx	xxx
(19)	Xxx	xxx
(20)	Yes - Although we do not currently have web components targeted to individual tax forms, we consider the creation of free on-line tax preparation and filing services to be a perfectly feasible endeavor.	To develop an online preparation application, we would seek the services of a partnering company.

2. What would you expect in return from the IRS (if anything) for offering the free Internet filing opportunity to taxpayers?

Respondent	Technical Enhancements	Marketing and Promotion	Monetary Compensation	IRS Web Site Link	Other
(1)	<ul style="list-style-type: none"> Explore methods to reduce the amount of paper and signatures involved in completion of tax return Provide taxpayers with ability to download previous year's (and current) tax data (i.e., Electronic mailbox) 	<ul style="list-style-type: none"> Expand promotion and increase visibility of on-line services providing free preparation software and e-filing Expand promotion of partner status 		Partnership link	Partner to implement "Electronic Mailbox" concept
(2)		Joint marketing opportunities with IRS	Developmental costs	Partnership link	Transaction-based pricing model
(3)		IRS help reduce marketing expenses	\$1 or \$2 per return (assuming a guaranteed minimum of 7.5 million returns)		\$15 tax credit for all e-filers
(4)	Xxx	Xxx	Xxx	Xxx	xxx
(5)	Xxx	Xxx	Xxx	Xxx	xxx
(6)		IRS relax its rules (and provide clarification) on marketing free online filing to taxpayers; Active promotion of free filing service to high-end users; Promote e-file as more convenient than paper; Include us in 1040 packages and			<ul style="list-style-type: none"> Acknowledgement and priority status for those in the private sector who are aggressively working to help the IRS achieve its goals (particularly free filing). Assist with: <ul style="list-style-type: none"> - PATS Testing - PATS Approval - Timely release of

Respondent	Technical Enhancements	Marketing and Promotion	Monetary Compensation	IRS Web Site Link	Other
		other promotional products.			<p>final forms</p> <ul style="list-style-type: none"> - Simplify the EF file formats and restrictions • Foster partnerships between corporations and software companies (for employee e-file opportunities)
(7)	xxx	Xxx	Xxx	Xxx	xxx
(8)			We would want to collect our normal fees.		In the event that we will be de facto forced by the Government to alter our current position relevant to tax data, we may have to consider other alternatives.
(9)	Extend the filing deadline for taxpayers using online tax preparation and e-filing for free (offered by an IRS partner).		<ul style="list-style-type: none"> • Offer tangible benefits to its partners who forego the revenue ordinarily provided by such services; • Direct subsidies 	High visibility link from IRS web site	<ul style="list-style-type: none"> • New innovative initiatives between IRS and private sector; Streamline unsolicited proposal procedures and opportunities that benefit IRS and partners. • IRS provide RAL indicators for frozen and targeted taxpayer returns • IRS offer direct contracts for procurement of online tax prep and e-filing services free to public that provide contractor with a means of covering costs using IRS subsidies. • Tax credits to partners

Respondent	Technical Enhancements	Marketing and Promotion	Monetary Compensation	IRS Web Site Link	Other
					and taxpayers for each tax return prepared and e-filed for free <ul style="list-style-type: none"> Assist those preparers who offer e-file for a fee (you cannot ignore these folks).
(10)	No comment				
(11)			The \$10 tax credit for taxpayers is a good proposal.		
(12)		Allow banner ads to be displayed for services in different locations on the Free Prep/EF site	IRS should pay third parties involved in the free service (up to \$1.50 per return). Pricing model provided.		Allow use of information collected on the return by third parties (if they taxpayer marks consent for this to happen).
(13)		The right to advertise one banner ad on each page	<ul style="list-style-type: none"> \$1.00 per return filed electronically \$5000 per Form Page for development cost (excluding instructions and information pages) \$1000 per Form Page annually for 		<ul style="list-style-type: none"> The right to sell secondary tax preparation services (internal audit checks, fast refunds, RALs, audit insurance, etc.). The right to use the tax information contained solely as directed by the taxpayer. The right to disclose, trade, sell, or barter tax return information if authorized by the taxpayer in a second authorization directed by

Respondent	Technical Enhancements	Marketing and Promotion	Monetary Compensation	IRS Web Site Link	Other
			maintenance for Form Pages (excluding instructions and information pages.		the taxpayer.
(14)			Compensation for programming, site improvements, marketing and customer service.		
(15)			Nominal per return processing fee (for recouping development and support costs associated with e-file software and services).		
(16)			Firms should be offered a tax break based on how many individuals utilize the system through the firm's service or for offering the service through the firm's web site (if possible)		

Respondent	Technical Enhancements	Marketing and Promotion	Monetary Compensation	IRS Web Site Link	Other
(17)			IRS charged monthly for secure hosting and delivery on a transaction basis. Consulting, web page development and user registration will be billed as required using government task orders.		
(18)	Xxx	Xxx	Xxx	Xxx	xxx
(19)	Xxx	Xxx	Xxx	Xxx	xxx
(20)			We typically earn revenues from fees received on each transaction completed through internet and IVR applications.		Derive revenues from the sale of advertising and sponsorships on contracting agency's applications and destination sites.

3. Discuss any and all services you would offer (for profit and non-profit) in concert with this free Internet filing opportunity.

Respondent	State filing	Marketing and Promotion	Financial Services	Other
(1)	Yes	Customized marketing	<ul style="list-style-type: none"> • On-line banking • Credit cards • Insurance quotes • Loan and mortgage opportunities • Discount brokerage services • Life/car insurance • Health insurance 	<ul style="list-style-type: none"> • 1040 Analyst • Financial Calculators • Locate an Advisor • Personal web pages
(2)				<ul style="list-style-type: none"> • Preparer referral service • Ask the expert link • Balance due processing • W-4 Planner
(3)				<ul style="list-style-type: none"> • Free On-line Employee Verification Service to ensure SSN match-up with SSA • Free e-filing of all information returns including W-2s, 1099s and 1098s with the IRS • Free furnishing of W-2s, 1099s and 1098s to employees, customers or members • Free integration of W-2, 1099, and 1098 information into taxpayers' Internet-based tax return.
(4)	Xxx	Xxx	Xxx	Xxx
(5)	Xxx	Xxx	xxx	xxx
(6)				<ul style="list-style-type: none"> • Complementary, value-added services/products, emphasizing those with internet deliverables • Free technical support, in-depth e-file information on steps to e-file, return status

