Statement of the

Federation of Tax Administrators

Before the

Committee on Finance
U.S. Senate

Preparing Your Taxes: How Costly Is It?

April 4, 2006

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Mr. Chairman and Members of the Committee:

My name is Harley Duncan. I am the Executive Director of the Federation of Tax Administrators. The Federation is an association of the principal tax administration agencies in each of the 50 states, the District of Columbia and New York City. We have been actively involved over the past 15 years in promoting electronic filing at the state level through such activities as coordinating IRS and state activities in the FedState electronic filing program, developing standards and promoting consistency among state approaches to electronic filing and encouraging the sharing of 'best practices' among the states. Thank you for the opportunity to appear before you today to present information on the experience of states in the electronic filing of individual income tax returns. The testimony will first review the scope of electronic filing programs across the states and the experience of states in the area. I will then turn to several issues I was asked by the Committee staff to address, including electronic filing mandates, Free File Alliance, and direct Internet filing programs in the states.

Individual Income Tax Electronic Filing in the States

Each of the forty-one states with a broad-based income tax and the District of Columbia provide one or more avenues for the electronic filing of individual income tax returns. Available avenues for electronic filing include:

- **Practitioner programs** – Each state has a program for the filing of electronic returns by practitioners on behalf of their clients. Thirty-seven states[1] are part of the joint FedState electronic filing program in which both the federal and state returns are filed in a single transaction between the practitioner and the IRS. The IRS then segregates the state return

[1] Throughout the testimony, the District of Columbia is referred to as a "state" since its electronic filing programs operate exactly like those in the states

information and makes it available for downloading by the state. The other five states – California, Illinois[2], Maine, Massachusetts and Minnesota – receive their returns directly from the practitioners (in a separate transmission) rather than participating in the FedState program.

- **Online Filing programs** – Each state also has a program for the electronic filing of returns filed by individual taxpayers using personal computers and approved commercial software that are routed through IRS-approved Electronic Return Originators. As with practitioner returns, these returns flow to the states through IRS except in those states with direct practitioner-filing programs in which case the online returns are filed directly with the state.
- **Telefile programs** – In 2006, ten states operate an independent Telefile program where the individual taxpayer enters his/her return information using a touch-tone telephone. These states include Colorado, Connecticut, Iowa, Kansas, Massachusetts, Nebraska, New Jersey, Ohio, Pennsylvania and Wisconsin.[3]
- **Direct Internet Filing (I-file) programs** – Twenty-one states are operating a direct I-file program in 2006. These programs allow individual taxpayers file their state income tax returns directly with the state through a state-developed and administered Web site. The number of such programs has remained relatively constant over the last several years.[4]
- **Bar code programs** – These programs involve computer-produced returns (either by individuals or practitioners) that are filed on paper, but where the return data is also captured and printed in a 2-dimensional bar code capable of being read quickly and accurately by either hand-held or high speed scanners. While not as efficient from a

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[2] Illinois both participates in the FedState program and receives returns directly from practitioners. The bulk of the Illinois returns are received directly.

[3] The number of states with Telefile programs has dropped significantly in recent years. In 2002, for example, twenty-seven states had a Telefile program, including seven states that participated in a joint FedState Telefile program in which both federal and state returns were filed in a single call. The FedState Telefile program was, of course, discontinued when the IRS discontinued its overall Telefile program. As with the IRS, states commonly cite the cost of the Telefile program, the relatively low volume of returns received through Telefile and the availability of electronic alternatives for Telefile taxpayers as reasons for discontinuing the program.

[4] States with I-file programs this year include California, Colorado, Connecticut, Delaware, D.C., Hawaii, Illinois, Indiana, Kansas, Louisiana, Maine, Maryland, Nebraska, New Jersey, New Mexico, Ohio, Pennsylvania, South Carolina, Utah, Virginia and Wisconsin. Arkansas, Missouri and Iowa discontinued their I-file programs in 2005.

processing standpoint as electronic returns, bar code returns substantially reduce the resources required for income tax return data capture for states. In 2006, twenty-three states have such a program in place.[5]

Growth in Electronic Filing

The IRS electronic filing program was inaugurated in 1986, and the first FedState joint e-file program was piloted in South Carolina just four years later. E-file volumes have grown steadily as both the federal and state programs have gained visibility, more states have joined the program, additional filing options (particularly Telefile and Online filing from home computers) and greater familiarity among taxpayers with electronic business applications have broadened the market of potential e-file taxpayers. As shown in Table 1, the number of federal e-file returns reached a total of 68.5 million in 2005, about 2.8 times the 1998 level. The volume of state e-filed returns has nearly quintupled over the same period, reaching a level of about 50 million in 2005.

Table 1: Selected Federal and State Electronic Filing Statistics

Electronic Returns	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Federal (Millions)	24.6	29.4	35.4	40.2	46.9	52.9	61.4	68.5
State (Millions)	10.1	14.3	18.1	23.8	29.4	35.5	43.3	49.8
Percentage Growth								
Federal		19.5%	20.5%	13.6%	19.2%	14.5%	18.0%	11.5%
State		48.3%	30.1%	34.4%	28.3%	24.3%	25.1%	14.9%
E-file - Percent of Total								
Federal	19.7%	23.1%	27.3%	30.9%	36.0%	40.6%	46.8%	51.6%
State	12.0%	16.6%	19.5%	23.5%	28.7%	34.2%	41.6%	47.5%
Source: FTA compilation based on state and federal data.								

State electronic filing has consistently grown at a faster rate than federal electronic filing as shown in the table. The volume has grown at roughly a 25-30 percent annual rate from 2000-2004, while federal volumes increased at about a 15-20 percent rate, allowing the state programs to close the gap with IRS somewhat. In 2005, the number of state electronic returns averaged 93 percent of the federal electronic returns (for those states with an income tax), up from about 70

[5] Alabama, Arizona, Colorado, Delaware, Georgia, Idaho, Illinois, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Missouri, New Jersey, New Mexico, New York, North Dakota, Oklahoma, Oregon, Rhode Island, Utah, and Virginia.

percent in 2000. In five states – Kansas, Massachusetts, Ohio, New Mexico and Delaware – the number of state electronic returns exceeded the number of federal electronic returns filed from that state.[6] As should be expected, the growth at both the state and federal level has begun to slow, a trend that has become more pronounced in 2006. (See below.)

The real question about the growing volume of electronic returns is the extent to which e-filing is reducing the volume of paper income tax returns and enabling tax administration agencies to become more efficient in the processing of returns and providing taxpayer service.[7] As shown in Table 1, 47.5 percent of all state income tax returns were received electronically (in one form or another) in 2005. In 2000, only 20 percent of the returns were filed electronically; the comparable figure in 2004 was 42 percent. As shown in Chart 1 (attached), eleven states received more than one half of their returns electronically, and two – Iowa and Minnesota – received more than 60 percent electronically. Four of the five states with the highest proportion of electronic to total returns have an electronic filing mandate in place. [See later discussion.] Other factors that seem to influence a higher proportion of electronic filing are the number of options for electronic filing that a state offers. These do not explain all the differences across states, and some of the disparate results must be attributed to the nature of the taxpaying population and the complexity of their tax affairs.[8]

Distribution of Returns by Type

Returns filed through practitioners represented about 35.5 percent of all state returns and about 75 percent of all state electronic returns in 2005. Taken together, returns filed electronically by individuals using individual computers (i.e., using commercial software or online filing programs

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[6] See Federation of Tax Administrators Briefing Paper, "2005 Electronic Filing Season Results: A Review of State and Federal Data," December 2005 for more detail. The document is available at www.taxadmin.org. The use of independent Telefile and I-file programs as well as a category of returns known as "state only" returns filed by practitioners enable a state to exceed the federal total.

[7] E-filing improves tax agency efficiency by eliminating the handling, opening, assembly and data capture associated with paper returns. In addition, electronic returns are mathematically accurate, and errors that often occur during data entry are eliminated. This allows the returns to be processed with little or no intervention, thus allowing the agency to focus more quickly on the service and enforcement aspects of tax administration.

[8] For example, some states that offer only practitioner and online filing (e.g., Idaho, Montana and Iowa) received 50 percent or more of their returns electronically while others that offer multiple options (e.g., New Jersey, Maryland and Illinois) were toward the lower end of all states.

and direct I-file programs) totaled 10.7 million returns or over 20 percent of all electronic state returns. Telefile returns have gradually declined over the last five years, reaching less than 2 percent of all returns in 2005.[9]

Table 2: State Income Tax Return Distribution (2005)		
		Percent of
Type of Return	Return Count	Total
Paper	46,010,721	43.9%
Bar Code	8,997,975	8.6%
Practitioner E-file	37,228,806	35.5%
Online E-file	8,723,794	8.3%
Direct I-file	1,943,564	1.9%
Telefile	1,905,466	1.8%
	104,810,326	100.0%
Source: FTA compilation based on IRS and state data.		