Respondent	State filing	Marketing and Promotion	Financial Services	Other
				and general Q&As.
(7)	Xxx	Xxx	Xxx	xxx
(8)	Yes			For a fee - value-added services in relation to Federal and state income, business, employment and sales tax and information return filings.
(9)	<ul style="list-style-type: none"> • Low cost state tax forms • Low cost state tax preparation 		<ul style="list-style-type: none"> • Risk estimators and planning wizards • Online RALS and RACS 	Tax calculators
(10)				We will continue to partner with both the professional community and the companies with consumer tax preparation offerings regardless of price (free or otherwise) charged for e-filing services.
(11)	No comment			
(12)	No comment			
(13)			<ul style="list-style-type: none"> • Anticipated Refund Loans • RALs 	<ul style="list-style-type: none"> • Chat groups • Tax tips/hints • Phone and online tax professional assistance (fee) • Line by line assistance • Internal audit checks • Prepaid professional handling of secondary audits, correspondence or questions from IRS

Respondent	State filing	Marketing and Promotion	Financial Services	Other
(14)	No comment			
(15)			RALs	<ul style="list-style-type: none"> • e-file editing • e-file transmission • Taxpayer notification of successful transmission • Credit card balance due payments
(16)	No comment			<ul style="list-style-type: none"> • Bookkeeping • Accounting • Tax Preparation
(17)		Engage in marketing activities at our expense		<ul style="list-style-type: none"> • 7x24 help desk and support for the IRS and taxpayers on a T&M basis • We will bear all costs with maintaining the system
(18)	Xxx	Xxx	Xxx	xxx
(19)	Xxx	Xxx	Xxx	xxx
(20)			<ul style="list-style-type: none"> • Links to personal investment and money management services • Links to banking and financial institutions 	<ul style="list-style-type: none"> • Directories of approved accounting services • Directories and access to forms • Online calculators • Email delivery, dispatch and management services • Links to tax advice and preparation help • Information on recent tax law changes • Hot link e-filing forms to IRS tax regulations • Links to charitable organizations

4. Please comment on having this implemented and fully functional by the 2001 filing season. For the 2002 filing season?

Respondent	2001	2002
(1)	Yes	Yes
(2)	TBD	TBD
(3)	Yes	TBD
(4)		
(5)		
(6)	Feasible (with appropriate support from IRS)	Feasible (with appropriate marketing support from IRS)
(7)		
(8)	Yes	Yes
(9)	Yes	TBD
(10)	No comment	
(11)	No comment	
(12)	1040EZ and possibly 1040A	1040
(13)	Yes (main and additional forms)	Yes (80 – 90% of all tax forms)
(14)	No	Yes (if program develops by April 30, 2001)
(15)	Very feasible – concern with support resources required and server capacity	No comment
(16)	We believe that we will offer this free service but it will be a system that is approved by the IRS and at a time when all bugs have been worked out.	
(17)	Yes	No comment
(18)		
(19)		
(20)	E-filing, on-line forms and web applications would be implemented and functional for the 2001 tax season with the following dependencies: <ul style="list-style-type: none"> - Degree of complexity desired in the forms. - Number of desired forms is assumed to be relevant to individual tax filings for 1040, 1040A, and 1040EZ - Client resource availability is maintained throughout the project implementation. 	

5. Discuss any advantages for your business in being identified as an IRS *e-file* Partner on the IRS web site.

Respondent	Advantages as IRS <i>e-file</i> Partner	Disadvantages as IRS <i>e-file</i> Partner
(1)	<ul style="list-style-type: none"> • Credibility • Volume 	
(2)	<ul style="list-style-type: none"> • Shows compliance with IRS e-filing directives • Provides opportunity for co-branding 	
(3)	<ul style="list-style-type: none"> • Reduction or elimination of marketing costs 	
(4)	Xxx	xxx
(5)	Xxx	xxx
(6)	<ul style="list-style-type: none"> • Credibility • Increased traffic to our web site 	
(7)	Xxx	xxx
(8)	Proud participant in the On-line filing program	Partners are buried in the IRS web site and are hard to locate; Not sure that all are treated fairly and equitably.
(9)	No comment	
(10)	No comment	
(11)	No comment	
(12)	Nominal	Link on IRS web site is usually not very visible when present
(13)	<ul style="list-style-type: none"> • Credibility • Visibility • More sales 	
(14)	No comment	
(15)	<ul style="list-style-type: none"> • Exposure • Credibility 	
(16)	No comment	
(17)	Being recognized as a secure systems provider for the IRS would provide a significant qualification for our marketing activities.	
(18)	Xxx	xxx
(19)	Xxx	xxx
(20)	Credibility of being an IRS application service provider would greatly enhance our own corporate marketing programs and business development partnerships.	

6. What circumstances give rise to good privacy and information safeguarding protection in an on-line setting?

Respondent	Security Measures	Other
(1)	<ul style="list-style-type: none"> • High level bit encryption • Clearly stated privacy policy • VeriSign Certification • Trust3 Certification • BBBOnline (Better Business Bureau Online) • AICPA Web Trust Certification • Voluntary compliance with OMB 1545-0962 Security Guidelines for Federal, State, and Local Agencies. 	
(2)	<ul style="list-style-type: none"> • Authentication • Encryption 	<ul style="list-style-type: none"> • Measures to timeout a session • Ensure database servers are not connected to Internet
(3)	<ul style="list-style-type: none"> • Safe physical environment • Firewall to protect servers from unauthorized entry • Limited internal database access • Transmission process secured by SSL with minimum 40-bit encryption • Hidden source code • Encryption of all page references in the URL • Considering encryption of all data stored in SQL database 	
(4)	Xxx	Xxx
(5)	xxx	xxx
(6)	Desire to grow gives rise to good privacy/security in online setting;	<ul style="list-style-type: none"> • Internet and increased opportunity for taxpayers • Competition • If a company does not follow good privacy/information safeguarding – they will not survive.
(7)	Xxx	xxx
(8)	<ul style="list-style-type: none"> • We are a fully secure site. Access control to information is very important; Ensure that the level, qualification and competence of 	