2006 Filing Season

Table 3 below presents information on the 2006 income tax filing season gained from a survey of 37 states. The data reflect returns received through March 17, 2006.

Table 3: State Income Tax Returns through 03/17/2006		
		Percent Change
Type of Return	Return Count	from 2005
Paper	11,349,937	-11.1%
Bar Code	2,490,270	7.5%
Practitioner and Online	31,595,549	9.7%
Direct I-File	1,388,428	11.7%
Telefile	640,671	-46.0%
Total Returns	47,464,855	3.0%
Source: FTA compilation based on state-provided data from 37 states.		

[9] Electronic transaction processing is also hitting the "payment" side of the ledger. Data from 26 states indicates that in 2005, over 17.5 million income tax refunds were paid through direct deposit transactions instead of paper checks. This represents 36 percent of the 49.3 million refunds paid in these states. Direct deposit eliminates the postage, envelope, printing and handling costs associated with paper checks as well as getting the refund in the hands of the taxpayer more quickly.

Key points about the 2006 season that can be drawn from the data include:

- The rate of growth in electronic filing is slowing. For all types of electronic returns, the growth rate from 2005 is 7.7 percent, in part due to the fact that the number of Telefile returns has dropped by nearly half. Even so, other forms of state electronic filing are up by only 10 percent, compared to 15 percent in 2005 and over 20 percent in the years prior to that.[10] This is not necessarily unexpected, given the maturation of the programs and the fact that most early filers are already electronic filers. Still, it suggests a leveling of e-file numbers unless other action is taken.
- The discontinuation of the federal Telefile program has had a pronounced effect on those states that maintain independent Telefile programs, suggesting that taxpayers tend not to differentiate well between federal and state tax obligations. Most of the independent state Telefile programs are down by about 40 percent or more this year, compared to a 'natural' drop of about 15-20 percent in the last several years.[11]
- Individuals filing from their individual computers (using third party software or sites or state-provided sites) are leading the way in 2006. IRS reports that Online Filing is growing at about three times the rate of practitioner-filed returns, and state data show Direct I-file returns are increasing more rapidly than practitioner-filed returns.
- Electronic filing mandates are having some influence on the growth in electronic returns in 2006. Through March 17, New York and Connecticut, each of which is implementing a mandate for the first time in 2006, had growth rates of 30 percent and 20 percent, respectively. Vermont is the only state without a new mandate that is growing at a 20 percent rate, and many states are in the single-digit range. About 25 percent of the total increase in electronic state returns are coming from Connecticut and New York; together, they accounted for only 7 percent of all state electronic returns in 2005.

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[10] By comparison, total electronic filing at the federal level is up 2 percent due to the elimination of the federal Telefile program. Excluding Telefile, federal e-filing is up 8 percent. See IRS News Release IR-2006-047, March 22, 2006.

[11] The reaction to the discontinuation of Telefile deserves observation. Minnesota discontinued its Telefile program in 2005. Of the 79,000 Telefile taxpayers in the prior year, 57 percent filed on paper in 2005. [Communication from Minnesota Department of Revenue, March 31, 2006.]

Direct Internet Filing Programs

As noted, twenty-one states now have an electronic filing program in which most or all taxpayers may file their state income tax return directly with the states tax agency without charge using a state (or contractor) developed and maintained secure Web-based application. In 2005, about 2 million returns were filed using these I-file programs. This amounts to about 4 percent of all electronic state returns, but in some states (e.g., Delaware, Maine, New Mexico and Pennsylvania) I-file returns account for over 15 percent of all computer-filed returns. The volume of I-file returns has more than doubled since in the last three years as the applications have improved and individuals have become more accustomed to conducting business electronically over the Internet.

State I-file programs have been criticized by some as constituting a form of inappropriate government-financed competition with private sector tax software and service providers and as representing a conflict of interest in that the tax administration agency to be in charge of the software that determines the liability of the taxpayer. For their part, states see the offering of an I-filing application as an extension of their obligation to provide forms and instructions to taxpayers and of their normal taxpayer service functions. States are moving aggressively on a number of fronts to use the Internet and electronic technologies to improve taxpayer service and reduce their operating costs (e.g., electronic payments, online account access, electronic forms and instructions). The I-file programs are an extension of this approach and consistent with the direction that state government as a whole and the private sector are taking in terms of interacting with their "customers." States also believe that even with their I-file applications, there is a major and important role for private sector interests to offer tax software with a number of value-added features such as online support, integration with accounting packages, information report downloads, integration with federal filing software and the like. In short, states see the I-file programs as aimed at a segment of the taxpaying population that is comfortable with computers and electronic commerce and does not require a paid preparer or commercial software to complete his/her state income tax obligations.

If consideration is given to a direct Internet filing program for federal income tax returns, there are at least three issues that would need to be addressed.

- **Complexity.** In drawing on the state I-file experience, it must be recognized that state income taxes (and return filing) are inherently less complex that the federal income tax and thus easier to deal with in an online environment. Nearly every state income tax is based on the federal income tax base, and the bulk of the entries and calculations on a state income tax returns involve only areas of deviations from numbers calculated for federal purposes. All state I-file applications presume prior completion of a federal return and begin with federally computed numbers. The applications and rules need to accommodate these types of returns is immeasurably simpler than the application that would be required to accommodate a full-blown application that could deal with all types of federal returns and schedules. Limiting the types of returns and schedules for which any federal I-file application could be utilized, much as is done on the 1040EZ, 1040A or the Telefile application, would reduce these complexity challenges.
- **Security.** It goes without saying that security of the application and the data provided in a federal I-file application must be a paramount concern. Any breach of security or other lapse that caused a loss of taxpayer confidence in the system would have ramifications throughout the system.
- **Scalability.** It would seem that a significant challenge for any federal system would be to be scaled appropriately so as to have the capacity to handle the "April 15" crush that would most likely be experienced. Currently, that crush of taxpayers is spread among many individual preparers and some number of software firms. A single federal application, if widely available and used, would seemingly require considerable peak load capacity. A failure that shut taxpayers out of the ability to timely file their returns would reverberate throughout the system. Again, this risk could be mitigated in part by limiting the types of returns for which the application could be used and possibly considering an extended due date for such returns.

Free File Alliance

As you know, the IRS is working with a consortium of private sector software providers called the Free File Alliance (FFA) to provide a no-cost electronic filing application for federal individual income taxes. Some members of the Free File Alliance also provide free Web-based return preparation and electronic filing services to selected groups of taxpayers in certain states.[12] Generally speaking, each of the 21 states that does not have a direct I-file program has from 2-4 members of the FFA that offer free services to some taxpayers in the states. Those states with Free File programs appreciate the support they have received from members of the Alliance.

As the Free File Alliance program has unfolded, however, states that are participating have become concerned that there is a significant potential for taxpayers to become confused during the free file process and end up in a situation in which they are confronted with being required to pay to file a state return electronically when they thought the return would be free. The concern of the states is that such taxpayers will turn to a paper filing (or in the worst case, not file at all.) The potential taxpayer confusion stems from three sources:

- Beginning in 2005 and continuing in 2006, the criteria for eligible taxpayers that are set by some Alliance members are more expansive at the federal level than they are at the state level. This has been ameliorated somewhat in 2006 with the more restrictive federal criteria, but a difference still exists for one or more providers in each state.
- Complete, clear information on who qualifies for a free state return is not as accessible as states believe it should be. Again, this situation is improved in 2006, as the IRS and the Alliance have been more conscientious about insuring that each provider make their eligibility and pricing information available. Unfortunately, however, the information is required under the FFA Agreement to be only on the "landing page" of the FFA member. This means that to "comparison shop," a taxpayer must begin on IRS.gov, go to the FFA member landing page, back to IRS.gov, to the FFA member page and so on through the list of 20-some providers – not all of whom offer free state filing. This serious information gap could be closed by a requirement that complete offer information be made available in the "More Details" box that works off the IRS.gov site.
- Certain of the state free filing offers require that the taxpayer must begin the state filing process from the state tax agency's Web site in order to qualify for the free state filing. This is counter-intuitive to the way in which state returns are prepared (i.e, federal first,

[12] Each member of the Alliance individually determines the taxpayers to whom it will offer free filing and those states in which it will offer the service. None of the Alliance members offers free filing services in any of the states that maintain their own direct I-file application.

then state), and we fear leads to taxpayers not being able to take advantage of a free filing opportunity for which they may have qualified.