Respondent	Security Measures	Other
	<p>individuals access information is appropriate.</p> <ul style="list-style-type: none"> ▪ Online filers should keep protective control over taxpayer data. 	
(9)	Develop and implement a unified standard for security and privacy; adopt as a requirement	
(10)	We protect the proprietary information of its customers and the sensitive taxpayer data that is transmitted through its e-filing system in accordance with privacy and security laws.	
(11)	N/a	
(12)	<ul style="list-style-type: none"> • Passwords • Encryption • Secure servers 	<ul style="list-style-type: none"> • Tax return information must be kept confidential • Tax return information shall be used for the purpose directed by the taxpayer • Tax return information shall not be further disclosed, traded, bartered or sold.
(13)	<ul style="list-style-type: none"> • SSL – 128-bit encryption with extremely secure servers and the latest firewalls • Checks by security specialty companies 	IRS not allowing companies to use the information – period.
(14)	N/a	
(15)	<ul style="list-style-type: none"> • Firewalls • Secure Socket Layers (SSL) • Encryption • Controlled backend databases • Limiting and changing user access to sensitive material 	
(16)	N/a	
(17)	<ul style="list-style-type: none"> • Encryption • Digital Signature • Non-repudiation • Legal enforceability • 7x24 availability, redundancy and generator backup 	
(18)	Xxx	xxx
(19)	Xxx	xxx
(20)	<ul style="list-style-type: none"> • Prevention of unwarranted access to information by hackers or others 	We contractually guarantee that all information within any application be

Respondent	Security Measures	Other
	attempting to breach security - Level 1 protection for fire, earthquake or illegal physical intrusion - Firewalls, Verisign encryption, SSL, application-specific monitoring and redundancy.	covered by Privacy and Protection Policy and formal statement by contracting clients.

7. What do you, your business or agency see as methods to increase confidentiality, security, and improved customer services to the taxpayer in an on-line environment?

Respondent	Methods to Increase Confidentiality and Security	Methods to Improve Customer Service
(1)	See #6	Allowing taxpayer to download W2 and 1099 tax information for electronic transfer and population directly onto tax forms (for error reduction)
(2)	See #6 and #8	
(3)	See #6 and #8	Real-time on-line help desk (for additional fee)
(4)	Xxx	xxx
(5)	Xxx	xxx
(6)	Continually focus on confidentiality and security	Continually focus on customer service
(7)	Xxx	xxx
(8)	See question #6.	<ul style="list-style-type: none"> • Customer should be able to access any organization it deals with by phone, fax, mail or email. • Customer service should occur during an environment of extended hours with definitive answers for his/her questions from knowledgeable, efficient customer service agents, who will not refer them to someone else.
(9)	<ul style="list-style-type: none"> • Require all partners to implement standardized privacy policies and obtain certification • Require 128-bit encryption to be available and maintained. 	
(10)	<ul style="list-style-type: none"> • Privacy and security laws that currently exist need to be modified for on-line filing. 	IRS should reconsider click-through agreements.

Respondent	Methods to Increase Confidentiality and Security	Methods to Improve Customer Service
	<ul style="list-style-type: none"> There should be some relaxing and/or modifying in the policy to address the nature of doing business on the Internet. 	
(11)	<p>Current interpretations of 72-16 regarding use and disclosure of tax return data with authorization (as presented by the IRS on September 1, 2000), are too restrictive. Only untargeted solicitations are possible in that environment resulting in too little revenue potential to achieve goals. Further restrictions on the origins of the solicitations to the providing companies or their 80% owned affiliates effectively excludes software development companies who have no other product or service to market to the taxpayers. I would like to emphasize how reluctant we would be to embark on any effort that required the use or disclosure of taxpayer data. However, if we must have "free" online e-filing, either the government should enact the \$10 tax credit to taxpayers who e-file or the current restrictions on "use and disclosure" should be revised to allow for targeted marketing.</p>	
(12)	Do not use banner ads or allow the sale of taxpayer information even if they consent.	
(13)	IRS hosts the site with our company maintaining it.	<ul style="list-style-type: none"> Fill-in IRS tax forms or linear line questions leading to a fill-in tax form Provide internal audit checks somewhat similar to what the IRS might do for the taxpayer. Coupled with e-file checks, these add to the security of the filer. Real live assistance online or via phone.
(14)	<ul style="list-style-type: none"> A secure web site hosted at a large web host service rather than in-house. When free service is provided by a company without conflicting interests and other web products to sell that degrade independence. 	<ul style="list-style-type: none"> Providing lots of personal hand holding to taxpayers Providing help to taxpayers on understanding and fixing rejects
(15)	<ul style="list-style-type: none"> See #6 IRS in conjunction with vendors could implement encrypted security standards for return storage and transmission (certified by a 3rd party or IRS). 	Building a history and relationship of secured transactions to build client confidence is the only method to increase consumer confidence.
(16)	IRS should review partner security features and/or operations and to ensure that individuals or others do not misuse the system or relay confidential information.	
(17)	High assurance encryption, digital signature, certification, and key management	
(18)	Xxx	xxx

Respondent	Methods to Increase Confidentiality and Security	Methods to Improve Customer Service
(19)	Xxx	xxx
(20)	<ul style="list-style-type: none"> Assuring confidentiality of data Maintain access control Authentication Application architecture 	

8. What do you, your business or agency see as elements of enforcement mechanisms necessary for maintaining effective confidentiality, security, and enhancing customer service to the taxpayer?

Respondent	Elements of Enforcement	Other
(1)	<ul style="list-style-type: none"> IRS should work with Industry to establish minimum standards of security and privacy for e-filers. Include adherence to commercially reasonable security measures Publication of and adherence to the privacy policies adopted by companies 	
(2)	<ul style="list-style-type: none"> Periodic security audit by independent third party Continual reassurance to taxpayer that data is secure, protected and not used or distributed (unless authorized) 	
(3)	<ul style="list-style-type: none"> Development of self-regulating body (similar to TrustE) endorsed by IRS that would impose strict standards of conduct with respect to privacy/security 	
(4)	Xxx	xxx
(5)	Xxx	xxx
(6)	Truste certification does little to enforce the actual confidentiality and security of data;	Enforcement comes from competition, ethics and policies within and ...the press. Enforcement underscores the need to have choices for taxpayers.
(7)	Xxx	xxx
(8)	See answers for questions 6 and 7.	
(9)	N/a	