In short, there are several features of the Free File Alliance effort that states believe are making it a less than optimal part of the overall effort to increase electronic filing at the state level. This is not meant to suggest that any one is being deceptive or trying to "hide the pea" in this effort. There is little doubt that some part of any taxpayer's confusion is attributable to a lack of careful reading and comprehension and a lack of differentiating between state and federal tax obligations. It is meant to suggest, however, that if the FFA remains a part of the electronic filing effort that greater consideration needs to be given to the state interests in the program and to making it a federal-state program much like most of the other components of electronic filing.

Electronic Filing Mandates

The IRS Electronic Tax Administration Advisory Committee has on two occasions recommended that the federal government adopt a provision that would require certain tax preparers to file the returns they prepare electronically as a way to increase the electronic filing of federal income tax returns.[13] The states have experience in this area that may be instructive to the Committee as it considers this matter.

There are twelve states that currently have an individual income tax filing mandate in place. The are Alabama, California, Connecticut, Massachusetts, Michigan, Minnesota, New Jersey, New York, Oklahoma, Utah, Virginia and Wisconsin.[14] The mandates generally require each preparer that in the previous year filed in excess of some threshold number of returns to file all returns he/she prepares in the following year by electronic means. The threshold commonly starts at about 200-250 returns and phases down over 2-4 years to 50-100 returns being the demarcation point between those required to file electronically and those not.

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[13] IRS Electronic Tax Administration Advisory Committee, Annual Report to Congress, Publication 3415, June 2005. Available at < http://www.irs.gov/pub/irs-pdf/p3415.pdf>.

[14] See Federation of Tax Administrators, Electronic Filing Mandates: Lessons Learned, June 2005, for a more complete description. Available at www.taxadmin.org. Note that these states account for 38 percent of the total U.S. population and slightly less than 50 percent of the population living in income tax states.

Implementation of mandates has increased the level of electronic filing at the state level.[15] As noted earlier, four of the five states with the highest proportion of returns received electronically have a mandate in place. In addition, in each of 2004-2006, states that were first implementing a mandate in that year experienced a higher rate of electronic filing growth than did the remaining states. On average, mandate states grew at a 25-50 percent faster rate.[16] Finally, IRS research indicates that implementation of state mandates generated an additional 2.5 million federal electronic returns in 2004.[17]

State experience in the design and implementation of income tax filing mandates yields the following "lessons learned" that should be relevant to the federal arena.

- The mandate should have a phase-in period, bringing in smaller volume preparers as implementation proceeds.
- There should be a 'hardship exception' that allows a preparer that is not capable of converting to electronic filing to be exempted from the requirement on a temporary basis.
- The mandate should allow a taxpayer to "opt out" and choose not to have the return filed electronically.
- Tax administrators consider it important to have penalties for non-complying preparers. The penalties should be applied judiciously, primarily in cases where a preparer is not acting in good faith.
- Certain low-volume forms should be excluded from the mandate to avoid costly programming for a minimal number of returns.
- It is difficult to underestimate the lead time necessary for implementation and the requirements imposed on the tax administration agency to communicate with preparers and software developers.

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[15] This should not be unexpected. At least one survey indicates that the primary determinant of why people file electronically and why the do not is that they leave the choice of filing to their preparer. See Deborah W. Thomas, Tracy S. Manly, and Christina M. Ritsema, "Initiatives for Increasing E-Filing: Taxpayer Attitudes Reveal What Works," Tax Notes, July 12, 2004, pp. 191-196.

[16] FTA calculations based on data submitted by the states.

[17] McMillian, Howard. *"State e-File Impact on Federal e-file."* Wage and Investment Research Group 1, Internal Revenue Service, 2004.

- Providing an enhanced set of services to preparers engaged in electronic filing can ease acceptance of the mandate.