Respondent	Elements of Enforcement	Other
(10)	N/a	
(11)	N/a	
(12)	N/a	
(13)	Prospective providers agree to forfeiture of any rights or claims and lose their e-filer rights permanently for ANY breach of confidentiality or negligence with regard to security.	
(14)	N/a	
(15)	Those who provide the highest level of quality, service and security should be acknowledged by the IRS and/or outside vendors as being approved vendors. Those who jeopardize client confidentiality risk the loss of business by public awareness. In a competitive market, this is the highest level of discipline.	
(16)	IRS review of partner security features and/or operations.	
(17)	<ul style="list-style-type: none"> • High assurance authentication through digital signature provide means to individually authorize filers and trading partners on a per transaction (form) basis. • 1024 bit key exchange and 168 bit triple DES bulk encryption will adequately protect data from disclosure. 	We will not have the IRS cryptographic keys necessary to access tax filings submitted through its systems. Filings will remain encrypted until received by the IRS service centers.
(18)	Xxx	xxx
(19)	Xxx	xxx
(20)	<ul style="list-style-type: none"> • Verisign • Checkpoint Firewall-1 • Directories and Verisign Onsite • Onsite Directory Integration Module • Public Directory 	

9. What do you, your business or agency, identify as an appropriate consequence for any mishandling, misuse, or unauthorized disclosure of tax return information by a third party?

Respondent	Appropriate Consequence
(1)	<ul style="list-style-type: none"> • Depends on circumstances of the particular case • Existing common law and statutory remedies for breach of contract and in tort adequately protect taxpayers • Companies should be free to provide warranties or disclaim warranties or liability subject to applicable law.
(2)	<ul style="list-style-type: none"> • Look to current standards and practices in place
(3)	
(4)	xxx
(5)	xxx
(6)	Given the vagueness of what is allowable and unallowable, a written notice is appropriate. In addition, a review of the infraction and a 10-day remedy period for the violation is appropriate for companies that are making good-faith efforts to comply.
(7)	xxx
(8)	It is believed that actions relevant to these matters have been defined and are currently in place. If the Government is to encourage the dissemination of taxpayer data, taxpayer should have a clear understanding the information they are providing will be disclosed to others. This disclosure authorization should be irrevocable. There should be a definition of the criteria that pertains to the handling of the donor information by the ancillary recipients, those beyond the Online filer. The responsibilities and consequences of abuse must also be defined for these persons.
(9)	Limit major IRS enforcement actions to willful violations and work with partners to correct deficiencies.
(10)	Prevention from participation in the e-filing program.
(11)	N/a
(12)	If not intentional, a first offense should be to be liable for any damages and provide sufficient proof that the company is making the appropriate efforts to prevent such an occurrence from happening again. A second offense should probably cause the end of the contract and to be responsible for any damages.
(13)	Heavy fines up to \$5000 per incident and forfeiture of any rights to e-file forever.
(14)	Intentional mishandling should result in removal from the program. Individuals in companies should be covered by the same rules and consequences that apply to IRS employees.
(15)	We believe the market will punish companies who do not live to the highest standards. Governmental regulation in enforcing misuse of components is not required and would be an over step in authority in an open competitive market. If a company were to intentionally misrepresent itself, as with all businesses, they would be open to legal action by the community at large.
(16)	No comment
(17)	To protect against civil liability, all transactions will be individually insured p to \$100,000 by Lloyds of London.

Respondent	Appropriate Consequence
(18)	xxx
(19)	xxx
(20)	It is not within our current expertise to make recommendations on the consequences of mishandling, misuse or unauthorized disclosure of tax return information by a third party.

10. Do you, your business or agency, regularly sell customer information for marketing or advertising purposes?

Respondent	Sell Customer Information?	Comments
(1)	No	
(2)	No	
(3)	No	
(4)	Xxx	xxx
(5)	Xxx	xxx
(6)	At this time – No.	However, in order to maintain profitability, we may have to consider this as an option.
(7)	Xxx	xxx
(8)	No	
(9)	N/a	Wholesale use of taxpayer information for advertising and marketing is already prohibited but the IRS should allow limited use of customer information to generate revenue, particularly when the revenue is used to offset costs incurred in providing free tax preparation and e-filing.
(10)	No	
(11)	N/a	Use or disclosure of customer tax return data is absolutely required for any secondary commerce effort designed to fund a free e-filing system to succeed (with complete and unambiguous authorization from the taxpayer); Without it, no kind of targeted marketing can occur (necessary for revenue generation).
(12)	Never	
(13)	No	
(14)	No	We do not share information about our customers or their demographics. We have not and do not expect to sell information for any reason.
(15)	No	
(16)	N/a	
(17)	We have no interest in the sale of data as one of its business areas.	

(18)	Xxx	xxx
(19)	xxx	
(20)	No	However, in the event that IRS should desire to farm this information for marketing or advertising purposes, we have several partnerships in place that would handle this function (only as allowed by federal privacy laws).

11. What do you, your business or agency, see as the main advantages and disadvantages of the free Internet capability?

Respondent	Advantages	Disadvantages
(1)	<ul style="list-style-type: none"> • Convenience • Accuracy • Security • No need for printing, signing or mailing forms. 	
(2)	<ul style="list-style-type: none"> • Promotes more efficient use of government services (eliminates manual submission/processing of forms) • “Free” drives more consumers to utilize the internet e-file option 	<ul style="list-style-type: none"> • Potential to decrease the client base of small business EROs • Increases the “digital divide” due to hardware requirement and/or need to access a PC • Not readily available to all consumers
(3)		The need for “free” Internet tax preparation and e-file is less significant than the need for low-cost, yet quick and easy tax preparation and e-file solutions targeted at the masses. “Free” doesn’t provide software that is appropriate for the average taxpayer.
(4)	Xxx	xxx
(5)	Xxx	xxx
(6)	<ul style="list-style-type: none"> • Taxpayer has the option of filing their return for free • IRS decreases expenses 	Private sector will be challenged to generate revenue from a free service while adhering to limitations imposed by the Rev. Proc. 72-16.
(7)	Xxx	xxx
(8)	<ul style="list-style-type: none"> • Temporary advantage will be to shift the taxpayers from the preparer/ERO domain to the online domain. • Certain TeleFileers will be drawn to the Online 	<ul style="list-style-type: none"> • Switched individuals may be disillusioned and may be lost for good because of a bad experience due to their lack of knowledge and/or dexterity. This could extend into the traditional online filers.

Respondent	Advantages	Disadvantages
	filing capability.	<ul style="list-style-type: none"> • The online filing program is growing well and should be left within the present condition of partnership of the IRS and the Industry Partners to flourish. • Attempt to steal ERO customers will alienate the ERO community.
(9)	<ul style="list-style-type: none"> • More e-filed returns • Cost reduction to the taxpayer • Satisfies mandate to IRS by Congress and Administration 	<ul style="list-style-type: none"> • Elimination of tax preparer/e-filer revenue • Major reduction of incentive for private sector participation • Creation of long-term public expectation of free tax preparation services that may well prove impossible to provide into perpetuity. • Forces private firms to provide uncompensated free services, which effectively eliminate all economic incentive and sabotages participation by Industry (such participation is vital in promoting public acceptance of electronic tax preparation and e-filing in the shortest amount of time). • The ultimate cost to the public for “free” tax preparation will likely be far in excess of the cost of paid online tax preparation already available from private companies. • Competition with private sector will create policy and statutory problems; loss of private sector participation. • Severe impacts of existing online tax prep/e-file participants • Major loss of e-file momentum due to lack of private sector involvement • Budget appropriation limitations and restrictions • Large management and developmental costs will be incurred by IRS • IRS duplication of investment and services already available in private sector • Potential for extreme punitive Congressional measures against agency if program fails. • Disadvantage those partners who do not offer free e-file. • Force abandonment of the effort and will damage some partners financially.
(10)		<ul style="list-style-type: none"> • It implies endorsement by the IRS for one provider of e-filing services.

Respondent	Advantages	Disadvantages
		<ul style="list-style-type: none"> • It will deter many of the current IRS partners from participating in e-filing because they may not be able to develop e-filing in a cost effective manner. • Adverse effect on the e-file volumes. • IRS endorsement of free tax preparation and free e-file bears some cost. Just because the option is provided free to the taxpayer, ultimately someone is paying for this service.
(11)		<ul style="list-style-type: none"> • A government subsidy to companies selected for free tax prep/e-file via Internet will impact all taxpayers, those who use the services and those who do not. • It may reduce the service options available to taxpayers if there is one or only a few contracted service providers. Those who utilize the service should pay for the service thereby giving them as many options available to them as the marketplace can provide. • This may not be necessary to generate growth in this segment of e-filing. It may not be wise to embrace questionable economic models designed to deliver "free" services. • Recovery costs will be passed on to the taxpayer in some other form.
(12)	Could encourage e-file and prevent some taxpayers from having to pay for outside products and services	
(13)	<ul style="list-style-type: none"> • Speed • Accuracy • Intuitive alternatives for self-preparers 	<ul style="list-style-type: none"> • Security • Selling of taxpayer data
(14)	Improved tax filing process for those individuals that qualify	Finding a source of payment for the services.
(15)	<ul style="list-style-type: none"> • Profitable scenario for our company • Dramatic reduction in cost, resources, and manual processing for the IRS. 	
(16)	<ul style="list-style-type: none"> • Provides access to those markets that we would not normally have access to • Provides taxpayers access to filing their returns over the Internet that does not cost that much to do. 	Without tax professional assistance, individuals may send in incomplete or inaccurate tax data to the IRS (particularly for those who have complex tax returns).

Respondent	Advantages	Disadvantages
(17)	<ul style="list-style-type: none"> • Reduce burden and angst of filing for the taxpayer • Ready to process forms remove the error-prone conversion processing at IRS 	<ul style="list-style-type: none"> • e-file drawback is that processing activity occurs only on a few select days thereby resulting in a significantly under-utilized system most of the processing year. • Lack of universal access to the Internet
(18)	Xxx	xxx
(19)	Xxx	xxx
(20)	<ul style="list-style-type: none"> • Drastically increase adoption rates • Improve integrity and accuracy of transaction • Receive refunds faster • Reduce administrative costs • Improved IRS/Taxpayer satisfaction • Convenient tax information and help available via Internet 	<ul style="list-style-type: none"> • Costly technical infrastructure needed to support massive volumes • Significant credit card discount fees must be absorbed by taxpayer, agency, or via alternative methods like advertising • Security and privacy issues must be addressed effectively • Complex and changing tax laws complicate ability to provide preparation and tax advice

12. Please indicate your industry type or if you are an individual.

Respondent	Financial Planning Services	Software Developer	Tax Preparer	Other
(1)	Financial planning service			
(2)		Tax software preparation and e-file technology provider		
(3)		Internet-based tax preparation and e-file software for individuals		
(4)				
(5)				
(6)		Software development		
(7)				
(8)		On-line filer		
(9)		On-line filer	On-line tax preparation and e-file	
(10)		Software developer/transmitter		
(11)		Online filer		
(12)		Tax software		

Respondent	Financial Planning Services	Software Developer	Tax Preparer	Other
(13)				Corporation dedicated to e-file
(14)		Tax software company		
(15)		Tax and accounting software vendor		
(16)			Accounting, bookkeeping and tax preparer	
(17)				Specialize in all areas of computer and network security
(18)				
(19)				
(20)				National supplier of Internet and Interactive Voice Response (IVR) solutions for government-to-citizen and government-to-business transactions.

13. Discuss the best way to market this free Internet filing opportunity.

Respondent	Partner with IRS	Market to the Public	Partner with Other Alliances	IRS e-file Partnership Page
(1)	Media relations campaign	<ul style="list-style-type: none"> • Target media outreach • Satellite media tours • Press conferences • Guerilla marketing • Grassroots communications programs 	Utilize CPA representative network	
(2)		Targeted primetime TV, radio and media advertisements		Web site link
(3)	IRS should put us in touch with large employer corporations			
(4)				
(5)				
(6)		IRS target specific audiences with appropriate messages through various communications (e.g., target refund filers and balance due filers with messages that speak directly to them).		
(7)				
(8)	Continuing partnership on the basis of the original intent will provide the best results.	"Referral by a Friend"		
(9)		<ul style="list-style-type: none"> • Promote partners offering free services on IRS national television commercials • Provide a list of partners who provide free online tax preparation and e-filing in printed publicly distributed tax return booklets or mailings to taxpayers. 		Prominent home page links to all firms providing free online tax prep/e-file on the IRS web site (no discrimination for