Bar Code Returns

As noted, about one-half of the income tax states use a bar code program in which a two dimensional bar code is printed on returns that are produced using a computer (either by a preparer or by an individual), but are filed on paper. The bar code enables all the information on the return to be captured quickly and accurately with a simple hand-held scanner or a high-speed scanning and imaging machine. Scanning the bar code is considerably more efficient than manual data entry and even more efficient that high-speed imaging with optical character recognition. It also eliminates the errors and “re-work” associated with those forms of data capture. States estimate that bar codes can reduce the time and effort involved in processing paper returns by 50-90 percent, depending on other features of the state processing system.[18] In 2005, states received about 9 million paper returns with a bar code; this is about 16 percent of all paper returns. In states that make aggressive use of bar codes (e.g., Alabama, Delaware, Indiana, Missouri, and North Dakota), over 40 percent of paper returns have a bar code, and in Massachusetts (which mandates that nearly all computer-produced returns either be filed electronically or have a bar code) over 70 percent of the returns have a bar code.

States recognize that bar coded returns are not as efficient as electronic returns. They see bar codes, however, as a bridge technology that provides significant efficiencies while continuing to try to migrate taxpayers to electronic filing. Bar codes can also help capture efficiencies from taxpayers that consider costs associated with electronic filing to be a barrier. Moreover, processing bar code returns has not required major investments by states. States have also worked with the software developer community to develop standards for bar code printing to minimize costs to developers. Adopting bar code technology at this point may not be appropriate for the IRS and the “1040 family” of returns. The utility of bar codes for tax administration, however, should not be underestimated and may be applicable to other return types (e.g., fiduciary returns, pass-through entities, non-profits or excise tax.)

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[18] Indiana, the state that pioneered bar coded returns, estimates that a bar code is $.70 per return less costly to process than a paper return, while an electronice return saves $1.039 per return compared to paper.

California ReadyReturn Program

In 2005, California adopted a pilot program to reduce (or virtually eliminate) the income tax filing burden for certain taxpayers. Under the ReadyReturn program, the tax administration agency (California Franchise Tax Board (FTB)) prepares a "pro forma" return for the taxpayer based on information reported to it through other wage and tax reporting channels. The return is then sent to the taxpayer with instructions; the taxpayer may file the pro forma return without change (either on paper or through a special Web site), file the pro forma return with changes or ignore the pro forma return and to file through normal processes. The ReadyReturn program is necessarily limited to a fairly narrow set of taxpayers that have only wage income, have only one employer, use a standard deduction, have no dependents and claim no credits.

California targeted 50,000 taxpayers in their pilot program. About 10,000 taxpayers (22 percent of those invited) chose to file using the ReadyReturn. Most of these taxpayers filed their ReadyReturn electronically, and many had not filed electronically in the past. Among those that did not use the ReadyReturn, only 10 percent indicated it was because they felt uncomfortable using a government-produced tax return. The most frequent reasons for not using the ReadyReturn were that the taxpayer had already filed a return,[19] and that the taxpayer used a paid preparer to do his/her return. Overall taxpayer were extremely satisfied with the program according to a survey conducted by the FTB.[20]

Conclusion

As you consider the issues related to electronic filing and the relationship between federal and state filing programs, there are several points the states would urge the Committee to keep in mind.

- States have made a strategic choice to focus their electronic filing efforts on filing programs that operate jointly with the federal government, a choice that promotes simplicity for taxpayers, practitioners and software developers (and works well for states

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[19] ReadyReturns were not mailed until mid-February because of the need to receive and process 4th quarter wage and tax statements from employers.

[20] Complete survey findings are available at www.ftb.ca.gov/readyreturn/about.html.

and IRS.) It also means, however, that states are heavily reliant on and affected by choices and decisions made at the federal level and that continued success and growth of state electronic filing programs is heavily contingent on growth of federal electronic filing. Thus, as you deliberate actions to promote federal electronic filing (e.g., extended due dates, mandates, filing alternatives), we would aks that you be cognizant of the impact at the state level, the need for states to adjust to new federal laws, and the desirability of federal and state joint filing programs.

- If the Free File Alliance continues as part of the federal electronic filing program, states believe that it should be modified to insure that taxpayers have quick and easy access to all the information necessary to compare alternative offerings and to know whether they qualify to free state returns. Additionally, we believe the Free File Alliance program needs to be considered as a state and federal filing alternative and that it could be improved if steps were taken to promote greater consistency in state and federal offerings.
- If the Committee gives further consideration to electronic filing such as practitioner mandates, direct I-file programs and "ReadyReturn" initiatives, states have a variety of experiences that could be instructive for IRS and the federal government. We would be glad to work with the Committee and others in evaluating that experience.

Thank you for the opportunity to appear today. I would be glad to attempt to answer any questions you might have.

Chart 1: Proportion of All State Returns Received Electronically (2005)