Respondent	Partner with IRS	Market to the Public	Partner with Other Alliances	IRS e-file Partnership Page
				those companies receiving subsidies)
(10)	IRS should continue to partner with private industry			
(11)		Target marketing is essential		
(12)		<ul style="list-style-type: none"> • Market to all federal government locations • Mail packets to customers 		
(13)		<ul style="list-style-type: none"> • Registering with search engines • Media promotions through press releases by both IRS and partners • Portal advertising 		
(14)	Third party providers partner with IRS to market to public			
(15)		Market through traditional consumer and retail channels		
(16)		<ul style="list-style-type: none"> • Advertisements • Door hangers • Mailings • Word of mouth • Newspapers • Yellow Pages 		Partner web site
(17)		<ul style="list-style-type: none"> • IRS direct mail postcards on convenience and reliability of system to taxpayers. • Market to IRS trading partners as well. 		
(18)				
(19)				
(20)		Improvements should be marketed via national broadcast, print and Internet media	Encourage state-by-state and gov't agency-to-gov't agency strategies.	

14. Discuss offering e-file to your employees as a requirement for partnering with the IRS.

Respondent	Internal Promotion and Access to e-file
(1)	<ul style="list-style-type: none"> • All employees encouraged • Tell friends/family
(2)	On-site, free e-file available
(3)	All businesses should offer employees free tax returns
(4)	Xxx
(5)	xxx
(6)	E-file is currently free to our employees; We strongly encourage them to e-file so they can experience the e-filing process in an effort to provide better products and customer service.
(7)	Xxx
(8)	All of the people in our sphere of influence already e-file.
(9)	The IRS should refrain from requiring partners to offer e-file to employees but should encourage the practice through incentives.
(10)	N/a
(11)	N/a
(12)	We think this is a good requirement. We already provide this to our employees.
(13)	E-file would be offered to employees and to the public in general.
(14)	Our employees already are provided free tax preparation and free e-file.
(15)	We would have no objection offering e-file to our employees as a contingency for partnering with the IRS.
(16)	N/a
(17)	We and our industry partner employees would all be willing to use this highly secure system.
(18)	Xxx
(19)	XXX
(20)	We are willing to make e-filing a requirement of our employees for partnering with the IRS.

APPENDIX B:

COMMENTS FROM MEMBERS OF THE TAX PREPARATION INDUSTRY (EXCERPTS):

The following illustrates comments from 61 respondents identified as members of the tax preparer community (not all inclusive):

- What support will be given to the providers of such a free service?
- Leave this to the marketplace; the e-file credit is a good idea – give it to the taxpayer or pass it to the ERO; without e-file I am out of business.
- I do not favor the use of the internet for free filing; Too much potential for misuse and misreporting; EROs are a needed resource for clarification of issues.
- I am a tax preparer and depend on such to make a living. This is outrageous.
- I am a tax preparer and am willing to work with IRS on filing for my customers for free; give us the software.
- How do preparers get free software to file free for taxpayers? I think it's a good idea but paying for the software presents a problem.
- I believe the proposal is a step in the right direction but it doesn't go far enough for taxpayers. Even if a taxpayer is provided free software to prepare their return, they still have to visit the preparer's office to file the return for free (who may charge to input it into the system for e-filing). Taxpayers need a way to file from home at no cost.
- I would consider giving free tax preparation and e-file to 1040 returns without any other income schedules. Likely candidates are those individuals earning 40-0K per year (middle class taxpayers) not in need of their refund immediately.
- I'm a small preparer and am happy about the possibility of free e-file. E-file software is so expensive. Someone should make a way so we can e-file directly to our computers without having to go through the middleman.
- If the IRS would like me to offer free tax preparation and e-filing, would the IRS be willing to furnish me with a computer, printer, free ISP, pay for my phone line and all other problems associated with the public (law suits, etc.)?
- I've spent thousands on equipment, now you want me to do it for free?
- I'm a small business. Would love to file electronically but not for an additional cost of over \$500. Make the software reasonably priced.
- IRS is asking for problems if it is encouraging the filing of self-prepared returns (even simple ones) – these are normally incorrect.
- I am a small tax preparer and am interested in the free Internet filing project. Live in a small town with the nearest tax preparation and e-filing service being over 20 miles away.
- It's possible to start offering free tax preparation and e-file for 1040EZ and maybe 1040A; Nice if compensated for rent, utilities and personnel or let us market our clients with other industries to cover expenses and our small profit. Need more simplified regulations. Will the government provide free software to tax preparers?
- As a preparer, to e-file, I must pay an additional fee. The file I transfer to the IRS should be free of charge.
- Enrolled agent: Need face-to-face interaction to provide good customer service for many taxpayers.

- Enrolled agent: e-file is time consuming. Don't like the idea of free Internet filing because it gives the impression to clients that my time consuming efforts to e-file should also be free. A \$2-3 credit to preparers is still not enough to make up for the extra time it takes to e-file (especially complex returns). Stop undercutting us at every turn. Software with the free tax prep/e-file will probably equate to complications for the taxpayer (you get what you pay for).
- Enrolled agent: Ultimately the idea of free filing is good. Offer the software for download and encourage the taxpayer to take the return to an authorized e-filer for free review and transmission or transmit it themselves. We charge for corrections only.
- Tax-aid volunteer: Need laptops with Internet access to e-file sites, training, and software.
- Tax Preparer: I disagree with free e-file concept. This allows more taxpayers to prepare their own returns who then have to take it to a preparer because they did it wrong in the first place. More costly for the taxpayer. However, I have no problem if there was a ceiling on what a preparer could charge for e-file.
- I could not offer free tax prep/e-file. It would cost me \$4000/year for the necessary software.
- Tax preparer: Can the IRS systems handle the volume with free e-file? Will the IRS provide the software to preparers through the Internet? Tax preparers should be paid a fee for each return prepared. Preparers offering free should be marketed by the IRS and listed by zip code and city. These should be contractual arrangements and only between IRS and CPAs or Enrolled Agents.
- We offer free e-file with paid preparation. I am against free preparation. It will put many out of business.
- Need the tax professional involved. Tax law too complex. Will IRS abate penalties and interest of those who use these free sites? The risk from penalties and interest or being barred from claiming EIC for 2 years because the taxpayer unknowingly claimed what they were not entitled to can far outweigh the cost of original preparation.
- Tax preparer: Nothing is ever free – someone pays. Cannot file a 1040EZ for a client without paying the software company \$20. To file free for taxpayers, I'd need a minimum of \$50 to break even for my time inputting information into the computer.
- Who's going to compensate the preparer? What would the compensation be? IRS needs to provide the e-file software for free to preparers (without the applications and conditions currently imposed to use such software). I would be interested in doing this if I could keep the costs down and the volume up.
- It would be nice to have the free tax preparation/e-file up and running in time for the 2001 filing season. I would provide this service to all types of taxpayers.
- Enrolled Agent: Letting taxpayers e-file for free is great. But you should also provide free e-file for those who use a paid preparer. Provide a \$10-\$20 tax credit to taxpayers (using a paid preparer) on e-filed returns.
- Out-of-home preparer (former e-filer): Software is too expensive. It should be provided by IRS and not by a vendor. I'm not comfortable providing suppliers of free Internet filing with my financial information (including SSN). If IRS provided me with the software and a direct number, I would e-file once again.
- Tax preparer: To offer totally free e-filing or filing on the Internet would seem quite detrimental to the tax preparation professionals in this country. This is not a good idea.
- Tax practitioner: Free tax preparation/e-file via Internet is not a good idea. This will cut out our income as well as the benefits of having us involved. We educate the public on tax laws. If you cut us out, you uneducate the public. The IRS should pay the practitioner \$5 for filing electronically. This could be our pay for inputting your returns, keeping your files, and training the public.
- Need information on the type of system, name and modem required to run the free income tax service and e-file program.

- Practitioner ERO: ERO costs have been left to be borne by EROs. To introduce subsidies to software developers and consumer web sites, without providing adequate compensation to existing partners, reeks of treachery!
- This is a disaster waiting to happen. The tax law is too complicated and the chances of error are too high. Many will pay too much tax as a result. Others will incur penalties and interest. If free Internet were to come to pass, it will increase the workload for the IRS – not reduce it. Error rate will go up and so will government costs. Taxpayer stress will increase as well.
- Tax Service: I want to file income tax forms on the Internet for free.
- No economic incentive for tax preparers to support this. Internet is better than dial up modems.
- Tax Preparer: The IRS e-file Partnership program is helping those who can afford to build and maintain a web site. Unfair. Too much competition from big companies, IRS VITA sites, etc. Software is too expensive and hardware changes. Nothing came of the \$3 tax credit for preparers.
- Tax preparer: Our costs for providing e-file to customers are not small. Now it seems you want to put us out of business.
- Will I be put out of business? Free tax preparation/e-file is scary.
- Never understood how the costs of e-file are incurred.
- ERO: Who's going to pay for free e-filing? If the government can afford to offer it to the public and handle the problems, go for it. Let the experts do their job. Give the proposed \$10 tax credit to those preparers who choose to do it. Give the \$10 to the taxpayer if necessary.
- Enrolled Agent/ERO: This is not in the best interest for the IRS. Taxpayers do not know enough about the tax laws to prepare an accurate return. I offer e-file and do not charge. Any process that does not deliver a paper copy of the return for the taxpayer or allow for individual signatures is going to produce a lot of major headaches.
- The general public does not understand taxes well enough to be cut loose with online filing. It's good for 1040EZ and possibly 1040A filers but not for more involved tax returns.
- Offer a tax credit for tax preparation software to paid preparers with the following requirements: For 2001: Paid preparers would be required to file a minim of 50% of all eligible returns electronically to receive a tax credit. For 2002: Paid prepares would be required to file 70% of all eligible returns electronically to receive a tax credit. For 2003: Paid preparers would be required to file 100% of all returns electronically to receive a tax credit. For 2004: No tax credit.
- We have been working for the past two years to bring e-filing to the attention of the public via the affiliate program at XXXX. We're compensated \$3.00 for each IRS accepted e-filing and \$1.00 for printed returns. This will hurt us. Please reconsider.
- CPA/Accountant: I do not participate in the e-file program because there is nothing in that program for my type of clients or for myself. There is no incentive for middle and higher income taxpayer to use it.
- CPA/Accountant: I believe that free tax programs and e-file should be available to all taxpayers. I believe that costs to prepare tax returns are going beyond what the U.S. government originally planned.
- CPA/Accountant: I cannot afford the cost of using a third party handler plus the added risk of personal information becoming available to various users of this type of data. I recommend the development of a downloadable tax return preparation software that would allow the preparation and direct electronic filing of trust tax returns and individual income tax returns (on a small volume basis).
- CPA/Accountant: If the government would pay tax preparers a set amount per return filed via the Internet or electronically, I think it would save the government money in the short term as well as in the long term (more correct returns being filed, less manpower to handle the return, and less manpower to handle the amended returns).

- CPA/Accountant: E-file has more benefits for the taxpayer and for the IRS than for the preparer. However, I use e-file when possible because it avoids processing errors (although there are problems with Form 8453 and electronic acknowledgements). If there were a way I could be justly compensated for my contribution to the tax reporting process, I would be more interested in the rest of the details.
- CPA/Accountant: If the US government is debating the creation of a monopoly for the tax preparation industry but is trying to stop a monopoly in the software industry, it would seem that the US government could be seen as hypocritical.
- CPA/Accountant: There needs to be an incentive (in the range of \$15 – \$25) to the tax preparer to offset the additional labor involved with e-file.
- CPA/Accountant: Because of the software fees involved, I have to pass the cost on to my clients who refuse to pay for e-file. Given that security of taxpayer data is a big concern, I prefer the IRS doing direct modem transfer of tax data rather than through the Internet. Also, taxpayers make too many mistakes when doing taxes by themselves. The best thing IRS could do is to develop a system that would allow taxpayers to use competent professionals to assist them as needed.
- CPA/Accountant: I see an opportunity for growth of e-filing by allowing a choice of credits to the taxpayer. Allow them a \$10 credit if they use e-file. However, if they use e-file and pay nothing for it, the \$10 should be given to the preparer in cash.
- CPA/Accountant: The government should reimburse private companies for providing e-file services.
- CPA/Accountant: I strongly resent having my tax money used to do other people's tax for free. I am an accountant. Why is the government competing with us for tax preparation and using our tax money to do so?
- Financial Institution: We would be interested in bring this valuable service to our members as well as to our community.
- As a RAL bank, we are completely opposed to free Internet filing or free tax preparation in any shape or form. There is no product for us in that environment. On the other hand, if software companies and banks continue to compete for Internet business, you will see prices come down and more and more taxpayers taking advantage of the good services we can provide.
- Credit Union: We made free Internet tax filing available to our members this year (through IRS e-file partnership page) and it was well received by our members.

APPENDIX C:

COMMENTS FROM INDIVIDUAL TAXPAYERS (EXCERPTS):

Respondent	<i>e-file</i> Should Be Free	Free Internet Filing is a Good Idea	No Third Party Charges or Involvement	Internet Filing Should Be Safe and Secure	Internet Filing Should Have Strict Disclosure and Privacy Rules
Taxpayer	x				
Taxpayer		x			
Taxpayer			x		
Taxpayer			x	x	
Taxpayer					
Taxpayer		x (Government should offer free access to a computer)			
Taxpayer		x	x	x	
Taxpayer	x (Should be available for 1040EZ, 1040A and 1040 (w/o schedules), elderly, lower income and the young)			x	x
Taxpayer				x	x
Taxpayer		x (Provided it doesn't increase taxes)			
Taxpayer			x		
Taxpayer				x	x
Taxpayer			x	x	x
Taxpayer		x			
Taxpayer		x		x	
Taxpayer	x				

Respondent	e-file Should Be Free	Free Internet Filing is a Good Idea	No Third Party Charges or Involvement	Internet Filing Should Be Safe and Secure	Internet Filing Should Have Strict Disclosure and Privacy Rules
Taxpayer			x	x	x
Taxpayer	x		x		
Taxpayer	x				
Taxpayer		x			
Taxpayer	x		x	x	
Taxpayer		x			
Taxpayer			x	x	
Taxpayer	x				
Taxpayer		x			
Taxpayer					x
Taxpayer		x	x		
Taxpayer	x				
Taxpayer		x			
Taxpayer	x		x		
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Taxpayer	x				
Taxpayer	x				
Taxpayer	x				
Taxpayer			x		
Taxpayer					
Taxpayer	x		x		
Taxpayer	x				
Taxpayer			x		
Taxpayer		x			
Taxpayer	x				
Taxpayer	x		x		
Taxpayer		x			
Taxpayer		x			
Taxpayer	x				

Respondent	e-file Should Be Free	Free Internet Filing is a Good Idea	No Third Party Charges or Involvement	Internet Filing Should Be Safe and Secure	Internet Filing Should Have Strict Disclosure and Privacy Rules
Taxpayer	x		x		
Taxpayer		x			
Taxpayer	x				
Taxpayer	x (Include state returns)				
Taxpayer	x				
Taxpayer	x				
Taxpayer			x	x	
Taxpayer		x	x		
Taxpayer	x		x	x	
Taxpayer	x		x		
Taxpayer	x				
Taxpayer	x				
Taxpayer	x		x		x
Taxpayer	x		x		
Taxpayer	x				
Taxpayer		x			
Taxpayer	x				
Taxpayer	x		x		
Taxpayer	X (It will come at the expense of the tax professional community)				
Taxpayer		x			
Taxpayer		x	x		
Taxpayer		x			
Taxpayer	x		x		

OTHER TAXPAYER SUGGESTIONS OR COMMENTS (EXCERPTS):

- IRS should keep electronic records until all statute of limitations have run out (in every state).
- Have taxpayers enter in information unknown to the IRS (not inputting information IRS already knows).
- Congress should appropriate funds to state agencies to purchase computers that are available for use by low income/elderly taxpayers.
- There should be multiple ways to send the tax data (Excel, Lotus, etc.).
- IRS should be clear as to who can participate with the IRS e-file Program.
- Don't compete with the market.
- Allow manual overrides of calculated fields.
- There are no incentives for balance due filers.
- IRS should allow taxpayers to log on and complete their taxes on-line.
- Free filing will limit e-file growth – not increase it; Government should let the marketplace alone.
- Third parties should continue to be involved.
- IRS should provide its own on-line (or downloadable) software.
- Tax Preparation software is not accurate. It should not be made available for free.
- IRS should allow filing via its own web site.
- Free e-file is good; however, this service should be considered separately from the idea of free tax preparation on the Internet.
- Third-party vendors can continue to provide value added service with software that provides convenience for the taxpayer and should simply connect to a standard IRS web site to send the completed tax return.
- I would continue the fill-in forms program that can be downloaded from the Internet. Let these be e-mailed back to the IRS.
- IRS should keep the most current forms and tax information available on their web site; online help should be available as well.
- A free tax preparation and e-file system should be fully tested before implemented. Use secure servers for transmission of tax data as well as for transmission of on-line responses to inquiries. Use secure firewalls, etc.
- Provide taxpayers with complete instructions as to how to protect their privacy (including not answering questions over the phone).
- Misuse of data should be treated as a felony.
- Offer the system to previous e-filers the first year and then to everyone the year thereafter.
- Misuse of data should lead to a company's loss of freedom, loss of right to use the Internet and very high financial penalty.
- Internet filing should accommodate all types of PCs and speeds.
- IRS employee: I wholeheartedly support the idea of making electronic filing free for the public. The obvious benefits in processing centers salaries would more than make up for the cost of developing the software. Benefits to the taxpayer are clear....Who are the IRS's primary customers and where does our primary responsibility lie – to the preparers or to the public?
- IRS employee: I think all taxpayers should be able to go to a secure IRS web site and file their tax returns for free. For security and privacy purposes, I don't like going to a private business Internet site. I would not try to subsidize third party software developers.
- IRS employee: Reimburse \$10-\$15 per return to the taxpayer's who file electronically. Use the credit area to add a line item on the tax return (to minimize administration costs). Do not try to eliminate the third party tax software.

- IRS employee: Some preparers don't want to e-file in local areas due to the cost of running the service or the fact that they must pass it on to their customers. It would be nice if the government gave companies incentives to do free *e-filing* and if these companies offered free e-filing to all taxpayers.
- Internet filing should be convenient and should take very little time.
- E-file should cost no more than mailing a paper return.
- Government should offer a tax credit to taxpayer for filing electronically (\$50)
- Government should offer tax credit to taxpayer (\$15-20)
- Government should offer tax credit to taxpayer (\$75)
- Internet filing should have strict disclosure and privacy rules.